Annual Report 2018

LGB BANK
بنك لبنان والخليج

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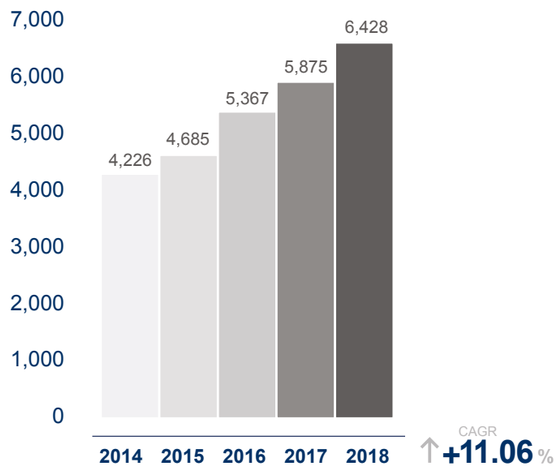
Legacy

Financial Highlights

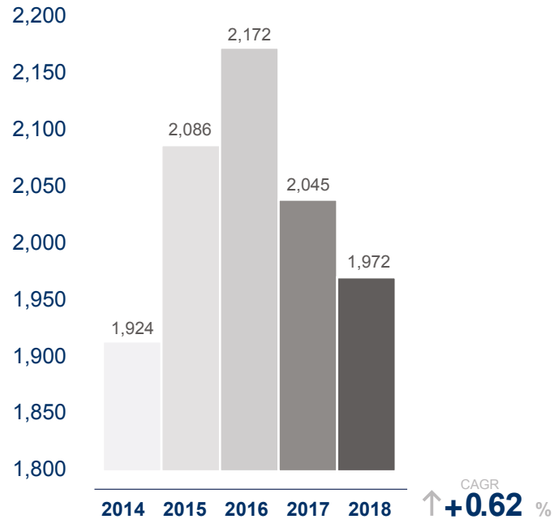
In millions of LBP — **As at December 31**

	2018	2017	2016	2015	2014
Balance Sheet					
Total Assets	8,412,905	7,082,117	6,192,588	5,389,716	4,793,244
Customers' Deposits	6,428,127	5,874,637	5,367,228	4,684,857	4,225,906
Loans & Advances	1,972,021	2,045,368	2,171,898	2,086,028	1,923,909
Equity	648,772	578,173	527,923	482,585	412,122
Financial Results					
Net Operating Income	100,939	127,756	114,968	102,105	95,284
Net Interest Income	79,830	66,060	77,222	73,918	67,380
Net Non-Interest Income	20,967	72,800	48,306	35,882	33,265
Net Income	40,297	60,290	53,425	46,218	40,849

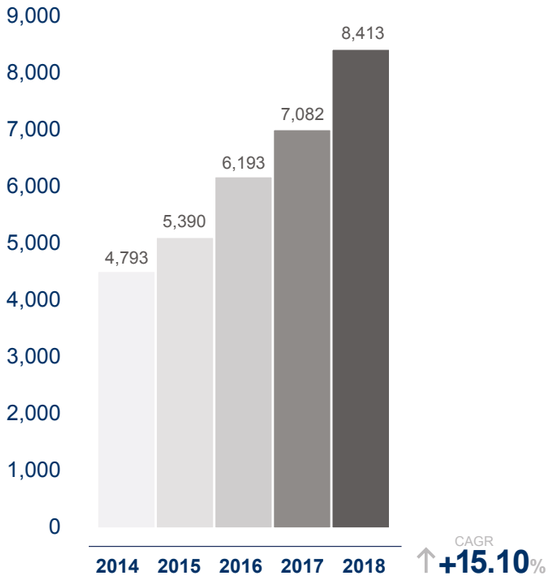
Total Customers' Deposits
In billions of LBP



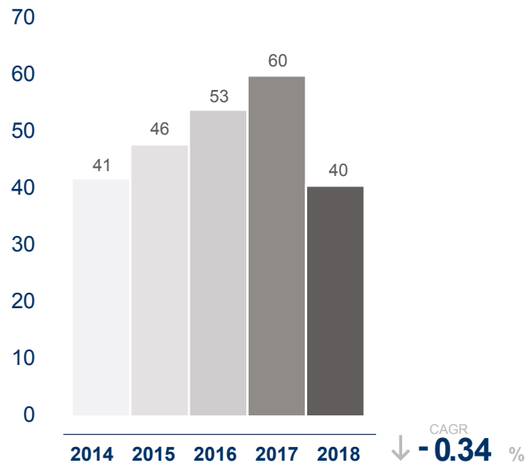
Total Loans & Advances
In billions of LBP



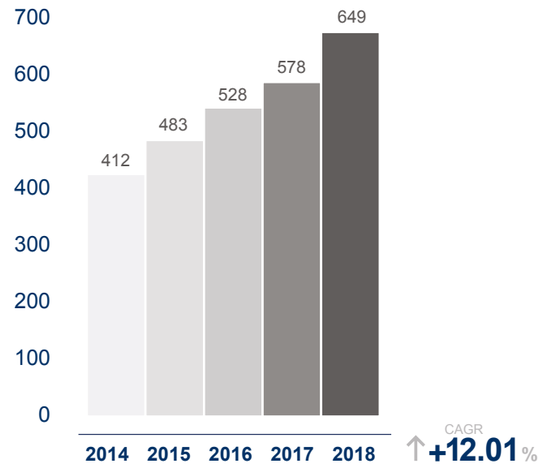
Total Assets
In billions of LBP



Net Income
In billions of LBP



Total Equity
In billions of LBP



CAGR:
Compounded Annual Growth Rate

Financial Highlights

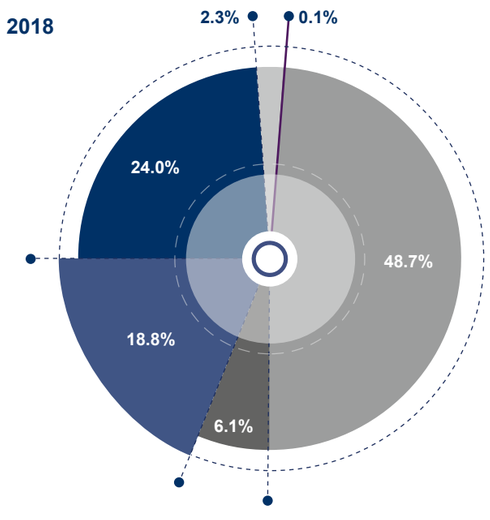
Key Performance Indicators — **As at December 31**

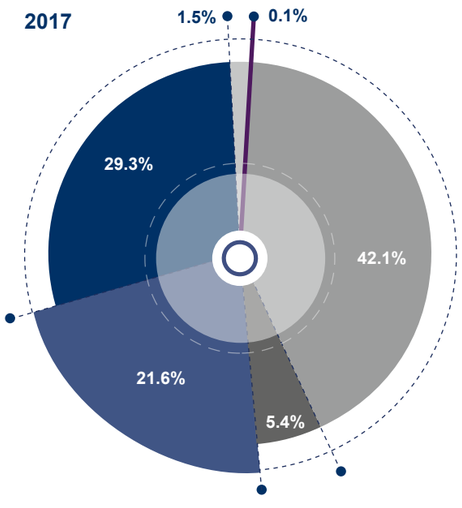
	2018	2017	2016	2015	2014
Liquidity Ratios					
Liquid Assets to Total Deposits	75.10%	76.60%	72.11%	66.47%	63.12%
Net Loans to Total Assets	23.44%	28.88%	35.07%	38.70%	40.14%
Net Loans to Stable Funds	24.49%	30.01%	37.48%	41.12%	42.85%
Profitability Ratios					
Return on Average Assets	0.52%	0.91%	0.92%	0.91%	0.92%
Return on Average Equity	6.57%	10.90%	10.57%	10.33%	10.45%
Return on Average Common Equity	6.53%	12.48%	12.19%	12.72%	12.59%
Cost to income	55.40%	37.84%	40.53%	42.10%	43.44%
Net Interest Margin	1.06%	1.12%	1.37%	1.49%	1.56%

Key Performance Indicators — **As at December 31**

	2018	2017	2016	2015	2014
Asset Quality Ratios					
Non Performing Loans to Gross Loans	8.30%	7.50%	6.64%	4.61%	5.18%
Loan Loss Reserve to Non Performing Loans	46.78%	49.52%	51.07%	79.59%	76.90%
Capital Adequacy Ratios					
Capital Adequacy	15.68%	14.61%	14.30%	12.52%	12.18%
Risk Weighted Assets to Total Assets	49.08%	54.24%	59.91%	64.20%	63.62%
Equity to Assets	7.71%	8.16%	8.52%	8.95%	8.60%
Book Value / Share	$34.58	$29.68	$26.20	$23.19	$20.95
Earning / Share	$2.10	$3.49	$3.01	$2.65	$2.42

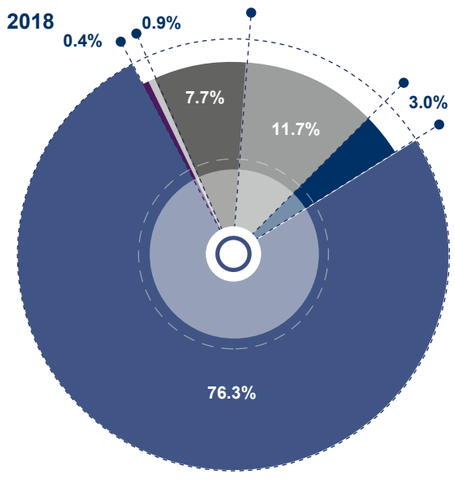
BREAKDOWN OF ASSETS

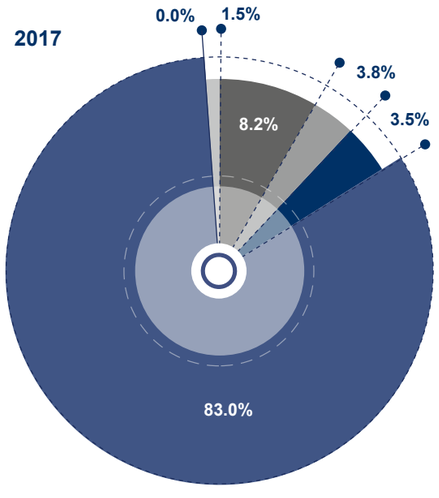




Central Bank · Bank Placements · Portfolio Securities · Net Loans · Fixed Assets · Other assets

BREAKDOWN OF LIABILITIES





Central Bank · Banks' deposits · Cutomers' deposits · Financial Liabilities · Other Liabilities · Equity

Growth

It is without doubt that the Lebanese banking sector faced a challenging year due to the political and economic hardship, which had impacted the financial sector and market during 2018. Consequently, although LGB BANK witnessed a decrease in profitability, the bank was still able to enhance growth and achieve stable financial results. The solid standing was the result of the Bank's sound, strategic practices and continued commitment towards strengthening the core operations, while looking for new opportunities.

The enhanced growth outperformance kept LGB BANK amid the leading names featured on Lebanon's alpha Banks' list. According to the audited financial results for 2018, the Bank's annual deposits recorded a strong growth of 9.42%, reaching 6,428 billion Lebanese Pounds. Assets also grew by 18.8% from December 2017 standing at 8,413 billion Lebanese Pounds by year end 2018. The Bank also managed to maintain a high liquidity status, with Net Profits for the year recording 40.3 billion Lebanese Pounds. Equity increased by 12.2%, attaining 649 billion Lebanese Pounds partly through the cash injection of 17,255 billion Lebanese Pounds and the revaluation of fixed assets amounting to 27,498 billion Lebanese Pounds, which further enhanced LGB BANK's solvency and increased its capacity to face risks. Loans decreased by 3.6% from the previous year, recording 1,972 billion Lebanese Pounds.

While working on achieving its long-term strategic goals, LGB BANK followed a conservative risk based approach and implemented measures which ensured its sound financial position. Mitigating risks via risk assessments and thorough monitoring of the Bank's operations helped ensure that the Bank remained profitable with a prudent liquidity and capitalization status.

Consequently, LGB BANK's management remains committed to supporting and improving the Bank's "Liquidity Position" and "Asset Quality", which are essential for adding significant long-term value to the shareholders and the Bank.

LGB BANK continued to work towards applying the Liquidity Coverage Ratio required by BASEL III, while setting the necessary requirements to implement the Expected Credit Loss (ECL) provisions required under "IFRS9."

2019 is expected to witness a global economic slowdown which would eventually spill over into Lebanon and impact the financial market and the overall economic growth. However, the bank remains committed towards strengthening its positions and operations while implementing the best practices to ensure sound results for this year.

The Bank is completely given to actualizing best corporate administration practices and implementing stringent Compliance and Anti-Money Laundering necessities, all of which render local and global certainty and trust in the Bank.

The strategic decisions endorsed by LGB BANK's board throughout the years has allowed the Bank to have an extended local network of 18 branches, in addition to two overseas branches, one in Larnaca-Cyprus and another representative office in Dubai-UAE in order to provide our clients, both locally and abroad, with better products and services.

LGB BANK remains committed to supporting the Lebanese economy. The Bank continues to endorse a number of initiatives to support the local community, including the financing of small and medium enterprises (SMEs). Apart from its existing partnerships with international DFIs, the bank also obtained a credit line from the European Investment Bank for 95 million Euros which will serve as a key driver for economic growth, SME development, and job creation. This would help stimulate the Lebanese economy by creating sustainable employment opportunities and improve growth predictions. As a result of our continuous efforts to finance and support SMEs, the renowned Banker Middle East Magazine has endowed LGB BANK with the "Best Bank for SMEs" Award of the Year 2018.

When it comes to the Information Technology infrastructure, LGB BANK remains keen to implementing state-of-the-art business and technological enhancements throughout all core business lines, without compromising the confidentiality and privacy of all customer-related data. Significant efforts are being exerted to enhancing the existing IT security measures and practices in order to digitize our processes, while continuously training employees on all levels regarding the rigorous procedures that are adopted in order to provide customers with the highest degree of information protection. The bank continued to streamline the customer processes in an effective and efficient manner as a method of enhancing productivity and decreasing cost.

Thinking outside the box, being committed towards providing affordable solutions to our clientele, and supporting the community and local businesses have all helped position LGB BANK among the top financial institutions in Lebanon.

As we remain committed to our strategy of always moving forward, LGB BANK continues to be dedicated in providing a strong performance, just like we have over the past years and will continue for the years to come, irrespective of the hardships that may come.

At LGB BANK, we are dedicated towards maintaining a responsible and diversified growth strategy with the aim of building and nurturing solid relationships and partnerships on all fronts.

We remain devoted to providing our clients, that have become our extended family throughout Lebanon and abroad, with the best solutions and services at LGB BANK.

In the end, we extend the sincerest gratitude and appreciation to our shareholders for their trust and loyalty, to our staff for their dedication that remain a pillar in our success, and to our clients for choosing LGB BANK as their banking strategic partner.

Abdul Hafiz M. Itani
Chairman-General Manager

Samer A.H Itani
Vice Chairman- Chief Executive Officer

Benefits

Our Bank

Historical Foundation

With more than 50 years of banking tradition, trust and excellence in customer service, LGB BANK stands today as one of Lebanon's deeply rooted banks.

Established in 1963 under the name of Banque de Credit Agricole S.A.L., LGB BANK adopted its current name in 1980 when a group of businessmen (led by the current Chairman) acquired the majority of its shares.
The Bank currently operates from its head office which is located in Beirut Central District, and is backed by a powerful network of 18 branches spread across the country, along with a branch in Cyprus since 1986, and a Representative Office in Dubai, UAE.

As one of the most evolving and vibrant institutions in the country today, LGB BANK is committed to a regular systematic expansion strategy. As such, the Bank had embarked on a new branding effort which, aligned with its business strategy, promised to propel it to new heights. This strategy has transformed into an enhancement of LGB BANK's operational and information technology infrastructure, a substantial growth in profits and deposits, and most importantly into a concentrated modernization and development of the human capital. Major changes in the Bank's new identity aimed at reflecting its core values and attributes in terms of quality and professionalism. The latter has affected LGB BANK's corporate image, achievements and premises. The Bank's expansion strategy runs simultaneously in Lebanon and the Middle East, as LGB BANK is continuously tapping into potential prospective markets.

With its dedication and clear vision, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and innovative products that match the customers' financial aspirations. Accordingly LGB BANK received numerous awards and recognitions from prestigious international institutions to include Excellence in E-banking and Mobile Banking award, Retail Bank of the Year, Best Financial Transformation, Best Credit Card and Best Co-Branded Credit Card, as well as Fastest Growing Commercial Bank Lebanon and Best Bank for Investor Relations Lebanon.

Vision

Based on its ongoing pursuit of excellence and optimized customer satisfaction. LGB BANK aims to become the bank of choice for Lebanese and regional customers.Through a consolidated and growing network of branches and affiliates, we aim to establish lasting relationships with our customers and continuously improve our performance to gradually become a cornerstone in the banking industry.

Mission

At LGB BANK, we thrive to provide our customers with best in line products and services that meet their evolving short and long term needs. Our mission is to establish trustful and personalized relations with each and every one of our clients; while giving them access to a team of reliable professionals, who are committed to a high quality financial performance. We value excellence over quantity and settle for nothing less than outstanding results that surpass our clients' expectations.

Values

LEGACY

From one generation to another, the Bank has cumulated a valuable experience thus, building a successful and proven track record. LGB BANK firmly believes in the consistency and continuity that a valuable banking legacy can offer.

INTEGRITY

At LGB BANK we put our customers' best interests at the forefront of our operations. We believe that delivering genuinely good services will undoubtedly lead us to achieve success. This is why we adopt a widely transparent strategy while dealing with our clients.

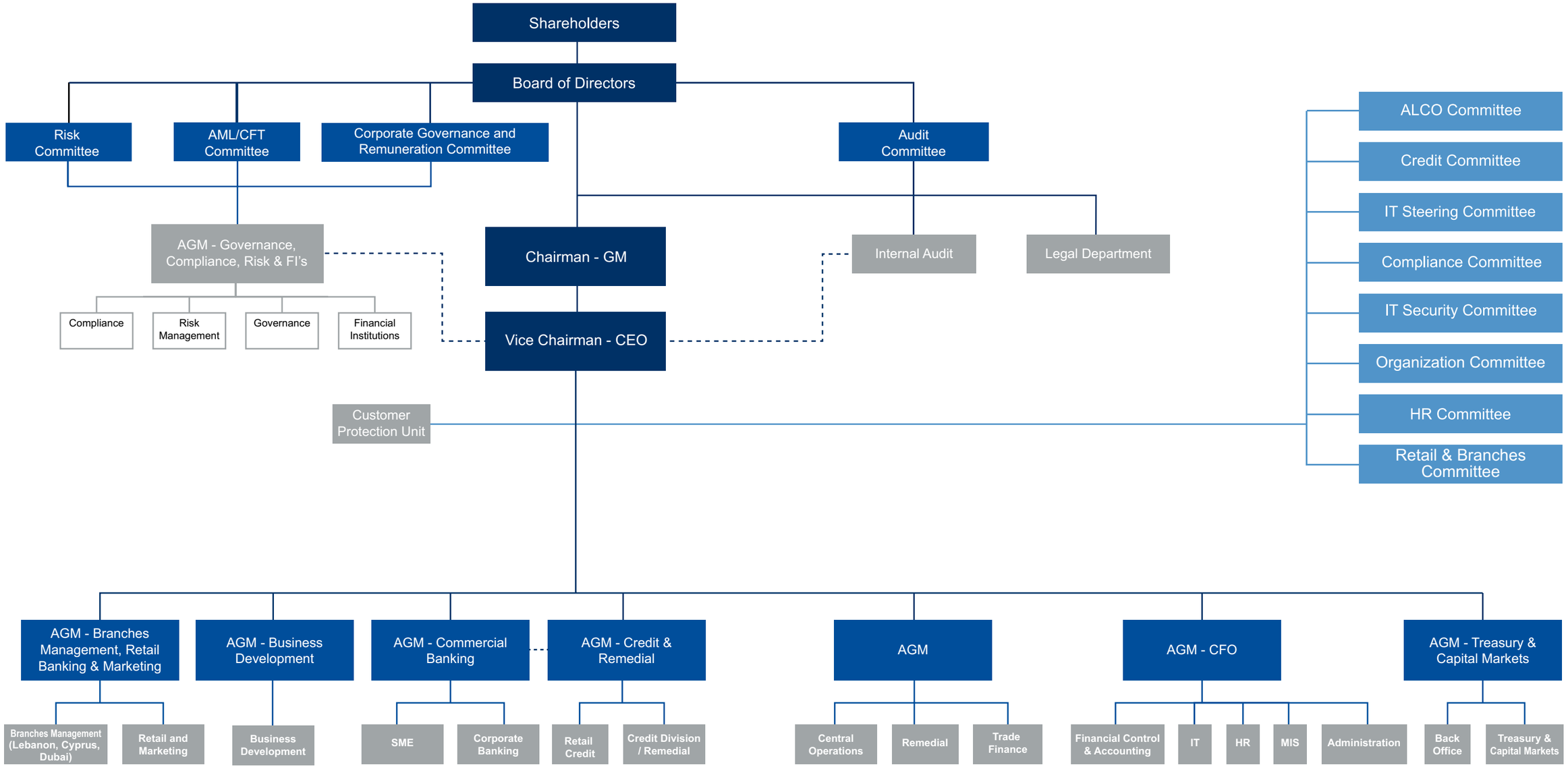
QUALITY

LGB BANK has a long and proven track record in the Lebanese market; one that is marked by the delivery of high quality products and services. Indeed, premium quality remains at the heart of our business strategy which aims at preserving high levels of customer satisfaction by offering impeccable services.

ACCOUNTABILITY

LGB BANK is a reliable banking partner for Lebanese and foreign customers. We provide them with a diversified portfolio of offerings, based on thorough analysis of the market and the local customers' needs. We also put at the disposition of our clients the expertise of a pool of industry experts who offer professional advice and reliable solutions.

Organizational Chart



Luxury

Corporate Governance

Governance

LGB BANK is keen on ensuring complete compliance with local and international governance practices. Armed with the core values of integrity, transparency, and accountability, the Bank's governance culture has been progressively evolving to encompass robust risk management and control practices that direct it in sustaining business performance and delivering long term value to stakeholders.

The Board's key governance responsibilities are to set the Bank's strategic objectives while relying on Management's relevant and timely controls to facilitate complex decision making. The board also sets the Bank's internal controls and risk appetite through a well defined policy supported by proper oversight to ensure the accurate and comprehensive implementation of these controls.

LGB BANK recognizes its responsibility towards its stakeholders in ensuring safe, sound, and ethical financial operations. It is essential therefore; that our risk culture supports our risk profile and our adopted risk management practices.

LGB BANK acknowledges that long term success is achieved by having the right leaders in place. Thus, talent development and strategic succession planning are critical components of sustainable success at the Board and Executive Management levels.

CORPORATE GOVERNANCE FRAMEWORK

The Bank's Corporate Governance Framework is specifically designed to guide the Board in achieving the Bank's aims, led by the highest ethical standards and interests of its stakeholders. The Bank's Corporate Governance Policies, including the Code of Corporate Governance, Board Charter, Code of Conduct and Code of Ethics, lay a solid foundation for transparent and accountable decision making. In addition, as part of its continuous commitment to sound corporate governance, the Bank fortified its Disclosure Policy to ensure that all required regulatory disclosures are done effectively and efficiently. The Bank's corporate governance guidelines are available on the Bank's website at www.lgbbank.com.

BOARD SELECTION AND ELECTION

Board members are appointed on merit, based on the required diversity for effective decision making. Board members' selection relies on integrity, character, range of skills, professional experience and background, and finally, willingness to commit adequate time and effort to the Bank. Shareholders elect the Board to oversee management and to assure that the shareholders' rights are protected. LGB BANK is governed by 11 members (out of which 7 are independent members) elected by the general Assembly of shareholders for terms not exceeding 3 years.

BOARD RESPONSIBILITIES

The Board sets strategic objectives and policies that are focused on delivering long-term value and providing overall strategic direction within the set framework of risk appetite and controls. It governs transparently the Bank through monitoring business performance, operations and the integrity of internal controls. Through establishing clear lines of responsibility, accountability and communication throughout the Bank, the Board performs its responsibilities as a supervisory entity while delegating management the responsibility of implementing the policies, guidelines and parameters set by the Board in compliance with the laws and regulations. In addition, the Board is responsible for guaranteeing that management maintains an effective Risk Management and oversight process at the highest level.

Board Committees

AUDIT COMMITTEE

The Audit Committee's mission resides in assessing the integrity of the Bank's financial reporting, the effectiveness of internal controls in addition to the performance of the Bank's Internal Audit Unit and External Auditors with respect to the suitability and relevance of the submitted reports. The Audit Committee supports the Board in protecting the interests of shareholders and other stakeholders by acting with the right level of diligence to assure that appropriate and prudent judgments have been made with respect to financial reporting given that the financial statements provide a realistic view of the Bank's financial position and that the auditor's independent analysis on behalf of shareholders is both objective and effective.

RISK COMMITTEE

The Risk Committee reviews and recommends the Bank's Risk Policies and Risk Appetite directly to the Board. It is also responsible for identifying and monitoring the Bank's risk profile for all types of risks and ensuring that the overall Bank's risk profile and risk appetite remain appropriate, in addition to recognizing and assessing future potential risks. The Committee oversees the Risk Management Framework, assesses its effectiveness, and supervises the proper implementation of Risk Management policy in order to adapt to regulations.

CORPORATE GOVERNANCE AND REMUNERATION COMMITTEE

The general purpose of the Corporate Governance and Remuneration Committee of LGB BANK is to develop and recommend sound Corporate Governance principles: including corporate governance guide and follow up on their implementation in accordance with the guidelines issued by the Basel Committee and Supervisory Authorities.

The Committee is also responsible for developing the Remuneration policy and Remuneration System at the Bank, presenting them to the Board of Directors and overseeing their implementation. The Committee ensures control of the Remuneration practices by ensuring that decisions are made in an independent and informed manner across all levels of the Bank to avoid conflicts of interest.

The Bank's Remuneration Policy promotes accountability and transparency by developing and implementing an appropriate System that aims to attract and retain quality employees with sufficient expertise to effectively conduct the Bank's operations and focus on promoting effective risk management. It takes into consideration the nature of service, complexity of tasks, time commitment, and related risks to spread a culture of reward for performance which encourages effective employee performance while maintaining the short and long-term financial stability and conformity to the Bank's overall strategy. It oversees their remuneration, evaluates their performance and ensures that staff salaries and incentives are in line with the Bank's culture objectives and strategy.

The Remuneration Policy includes a fixed remuneration based on the level of responsibility, a performance-based or variable risk-adjusted remuneration and other additional benefits and allowances. The Bank's remuneration structure supports sound corporate governance through assisting Board Members in identifying and nominating potential nominees to the Board and senior management while overseeing their appointment into the role and considering the requirements needed.

The Committee supervises the Board Succession Plan Policy and suggests a list of potential Board Members during the annual General Assembly meeting for the shareholders to discuss and elect. They also establish the criteria for strategically and systematically identifying, assessing, developing and training Board Members Candidates to ensure effective leadership and performance continuity in line with the Bank's strategy and operational development.

AML/CFT COMMITTEE

The AML/CFT Board Committee was established to assist the Board of Directors in its functions and supervisory role with respect to Fighting Money Laundering and Terrorist Financing, understanding the related risks, along with providing assistance for sound decision makings in this regard. The role of the AML/CFT Board Committee also includes protecting the Bank from other compliance risk related issues and, more generally, overseeing the Bank's compliance with AML/CFT applicable laws, policies and regulations. From a risk-averse point of view, the committee reviews the reports submitted by the AML/CFT Compliance Unit and the Internal Audit Division. It also reviews all the adopted procedures in terms of unusual operations and high-risk accounts in order to recommend suitable decision in this context.

MR. ABDUL HAFIZ M. ITANI

Chairman – General Manager

Mr. Abdul Hafiz Itani has been the Chairman - General Manager since 1980 upon acquiring the majority of the Bank's shares along with a group of local and Gulf investors.
With more than 65 years of experience in the banking and finance industries, Mr. Itani's professional career, crowned with his successful management of a long-lasting established family business, impelled him to lead LGB BANK through affluent and challenging times to be one of the leading banks in Lebanon.
During his career timeline, Mr. Itani has occupied several key positions in the Lebanese banking sector.

MR. SAMER A.H. ITANI

Vice Chairman – CEO

Mr. Samer Itani started his Banking career at LGB BANK by occupying several managerial positions in different divisions at the Bank, prior to being selected in 1995 as a member of the Board of Directors.
Mr. Itani was appointed to his current position in 2007 and is currently responsible for leading the restructuring and expansion strategies of the Bank, thus positioning it as one of the best performing Lebanese banks.
Mr. Itani holds a degree in Finance and International Management from Georgetown University in Washington DC. He attended advanced management programs at both INSEAD and London Business School.

MR. JOSEPH M. HAKIM

Board Member

Mr. Hakim is an executive member of the Board of Directors. He is also a member of both the Risk and the AML/CFT Board Committees. Mr. Hakim has 55 years of experience as he joined LGB BANK in 1980. Today, the banking veteran is considered to be one of the founders in the new entity of LGB BANK.
In his former professional life, Mr. Hakim worked in different local commercial banks and held several managerial positions. The skilled banker earned a degree in General Commerce from the American University of Beirut.

ME. ANTOINE J. CHADER

Board Member

Me. Chader is a member of both the Risk and the AML/CFT Board Committees. He was nominated as a Member of the Lebanese Parliament and has over 50 years of experience in law, banking and financial institutions. Me.Chader's professional career is marked with key positions, appointed Chairman and General Manager of two local banks and the President of Association of Banks in Lebanon. Me. Chader is a prominent Lebanese lawyer and holds a degree from Saint Joseph University's Law School.

H.E. ABDUL KAREEM H. ARKOBI

Board Member

H.E. Arkobi is an independent member of the Board of Directors. He has a vast experience in banking and firms management in the MENA region. His Excellency is now the Chief Executive Officer and owner of Gold Inspiration Company for Trade, Al Safir al Mout'lek Contracting Company and Shaybah Holding. His career was marked with key positions as he has been appointed General Manager, Advisor and Deputy Minister in the Saudi Royal Court for the past fifteen years.

MR. MOUNIB M. HAMMOUD

Board Member

Mr. Hammoud is an independent member of the Board of Directors. Mr. Hammoud has over 35 years of extensive experience in banking, institutional finance, city making, land development, real estate development, retail and tourism projects development, strategic planning, corporate finance and financial architecture, as well as sales and marketing of real estate projects, in the Middle East, North Africa and Europe. He holds a Master's degree in Business Administration from the American University of Beirut.

JUDGE SAID M. MIRZA

Board Member

Judge Mirza is an independent member of the Board of Directors and he is the Chairman of the AML/CFT Board Committee. Judge Mirza has a vast experience of more than 50 years in law where he occupied many judicial functions until his nomination as Attorney General of the Court of Cassation where he served until his retirement. Additionally, he participated in the documentation of legal texts, rulings, legal research and analysis. Judge Mirza holds a law degree from the Lebanese University.

DR. MOHAMMED A.H. CHEAIB

Board Member

Dr. Cheaib is an independent member of the Board of Directors and he is the Chairman of the Corporate Governance & Remuneration Committee and a member of the Risk Committee. Dr. Cheaib is the Chairman-General Manager of INTRA Investment Company S.A.L., and a Board member of a local commercial bank. Additionally, he is a member of the World Union of Arab Bankers. Dr. Cheaib has over 50 years of banking experience and has several studies published in Lebanese media outlets. Dr. Cheaib holds a doctorate in Economics from Aix-Marseille University in France.

MR. RABIH A.K. EL-NOUEIRI

Board Member

Mr. Noueiri is an independent member of the Board of Directors and he is the Chairman of the Audit Committee and a member of the Corporate Governance & Remuneration Committee. Mr. Noueiri has a wide experience of more than 35 years in American, European, and local banking. He was the Executive Manager at American Express Bank in London, Member of the Executive Management at Union Bancaire Privée in London, Senior Vice President at Chase Manhattan Bank in addition to several key positions in local commercial banks.
Mr. Noueiri holds a Business and Commerce Master's degree from Beirut Arab University.

MR. PHILIPPE A. SALEH

Board Member

Mr. Saleh is an independent member of the Board of Directors and the Chairman of the Risk Committee and member of the Audit Committee. Mr. Saleh has over 40 years of experience in the banking sector. After having started his career in the Corporate Banking Division at Citibank N.A., Mr. Saleh has held several managerial positions at a local leading commercial bank, the latest of which was Chief Risk Officer (CRO) – AGM, Head of Group Risk Management Division. He demonstrated expertise in developing an integrated risk management framework for all aspects of risk across the organization, and implementing a set of risk metrics and Basel II and Basel III compliant reporting.
Mr. Saleh holds a Master's degree in Business Administration from Paris IX Dauphine University, a Master's in Science from the Faculty of Lyon as well as the "Citibank Management Certificate".

MR. FOUAD N. TOUMA

Board Member

Mr. Touma is an independent member of the Board of Directors and a member of both the Audit Committee and the Corporate Governance & Remuneration Committee. He is also a member of the Board of Directors of Hotel Dieu de France (HDF) of the Saint Joseph University (USJ).
Mr. Touma has a notable experience of more than 55 years in local banking where he handled great responsibilities and managed major directorates such as the Secretariat of the Board. He is currently giving banking courses at the Higher Institute of Banking Studies (ISEB) of Saint Joseph University. Additionally, Mr. Touma is the holder of the Belgian Insignia of Officer of the Order of Leopold II, Treasurer of the Alumni Association of Jamhour College, and Member of the Alumni Executive Committee of the Faculty of Law of Saint Joseph University. The banking expert holds a Master's degree in Law and Banking from Saint Joseph University and has participated in several banking seminars in France, Belgium and Lebanon.

Gain

Corporate & Commercial Banking

LGB BANK maintains a well-established position in the commercial lending field, with a concentration on corporate banking services through a distinctive approach for quality planning and trustworthy financial consultancy. After years of success in the local financial market, and with the unwavering reliability of its clientele, the Bank has been acknowledged as a highly reliable business partner rather than just an ordinary financing service provider.
With the support of its skilled personnel and solid financial and logistical resources, LGB BANK is able to keep a close eye on its customers' businesses and projects. Consequently, the Bank enables its clients to achieve all their goals by granting them financial counseling and proper orientation.
The customer portfolio at LGB BANK is composed of small, medium and large scaled enterprises, all of which benefit from a variety of products and services tailored to meet their specific financial needs. Our offerings include traditional overdraft facilities, project financing, loan syndication, structured business solutions, supply chain finance and various trade finance products and services.
LGB BANK constantly aims to enhance its commercial client-base while maintaining adequate collateralized debt obligations and while remaining in full compliance with the regulations of the Central Bank of Lebanon.

Treasury & Private Banking

Backed by a solid track record and a proven know-how in customer handling and servicing, LGB BANK provides its Clients with a wide range of products and services through a specialized cell of professionals with a deep knowledge in Treasury Management and Private Banking practices, offering clients personalized financial solutions with access to a broad spectrum of Local and International Markets and a reliable non-discretionary consultancy services.

Treasury and Capital Markets

Apart from its strategic role in the efficient Assets and Liabilities' Management of the Bank including but not limited to the recommendation of financial engineering solutions that would secure optimum returns on investments while boosting the Bank's profitability, within the internal and regulatory guidelines; the Treasury and Capital Markets Department at LGB BANK is the clients' key access to International Foreign Exchange, Money and Capital Markets.
Skilled team members provide the Bank's clients with reliable information and an eclectic range of investment products, including stocks, bonds, funds and structured products…
In addition to the above, LGB BANK provides Brokerage services and Safekeeping of various types of financial instruments.

Private Banking

In a highly competitive market, LGB BANK has managed to accustom a niche segment of high net worth customers by offering them impeccable services.
To maintain such strong bonds, the Bank's Private Banking teams have been able to provide their customers with Financial Products based on a clear understanding of their objectives.
Backed by a high sense of resourcefulness, in-depth business knowledge and solid commitment towards the Bank, the teams' performance has been commendable from all angles.

Retail Banking

LGB BANK enjoys a strong expertise and know-how in the Retail Banking. The Bank's product development policy embraces the client's ever-changing needs, while consciously improve their banking experience through a modern and transparent service based on customized products and services.
The Bank continues to develop its portfolio of targeted products and services, aligning its actions with its broad product strategy and succeeding in widening its clientele base, while remaining faithful to its quality standards.

Innovative Services

LGB BANK has been a leader in the field of retail banking, it is to be remembered that the Bank was the first to introduce the SMS alert service in Lebanon, the "Banking by Night" service is another one of the Banks's pioneering initiatives which provide customers with flexible banking hours, making the Bank one of the very few financial institutions in Lebanon to open its doors for a second shift from 7:00 PM to 10:00 PM.

In light of its wider corporate strategy, The Bank was always keen on capitalizing on the role of new technologies; with an objective to introduce innovative payment solutions that offer value added benefits to clients, the bank offered a ground-breaking mobile payment service, a highly safe payment solution linked to a credit card. This service enables customers to pay their bills through a secure and reliable application directly from their smart phones with this revolutionary application using the HCE technology.

Payment Cards

Responding to evolving banking needs and modern lifestyles, LGB BANK was one of the first banks to issue MasterCard in Lebanon back in 1992.Today the Bank offers an extended line-up of MasterCard and Visa to choose from, including Debit, Credit and Prepaid cards.
In collaboration with MasterCard, the Bank launched the First UAE Dirham Credit Card that has been specifically designed for UAE visitors and residents, offering its holders exclusive benefits and rewards while sparing inconvenient change rates, in addition to many currencies such as USD, LBP, Euro, Sterling Pounds, Turkish Lira, and Saudi Riyal.
Those cards were developed with appealing payment facilities and flexible use limits which are constantly revised to meet the customers' increasing demand for cash.
In addition to the regular payment cards that come handy anytime and anywhere, the Bank also offers a range of Debit Visa Cards with Pin on Chip, and 3D Secure features for enhanced security on all your transactions.
Topping this range of retail offerings is the Visa infinite Card and MasterCard Black Card, both Considered as VIP with special benefits and a global access to a group of internationals, exclusively offered to the most valued customers, who can take advantage of the generous services, exclusive offers and luxurious experiences presented to the very few.

Loyalty Rewards

Further in line with its customer centric strategy, the Bank initiated its LGB Miles Program under "More Miles, More Destinations". This Loyalty concept allows LGB BANK credit cardholders to earn 1.5 Miles for each USD 1 spent, or equivalent in other currency, on any LGB Credit Card, in addition to free access to more than 500 airport lounges in more than 300 cities around the world with no previous registration needed.
Cardholders will also benefit from special travel offers to visit more than 55 destinations on most of the international airlines. In this sense, LGB BANK reconfirms its intent to provide an unmatched banking experience by rewarding its customers for their loyalty as well as their frequent use of its payment cards. Moreover, The Loyalty rewarding experience also offers a unique shopping experience, where cardholders can redeem their earned points from over 4,000 carefully selected gift items and vouchers, or even simply cash back the points earned anytime.

Retail Loans

Being a real pioneer in this field, LGB BANK has developed services that aim to improve its customers' quality of life, whether from a personal or a professional standpoint.
With a rising demand on loan products and in addition to the usual common loans such as the Housing, Personal and Car loans, the Bank developed tailored offers for the Public and Private sectors which allows employees to benefit from a wide range of free services against salary domiciliation, by obtaining a competent credit facility with an attractive rate, within favorable conditions.

Online Platform

Over the past few years, the world has witnessed a real electronic revolution, pushing most businesses to leverage their operations through an online system. In this line, LGB BANK is continuously updating the modern and upbeat version of its corporate website, www.lgbbank.com with user friendly functions including both corporate and retail banking products and services, along with its Loyalty Website, www.lgbloyaltyprogram.com where cardholders can redeem their points online, anytime anywhere, 24/7, thus creating a comprehensive interface to browse and explore.

International & Financial Institutions

LGB BANK continues to adapt to arising challenges and opportunities taking into consideration the ongoing evolution in regulations and international standards.

The Financial Institutions Department, being the key access point to the outside world, has focused on further strengthening its correspondent banking capabilities by providing distinctive and customized services to the clients.

It has actually focused on maintaining its credit lines with international banks and such a wide correspondent banking network allowed the Bank to adequately cover its business model in various areas and to continuously support the growing needs of its customers efficiently and at highly competitive conditions.

And, despite the regional turmoil, the FI has also been able to selectively expand its relationships with leading prime financial institutions which reflected a bold sign of confidence of the international banking community in LGB BANK's financial and credit standings as well as its compliance standards. This has also toughened the bank's position as a reliable correspondent banking partner to individuals, corporate and banks.

Marketing & Communication

With a clear vision for development and efficient management, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with innovative services and "out of the box products" products, tailored to meet the customers' fast-changing financial needs.
Recognized as a banking institution striving for excellence and driven by ambitious growth, LGB BANK was able to win several international industry awards; a clear recognition of its standing and business philosophy.
Awards include:

- Best SME Banking under the Product Awards by Banker Middle East–CPI Financial
- Excellence in Trade Finance under the Arab Banks Awards at Commendations of Excellence by World Union of Arab Bankers.

Beyond being a testimony of the Bank's constant advancement and singularity, LGB BANK also believes that the awards are a stimulus that motivates it to strive for more accomplishments and more innovative services.

Further leveraging its efforts to meet the latest banking trends, LGB BANK continues to provide a world class experience to its customers in its 18 various branches across Lebanon, in addition to a branch in Cyprus and a representative office in Dubai.
Today, the Bank's main communication priority remains to highlight its customer centric strategy using a mix of conventional and disruptive tools; as such LGB BANK has recently increased its digital presence to meet the modern users' expectations. This has enabled the Bank to make an impact on the Lebanese banking scene, gaining engagement and momentum in communication penetration and market share.
LGB BANK manages to retain and sustain its customers' trust with a rightfully communicated and reliable performance. The Bank doesn't build its reputation on commercial promotions, but rather on factual servicing. This strategy has supported the Bank to further enhance its Brand Awareness over the years, from adapting its new corporate identity, to keeping customers and the Lebanese market up-to-date by launching successful marketing campaigns such as the LGB Miles Campaign.
Furthermore, the Bank has adopted an "open door" communication policy whether towards the customers or between employees, aiming at safeguarding its image from all possible angles: well thought internal communication activities that enhance the synergy between the employees and promote teamwork; corporate social responsibility communication that supports community initiatives including the constant endorsement of Lebanese non profitable associations; and campaigns that highlight the competitive edge of the Bank's products and services.

LGB BANK sponsors and supports various social and community initiatives, based on the Bank's commitment and mandate to supporting community organizations and institutions addressing various humanitarian and social issues in Lebanon.

Human Resources

In 2017, the Human Resources Department continued to support the Bank's mission in numerous ways starting with establishing trustful and tailored relations with each and every one of our clients while giving them access to a team of trustworthy professionals delivering high quality financial performance to settling for nothing less than outstanding results. Continuing to aggressively apply our vision of "becoming the Bank of choice for Lebanese and regional customers," the Human Resources Department carried on to strengthen employees expertise so that they are better placed to deliver the Bank's strategy.
LGB BANK relies, first and foremost, on its employees. The Bank seeks to build the capabilities of managers and staff to help them develop and to drive the Bank towards endless success while providing an atmosphere that supports sustainable performance and promotes continual professional and personal growth for all employees.
Our Bank is committed to an inclusive culture that respects and embraces the diversity of employees. Moreover its leaders cultivate an inclusive and respectful work environment where all employees can be themselves, contribute their best work and succeed based on merit.
We trust that a successful organization is made up of passionate, motivated leaders - endowed people who can articulate our vision; gain organizational understanding and support for specific business initiatives; and energize those whom they lead. We are sure that delivering our best to LGB BANK customers takes men and women who give us their best every day. To that end, Human Resource philosophies and policies are an essential component of our business strategies. We pay particular attention to managing people as our most imperative resource and a significant stakeholder. The officers and staff of LGB BANK are the vital channel for expressing our brand to customers and prospects alike.
Our service philosophy is guided by the goals and priorities of the Bank's Values: Legacy, Integrity, Quality and Accountability. The Human Resources Department is committed to working with the Bank in attracting and retaining top-talented personnel. To attain these objectives, the Department provides a full-range of support services, programs and resources in the areas of employee benefits, compensation, compliance, employee relations, recognition, talent management and professional development training programs. We know our employees are the key to providing an ideal banking experience. As a result, the Human Resources Department is committed to creating a high-performance, varied and inclusive staff. Similarly important is consistently recognizing the skills and capabilities of our employees. This is why we offer regular learning and development opportunities, enabling staff to preserve and enhance their skills and potentials.

Information Technology

LGB BANK has embraced the technological revolution to ride the wave of sustainable growth in a challenging world economy. In line with this, LGB BANK has invested - and will keep investing- in technology and infrastructure that introduce highly scalable digital platforms, the leverage on technology to sculpt the customer experience, the internal evolution and external partnering in seeking new digital innovation. Yet, integrating new technologies in its internal processes is not the only policy LGB BANK implemented to become a modern financial institution. The Bank has actually worked on developing innovative electronic banking solutions to deliver even higher performance, by providing employees with special online tools that could facilitate their daily chores; and by allowing customers to access a set of online services that simplify their banking transactions. The Bank has also boosted its IT platform by increasing the number of ATMs across the Lebanese territory getting strategically closer to the Lebanese customers. The Bank is always working to enhance the functionality of its core banking system and automate its business processes, coupled with a comprehensive reengineering and improvement of its human and technological resources.
A real pioneer in this field, LGB BANK was one of the very first banks in Lebanon to adopt such technological updates in the industry. In fact, the technological reform stipulated the upgrade of the infrastructure to introduce better risk and security controls ,thus improving productivity. A full security framework based on ISO27001-27005 has been adopted and making benefits from innovative security technologies in order to increase the Bank's resilience against cybercrime and fraudulent activities.
Hybrid integration architecture between systems has been deployed by LGB BANK allowing great flexibility in terms of work flow and transactions' processing; in addition allowing employees to share information internally, creating a solid synergy between departments. All units are linked together by a robust IT system and supported by highly qualified and skilled engineers who are ready to assist with any request.

Betterment

Basis of Presentation

The following part which covers the Management Discussion and Analysis section (MD&A) enables readers to assess the performance of Lebanon & Gulf Bank S.A.L for the year ended December 31, 2018 as compared to its previous year ended December 31, 2017.
MD&A should be taken in conjunction with our Financial Statements and Related Notes for the year ended December 31, 2018. Amounts are primarily derived from the Bank's Annual Financial Statements prepared in accordance with International Financial Accounting Standards (IFRS).

Lebanese Economic View

It is without doubt that the Lebanese economy is facing many economical and political challenges. However, with the government formation, accompanied by a boost from the Arab economic summit, the first condition for implementing the CEDRE conference which secured over 11 billion dollars in soft loans and grants from international donors was executed.

Trade deficit declined by 16% (year on year) to reach 17.03 Billion due to increasing exports (5.36% yoy) and decreasing imports (13.5% yoy).
The Balance of Payments registered a wider deficit in 2018 and reached -4.8 billion from a deficit of -0.2 billion as at December 2017 and the Gross Foreign Currency Reserves decreased slightly by 0.19% to stand at USD 32.5 Billion in 2018 down from USD 35.8 Billion. Moreover, gross public debt increased by 7.1% to reach USD 85.13 Billion.
Debt in local currency stood at USD 51.6 billion at end of December 2018, accounting for 60.7% of the gross public debt.
Debt in foreign currency amounted to USD 33.5 Billion in the mentioned period; constituting 39.3% of the total gross public debt. Gross debt to GDP maintained a slightly higher ratio of 150% in 2018 against 147% at end of 2017.
According to the Ministry of Finance, fiscal deficit widened by 65.8% (y-o-y) to reach USD 6.3 Billion by the end of 2018. This was attributed to the 16.2% yearly increase in government expenditures to reach USD 16.4 Billion, and a marginal decrease in fiscal revenues by 0.36% to stand at USD 10.7 Billion.

Major Economic Indicators in Lebanon

USD Billion	2018	2017	% Growth
Nominal GDP	56.7	54.2	4.6%
Real GDP growth	1.0%	1.5%	-0.5%
Imports	20.0	23.1	-13.51%
Exports	2.9	2.8	5.36%
Trade deficit	-17.0	-20.3	-16%
Gross Public Debt	85.1	79.5	7.1%
Gross Public Debt/GDP	150%	147%	3.0%
Fiscal Deficit	6.3	3.8	65.8%
Gross Foreign Currency Reserves *(Excl. Securities)*	32.5	35.8	-0.19%

Source: BDL, Ministry of Finance, IMF, ABL

Lebanese Banking Environment

Despite the ongoing challenges, the Lebanese banking sector remained resilient in facing political and economic downturns during the year 2018. Despite the limited economic growth and political instability, customer deposits grew by USD 16.55 Billion, and growth in lending activity remained stable, slightly decreasing by 0.52%.

The total consolidated assets of commercial banks operating in Lebanon amounted to USD 249.48 Billion at the end of December 2018, thus increasing by 13.5% from end of December 2017. Lebanese banks rely on deposits as a primary source of funds (constituting 74.25% of total assets); an expansion of 9.8% in total deposits was noted in the year 2018 amounting to of USD 185.25 Billion up from USD 168.7 Billion in year 2017.
Loans to deposits ratio decreased slightly to stand at 32.05% at end of December 2018 down from 35.8% in 2017. The dollarization ratio of deposits increased in 2018 to reach 71.32% compared to 68.7% in 2017. The dollarization of loans, on the other hand, witnessed also an increase in 2018 reaching 72.21% up from 70.9% in 2017.

USD Billion	2018	2017	% Growth
Total assets	249.5	219.9	13.5%
Total deposits	185.3	168.7	9.8%
o/w in LBP	53.1	52.7	0.80%
o/w in FC	132.1	116.0	13.91%
Total loans	59.4	59.7	-0.52%
o/w in LBP	16.5	17.5	-5.71%
o/w in FC	42.9	42.2	1.63%
Equity	20.2	19.1	5.38%
Dollarization of deposits (%)	71.3%	68.7%	+ 262 BPS
Dollarization of loans (%)	72.2%	70.9%	+131 BPS
Loans/Deposit Ratio (%)	32.1%	35.8%	-333 BPS
Deposits/Assets (%)	74.3%	76.7%	- 245 BPS
Equity/Assets Ratio (%)	8.1%	8.7%	- 60 BPS

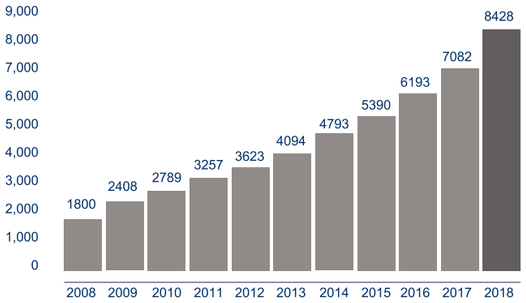
Source: BDL, ABL

The Bank's Growth

Between 2008 and 2018, LGB BANK managed to achieve a steady and continuous growth in all main financial indicators.

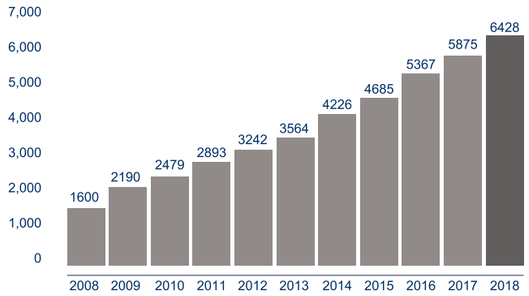
TOTAL ASSETS in Billions of LBP

During the period of 2008-2018, the total assets of the Bank increased from LBP 1,800 billion (USD 1,194 million) as of December 2008 to LBP 8,413 billion (USD 5,581 million) as of December 2018, reflecting a remarkable growth of 367%.



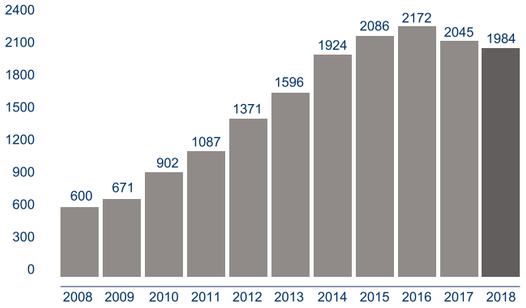
CUSTOMERS' DEPOSITS in Billions of LBP

The growth in the Bank's assets during the period of 2008-2018 reflected a similar growth in Customers' Deposits which increased by 302% from LBP 1,600 billion (USD 1,061 million) as of December 2008 to LBP 6,428 billion (USD 4,264 million) as of December 2018.



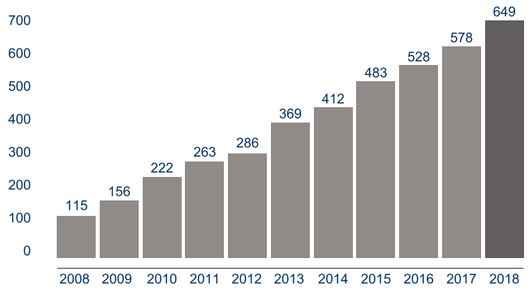
LOANS & ADVANCES in Billions of LBP

The Bank (intentionally decreased - successfully grew) its commercial and retail lending portfolio. Accordingly, Loans & Advances to customers increased from LBP 600 billion in 2008 (USD 398 million) to reach LBP 1,972 billion (USD 1,308 million) as of December 2018, reflecting a growth of 229%.



EQUITY in Billions of LBP

The increase in Equity from LBP 115 billion in 2008 (USD 76 million) to LBP 649 billion in 2018 (USD 431 million) reflected a growth of 464%.



The Bank's Performance

Despite the difficult aftermath of the recent turmoil, 2018 was another successful year for LGB BANK. The Bank maintained a strong performance where total assets increased by 18.8% to reach LBP 8,413 billion and customers' deposits rose by 9.4% to stand at LBP 6,428 billion. The Bank's loan portfolio decreased by 3.6% to reach LBP 1,972 billion in 2018. Moreover, shareholders' equity rose by 12.2% to stand at LBP 649 billion. Net income witnessed a decrease by 33.2% to reach LBP 40 billion with a stable ratio for Return on Average Assets (ROAA) accounting for approximately 1% in 2017 & 2018, as well as a decline in ratio for Return on Average Equity (ROAE) declared at 6.6% in 2018 compared to 10.9% in 2017 because of capital increase.

1. Profitability

Profitability for the period ending on December 31st, 2017 and 2018 was as follows:

In millions of LBP — **As at December 31**

	2018	2017	Amount	Growth %
Net Income	40,297	60,290	-19,993	-33.2
Net Interest Income	79,830	66,060	13,770	20.8
Net Fees and Commission Income	13,552	13,786	-234	-1.7
Net Non-Interest Income	20,967	72,800	-51,833	-71.2
Net Operating Income	100,939	127,756	-26,817	-21.0
Total Operating Expenses	55,842	55,184	658	1.2

1.1 Net Interest Income

The increase in net interest income in 2018 is LBP 13.8 billion estimated at 20.8%, precisely LBP 79.8 billion compared to LBP 66 billion in 2017, was primarily driven by higher interest expenses on deposits from customers, mainly driven by strong client activity and increased client balances. Also contributing to the increase were favorable increase in interest income by 39.1% and an unfortunate increase in interest expenses by 43.4% in 2018

Breakdown of Interest and similar income

In millions of LBP — **As at December 31**

	2018	2017
Interest received from investments securities	94,689	121,671
Interest received from loans and advances	114,473	117,575
Interest received from banks and financial institutions	270,066	105,402
Interest received from related parties	115	120
TOTAL	**479,343**	**344,768**

Breakdown of Interest and similar expense

In millions of LBP — **As at December 31**

	2018	2017
Interest paid on deposits from customers	368,485	267,299
Interest paid on banks and financial institutions	21,197	3,911
Interest paid to banks under repurchase agreements	8,562	6,864
Interest paid on related parties' deposits	536	534
Debt securities issued at amortized cost	733	0
TOTAL	**399,513**	**278,608**

1.2 Net Fees and Commissions Income

A decrease in loan services and trade finance business in 2018 resulted in a 1.7% decrease in net fees and commissions income, compared to a 2.7% decrease in 2017.

In millions of LBP — **As at December 31**

	2018	2017
Fee and commission received		
Credit related fees and commissions	6,434	7,040
Trade Finance	4,052	4,049
General banking transactions	2,820	2,826
Electronic banking	783	741
Other services	50	46
	14,139	**14,702**
Fee and commission expense		
Correspondents' accounts	(587)	(916)
NET FEE AND COMMISSION INCOME	**13,552**	**13,786**

1.3 Net Non-Interest Income

Non-interest income decreased by 71.2% from LBP 72.8 billion in 2017, up to LBP 20.9 billion in 2018. This derecognition of financial assets at amortized cost were made during 2018 due to liquidity gap and yield management in addition to the exchange transaction with the Lebanese Central Bank.

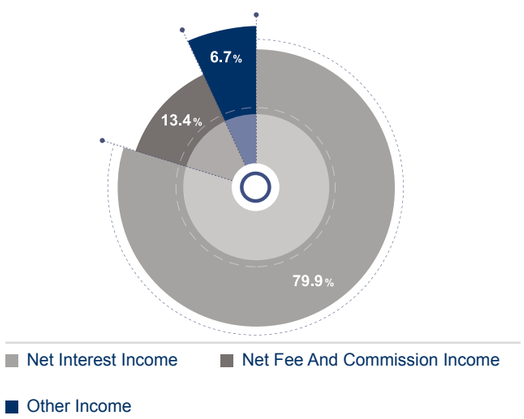
In millions of LBP — **As at December 31**

	2018	2017
Net fees and commissions	13,552	13,786
Net trading income	6,571	7,550
Net loss on financial investments	-1,081	48,476
Other operating incomes	2,230	2,988
Net change in fair value of F.A at fair value through other comprehensive income	-305	0
TOTAL	**20,967**	**72,800**

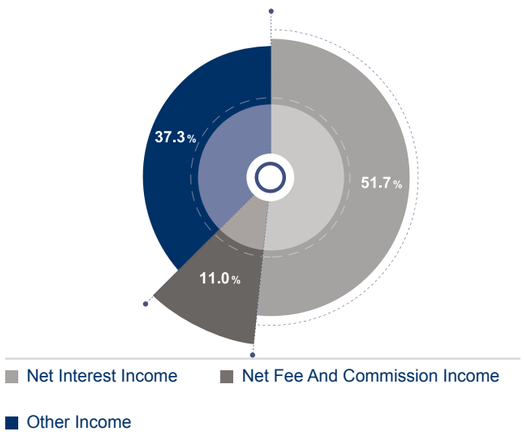
1.4 Net Operating Income

Net Operating Income registered a decrease of 21% from LBP 127.8 billion in 2017, to LBP 100.9 billion in 2018, where the total operating expenses registered an increase of 1.2%, going up from LBP 55.2 billion in 2017, to LBP 55.8 billion in 2018.

Net Operating Income Breakdown 2018



Net Operating Income Breakdown 2017



Breakdown of Total Operating Expenses

In millions of LBP — **As at December 31**

	2018	2017
Personnel expenses	33,107	33,622
Depreciation of property and equipment	4,149	3,859
Other operating expenses	18,586	17,703
TOTAL	**55,842**	**55,184**

2. Sources and Uses of Funds

In millions of LBP — **As at December 31**

	2018	2017	Amount	Growth %
Total assets	8,412,905	7,082,117	1,330,788	18.8
Customers' deposits	6,428,127	5,874,637	553,490	9.4
Loans and advances to customers (net)	1,972,021	2,045,368	-73,347	-3.6
Security portfolio	1,582,388	1,524,793	57,595	3.8
Total equity	648,772	578,173	70,599	12.2
Net income for the year	40,297	60,290	-19,993	-33.2
Dollarization of deposits	67.3%	65.1%	0	3.4
Dollarization of loans	76.8%	76.7%	0	0.1

2.1 Sources of funds

Similar to all Lebanese banks, LGB BANK's main source of funds is Customers' Deposits, which accounted for 76.4% of its overall funding sources in 2018 compared to 83% in 2017. Shareholders' Equity accounted for 7.7% in 2018 compared to 8.2% in 2017.

Breakdown of Funding Sources

In millions of LBP — **As at December 31**

	2018	%	2017	%	Amount	Growth %
Customers' Deposits	6,428,127	76.4	5,874,637	83.0	553,490	9.4
Debt securities issued at amortized cost	33,745	0.4	-	0.0	33,745	-
Shareholders' Equity	648,772	7.7	578,173	8.2	70,599	12.2
Banks Under Repo agreements	109,182	1.3	199,801	2.8	-90,619	-45.4
Banks and Financial Institutions	139,028	1.7	51,305	0.7	87,723	171.0
Other Liabilities	73,653	0.9	112,429	1.6	-38,776	-34.5
Due to Central Banks	980,398	11.7	265,772	3.8	714,626	268.9
TOTAL	**8,412,905**	**100**	**7,082,117**	**100**	**1,297,043**	**18**

2.1.1 Customers' Deposits

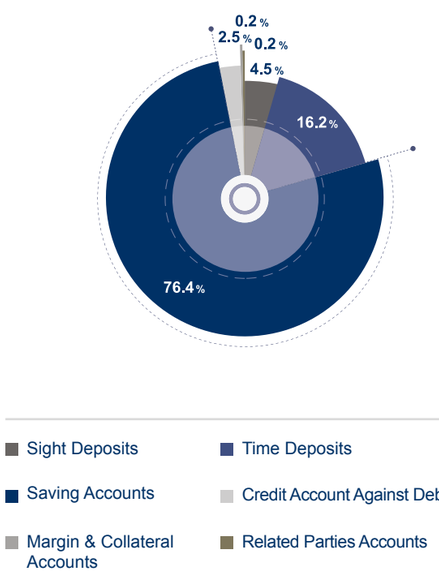
Constituting the main funding source, Customers' Deposits recorded a continuous growth over the years, reaching LBP 6,428 billion as of December 31, 2018 and representing an increase of 9.4% in comparison to LBP 5,875 billion on December 31, 2017.

Deposit Distribution by Type

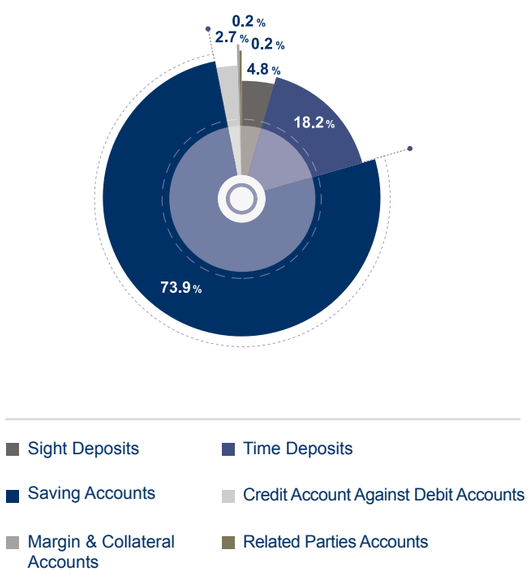
In millions of LBP — **As at December 31**

	2018	%	2017	%	Amount	Growth %
Sight Deposits	289,677	4.5	284,777	4.8	4,900	1.7
Time Deposits	1,043,675	16.2	1,068,260	18.2	-24,585	-2.3
Saving Accounts	4,908,251	76.4	4,339,216	73.9	569,035	13.1
Credit accounts against Debit accounts	163,666	2.5	161,351	2.7	2,315	1.4
Margin & Collateral Accounts	12,218	0.2	9,866	0.2	2,352	23.8
Related parties account	10,640	0.2	11,167	0.2	-527	-4.7
TOTAL	**6,428,127**	**100**	**5,874,637**	**100**	**553,490**	**9.4**

Distribution by Type 2018



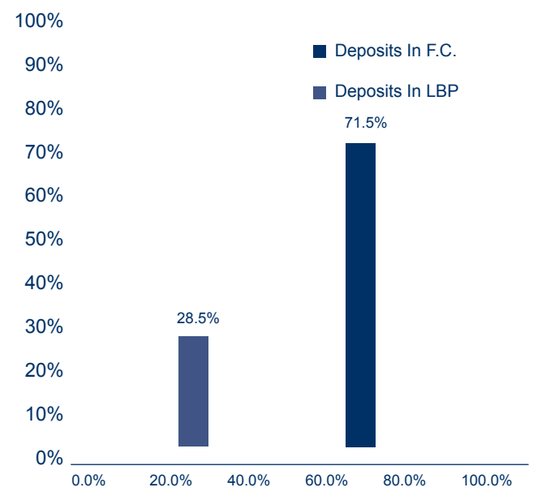
Distribution by Type 2017



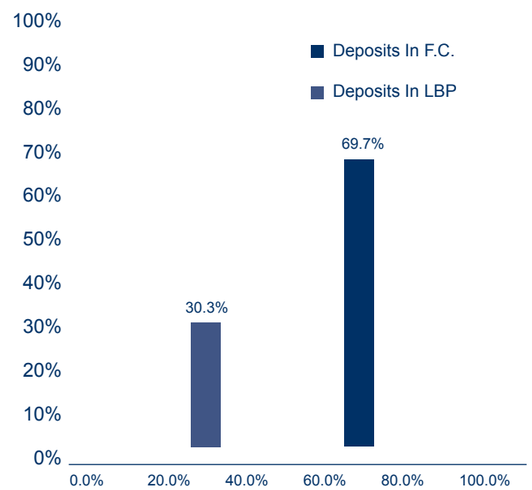
Deposit Distribution by Currency

The breakdown of deposits' growth indicates that deposits denominated in LBP increased by 0.3% from 2017 to 2018 compared to those denominated in foreign currencies which increased by 12.1%. The deposits denominated in foreign currencies to total deposits slightly increased from 69.7% as of December 31st, 2017 compared to 71.5% as of December 31st, 2018. This has led to a rise by approximately 1.8%.

Distribution by Currency 2018



Distribution by Currency 2017



2.1.2 Shareholders' Equity

The Bank's current equity profile is mainly composed of supportive, core shareholders maintaining the Bank's policy of retaining full earnings. These earnings have served to reinforce the capital base over the previous years. Total equity increased by 12.2% year on year to reach USD 430.4 million at the end of 2018 compared to USD 383.5 million at the end of 2017, contributing to nearly 12.2 % of total assets in 2018 and 8.2 % 2017. The increase in equity of year 2018 is driven by the retention of profits after dividend distribution of preferred shares amounting to USD 20.1 million . This measure falls in line with the Bank's strategy of growing organically and at a steady pace.

2.2 Uses of Funds

Maintaining high asset quality and adequate liquidity remains one of the Bank's fundamental priorities. Loans and Advances to customers accounted for 23.4% from total assets in 2018 in comparison to 28.9% in 2017, while Loans to Deposit ratio decreased from 34.8% in 2017 to 30.7% in 2018, as per the Bank's lending policy. The share of cash and balances with the Central Bank recorded an increase from 42.1% in 2017 to 48.7% in 2018. The shares of Security Portfolio decreased from 21.5% in 2017 & to 18.8% in 2018. Moreover the bank's total exposure to the Lebanese Government decreased from 14.6 % in 2017 to 12.9% in 2018.

In millions of LBP — **As at December 31**

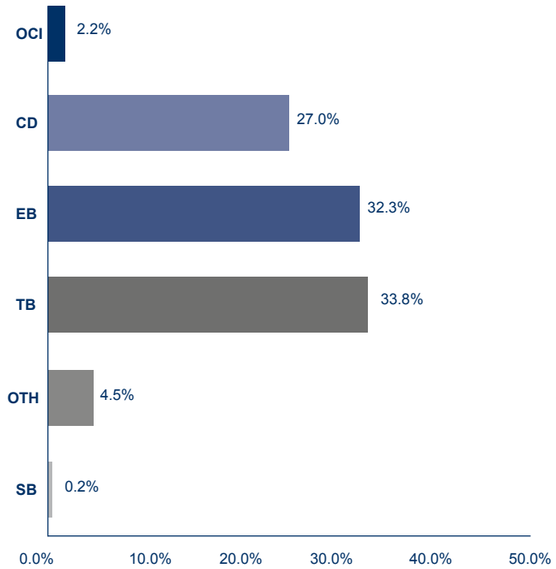
	2018	%	2017	%	Amount	Growth %
Cash and Balances with Central Bank	4,099,416	48.7	2,984,201	42.1	1,115,215	37.4
Banks and Financial Institutions	514,292	6.1	380,676	5.4	133,616	35.1
Loans to banks and financial institutions	3,042	0.0	4,011	0.1	-969	-24.2
Security Portfolio	1,582,388	18.8	1,524,793	21.5	57,595	3.8
Loans and Advances to Customers	1,972,021	23.4	2,045,368	28.9	-73,347	-3.6
Other Assets	241,746	2.9	143,068	2.0	98,678	69.0
TOTAL	**8,412,905**	**100**	**7,082,117**	**100**	**1,330,788**	**19**

2.2.1 Security Portfolio

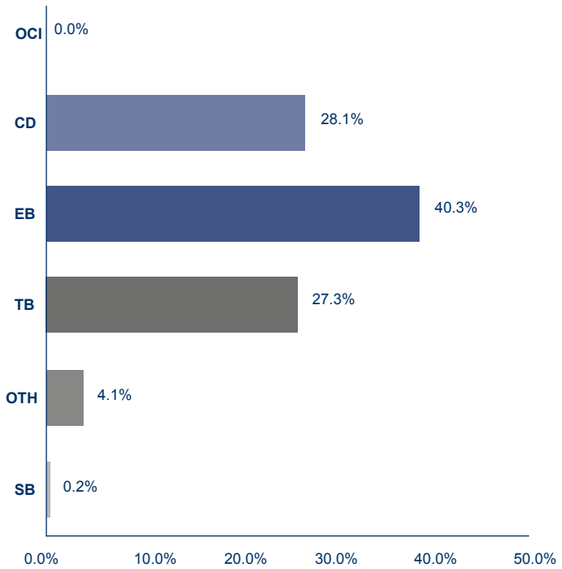
In millions of LBP — **As at December 31**

	2018	%	2017	%	Amount	Growth %
Treasury Bills	535,056	33.8	415,991	27.3	119,065	28.6
Lebanese Government Bonds	510,537	32.3	614,107	40.3	-103,570	-16.9
Certificate of Deposits issued by the Central Bank Of Lebanon	426,649	27.0	429,123	28.1	-2,474	-0.6
Financial assets at fair value through other comprehensive income	35,394	2.2				
Subordinated Bonds	2,996	0.2	3,027	0.2	-31	-1.0
Other Investments	71,756	4.5	62,545	4.1	9,211	14.7
TOTAL	**1,582,388**	**100**	**1,524,793**	**100**	**22,201**	**1**

Distribution by Type 2018



Distribution by Type 2017



In millions of LBP — **As at December 31**

	FVTPL	%	FVOCI	%	Fair Value	%	Amortized Cost	%	Total	2018 %
Treasury Bills	-	-	-	-	-	-	535,056	36.3	535,056	33.8
Lebanese Government Bonds	-	-	-	-	-	-	510,537	34.6	510,537	32.3
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	-	-	426,643	28.9	426,643	27.0
Subordinated Bonds	-	-	-	-	-	-	2,996	0.2	2,996	0.2
Financial assets at fair value through other comprehensive income	-	-	35,394	100	-	-	-	-	35,394	2.2
Others	65,436	100	-	-	6,320	100	-	-	71,756	4.5
TOTAL	**65,436**	**100**	**35,394**	**100**	**6,320**	**100**	**1,475,232**	**100**	**1,582,382**	**100**
Per Cent to Total		**4.1**		**2.2**		**0.4**		**97**		**100**

In millions of LBP — **As at December 31**

	FVTPL	%	FVOCI	%	Fair Value	%	Amortized Cost	%	Total	2017 %
Treasury Bills	-	-	-	-	-	-	415,991	28.2	415,991	27.3
Lebanese Government Bonds	-	-	-	-	-	-	614,107	41.6	614,107	40.3
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	-	-	429,123	29.1	429,123	28.1
Subordinated Bonds	-	-			-	-	3,027	0.2	3,027	0.2
Others	56,225	86	-	-	6,320	100	-	-	62,545	4.1
TOTAL	**56,225**	**86**	**-**	**-**	**6,320**	**100**	**1,462,248**	**99**	**1,524,793**	**100**
Per Cent to Total		**3.7**		**-**		**0.4**		**95.9**		**100**

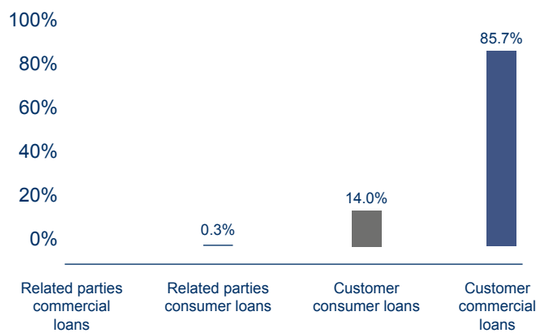
2.2.2 Net Loans and Advances to Customers

The "Loans and Advances to Customers" portfolio witnessed a decrease of 3.6% in 2018, reaching LBP 1,972 billion compared to LBP 2,045 billion in 2017. Following the Bank's lending policy, the Bank slightly decreased its "Loan to Deposit Ratio", which stood at 30.7 % at the end of 2018 compared to 34.8% at the end of 2017.

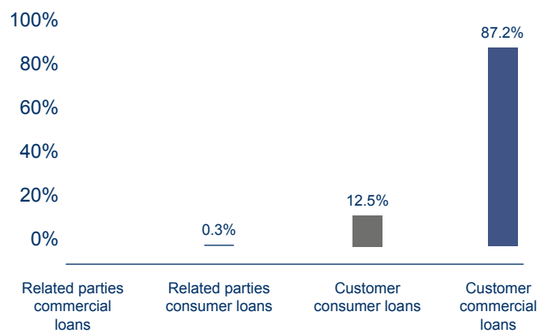
In millions of LBP — **As at December 31**

	2018	%	2017	%	Amount	Growth %
Net loans and advances to customers	**1,965,115**	**99.6**	**2,038,666**	**99.7**	**-73,551**	**-3.6**
Corporate Loans	1,689,978	85.7	1,783,571	87.2	-93,593	-5.2
Retail Consumer Loans	275,137	14.0	255,095	12.5	20,042	7.9
Net loans and advances to related parties	**6,908**	**0.4**	**6,702**	**0.3**	**206**	**3.1**
Corporate Loans	862	0.0	762	0.0	100	13.1
Retail Consumer Loans	6,046	0.3	5,940	0.3	106	1.8
TOTAL	**1,972,023**	**100**	**2,045,368**	**100**	**-73,345**	**-3.6**

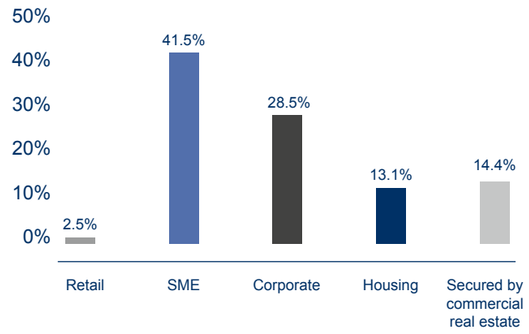
Distribution by Type 2018



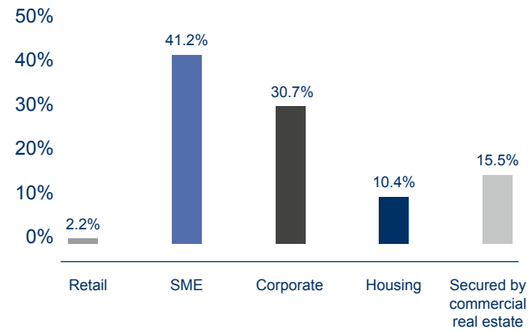
Distribution by Type 2017



Breakdown by Type 2018



Breakdown by Type 2017



Risk Management

LGB BANK's Risk Management framework provides a robust and consistent approach to Risk Management across the Bank and is a core component of the Bank's Internal Governance framework. The Bank has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized Risk Management function that is independent of business lines.

The Board of Directors, either directly or through related committees, ensures that decision-making is aligned with the Bank's strategies and risk appetite. The Board receives regular updates on key risks of the Bank – including periodic comprehensive summary of the Bank's risk profile and performance of the portfolio against defined goals, which is also presented to the Board Risk Committee – and approves key risk policies, limits, strategies, and risk appetite.

The Chief Risk Officer (CRO) is responsible for Risk Management under the oversight of the Board Risk committee. The CRO, who oversees the Risk Management division of the Bank, has direct access to the Board Risk Committee.

The Bank's Risk Management framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global markets in which the Bank operates, including regulatory standards and industry best practices. It consists of three key elements: Risk Governance, Risk Appetite, and Risk Management Techniques.

The Bank aims to ensure that its risk profile remains within the overall risk appetite framework, as approved by the Bank's Board of Directors.

In 2018, LGB's Risk Management focus remains to strengthen its resilience against hazardous risks such as cyber, compliance and other potential risks.

IFRS 9 Preparation

In preparation of the implementation of IFRS 9, LGB BANK exerted significant efforts in preparing the infrastructure for Expected Credit Loss (ECL) calculation on the level of its financial assets. This exercise entailed developing a well-elaborated methodology for the estimation of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) for the different financial assets held at the Bank. The Risk Management Division, in collaboration with various departments at the Bank, namely the IT, Accounting, Credit and Treasury Departments, successfully developed the IFRS 9 framework and initiated the periodic reporting required to regulatory authorities.

Recovery Plan

Following the implementation of BCCL circular 294, requesting Banks operating in Lebanon to put forth a recovery plan that enables them to face potential difficulties and be able to restore their financial stability within a set timeline, LGB BANK developed its recovery plan document in line with its strategic plan, risk appetite, risk management practices and stress testing methodologies and covering its core indicators including Early Warning Indicators (EWIs) and "Triggers Levels".

Credit Risk

The Board of Directors reviews and approves the Bank's credit risk strategy and policy. The objective of the credit risk strategy is to ensure that target markets and products' offerings are well defined and the risk parameters for the portfolios are clearly specified.

Risk Management develops the credit risk management framework and policies that detail the delegation of authority for granting credit, the credit risk rating architecture and associated parameter estimates, and the calculation of the allowance for credit losses.

Credit Risk Management regularly reviews the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio and to determine whether corrective action is required. The results of these reviews are reported to the Risk Committee and, when significant, to the Board.

Stress testing is conducted regularly as a supplementary tool to assess resilience to adverse market conditions and to act upon if mitigating actions are deemed necessary. Stress testing framework helps ensure our portfolio is not overly exposed to extreme market events. Stress tests and their results are reviewed by the Board Risk Committee and potential Management actions are proposed if necessary.

Market Risk

The Board of Directors reviews and approves market risk policies and limits. The Bank's Asset and Liability Committee (ALCO) and Market Risk Management oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and activities.

Risk Management provides independent oversight of all significant market risks, supporting the ALCO with thorough analysis, quantification and recommendation regarding new investments and products.

The applied market risk measurement methodologies support risk quantification, scenario analysis and stress testing, for the range of different types of market risks exposed by the Bank. Various scenarios are performed to take into account changes in the operating environment in Lebanon and the region.

Liquidity Risk

The Bank supports a strong liquidity risk management culture and ensures association to the Bank's strategic objectives while taking into consideration all supervisory circulars and Basel guidelines. The Risk Management division is responsible for the oversight and validation of the Bank's liquidity risk framework, limits, reporting and funding related issues.

Stress testing and scenario analysis play a central role in the Bank's liquidity Risk Management framework and is considered as part of its liquidity monitoring, a continuous update of its Contingency Funding Plan, which incorporates an assessment of asset liquidity under various stress scenarios.

In terms of Liquidity coverage ratio and pursuant to BDL circular 145 and BCCL circular 295, used for measuring short term liquidity coverage (over 30 days), LGB BANK periodically computes the LCR for each significant currency and exhibits comfortable levels well above the required 100% ratio in each currency. Moreover, LGB BANK applies additional scenarios in the LCR exercise such as calculating the net cash outflow for 90 days instead of 30 days.

Operational Risk

Operational Risk Management is at the core of the Bank's operations - integrating Risk Management practices into processes, systems and cultures. As a pro-active partner to senior management, the value of Risk Management lies in supporting and challenging the later to align the business control environment with the Bank's strategy.

The three lines of defense model help to ensure proper accountability and clearly define the roles and responsibilities for Operational Risk Management. The first line of defense is the business unit, who owns the risks in their businesses and operations. The second line of defense is led by an Operational Risk department within the Risk Management division, with support from control functions across the Bank. The third line of defense is the Internal Audit.

LGB BANK has implemented an operational risk umbrella that encompasses all aspects of potential risks - bank protection, fraud prevention, key risk indicators, capture of operational loss data, business line risk oversight and new products and initiatives for data security.

Information Security

LGB BANK has implemented an information security Management System following best practices and ISO 27001:27005 standards.

The Information Security department, responsible for enhancing the information Security program, manages the development, implementation, and enforcement of information systems' security polices and related recommended guidelines, operating procedures and technical standards, as well as ensures appropriate risk mitigation and control process for security incidents which are operated as required.

The department also provides direction and guidance on safeguarding the confidentiality, integrity and availability of LGB BANK's information and computing assets, thus conducting security awareness sessions and training to LGB BANK's staff. In addition, the Information Security department continuously enhances the risk management program that ensures the identification of vulnerabilities and threats to the information resources, while putting into practice countermeasures in order to reduce risk to an acceptable level, based on the value of the information resource to the organization.

LGB BANK is continually working to enhance its cybercrime resilience by investing in innovative security solutions which enhance the Bank preventive, detective and corrective controls.

Moreover, LGB BANK is constantly committed to protect the interest of its customers and to maintain a high quality of service with minimum business disruption. Several initiatives were implemented during the past year to enhance the Business continuity plan.

Other Risks

A good reputation and a positive public image is an invaluable asset to our Bank. Risk Management monitors all business activities, policies and procedures, to guarantee their compliance with legal requirements.

Reputational Risk is managed and controlled throughout the Bank by codes of conduct, governance practices and Risk Management programs, policies, procedures and training. Many relevant checks and balances are undertaken by Risk Management procedures, particularly operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the LGB BANK Guidelines for Business Conduct.

Capital Funds as per Basel III

The Bank conducts an annual strategic planning process, which lays out the development of its future strategic direction for its business areas. The adequacy of capital is actively managed and monitored where the primary objective of the Bank's capital management is to ensure that the Bank maintains a sufficient level of capital to exceed all regulatory requirements and to achieve a strong credit rating, while optimizing shareholders' value.

This is done through a greater focus on the Bank's own estimates of capital demand and targeted earnings through a more formalized assessment of key risks, risk bearing capacity and the use of enterprise stress testing to assess impact of capital demand, capital supply and liquidity, as a complement to economic and regulatory capital.

The targets are monitored on an ongoing basis in ALCO and Risk Committee meetings. Any projected shortfall from limits and targets is discussed together with potential mitigating strategies seeking to ensure that we remain on track. Amendments to the strategic and capital plan must be approved by the Board.

The Bank is fully compliant with Basel III Capital Guidelines and with the BDL circular no.44 and its intermediate circular no.436. The current Bank's adequate capital ratios are the result of its internal capital generation, management of the balance sheet and periodic cash injection by existing shareholders and issuance of preferred shares. Those ratios are calculated in accordance with the Standardized Approach for Credit Risk and Market Risk, the Basic Indicator Approach for Operational Risk.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP, performed on a yearly basis, is becoming more and more of a corner stone in setting the Bank's strategy, which includes ongoing assessment of risks and updates of measurement techniques and controls, set by the Bank for all its risks to reach the best mitigation and assessment of overall required capital to cover any unanticipated losses.

The Board and senior management are liable for incorporating capital planning and capital management into the Bank's overall management culture and approach. They ensure that the reliability of the Capital Planning Process is communicated, implemented and supported by sufficient authority and resources. The Board's main concern is to ensure that the Bank maintains an adequate level of near and longer term capital needs and capital expenditures required for the foreseeable future to exceed all regulatory requirements.

Internal Audit Division

As an independent line of defense from management, the Internal Audit Division closely monitors all functions of LGB BANK to evaluate the adequacy, quality and effectiveness of the Bank's internal control framework, risk management and governance processes. This includes providing assurance and consulting services to the management in purpose of strengthening the Bank's control systems through adding value recommendations.

The Internal Audit Division reports functionally to the Board Audit Committee. During the year 2018, the IAD has conducted several audit assignments as per the approved Internal Audit plan. All identified material weaknesses in the internal control system were reported to the Audit Committee. The Audit Committee discussed all weaknesses identified during its periodic meetings and actively follows up on the corrective measures taken by management to ensure that identified weaknesses have been mitigated by appropriate controls to safeguard the interest of the Bank.

In line with the International Standards for the Professional Practice of Internal Auditing and the approved Internal Audit Charter the main objectives of the Internal Audit Division are:

- Identify and audit areas of high risk by performing risk assessment and preparing annual audit plan which is approved by the Audit Committee.
- Understand, analyze, evaluate, examine and recommend on the Bank's operations to provide reasonable assurance to Senior Management and the Board that Bank's business and operations are aligned with the overall Bank's goals and objectives.
- Offer sound recommendations and assist in the resolution of problems by maintaining good working relationships and being responsive to management's needs.

To achieve its objectives, the work of Internal Audit Division is distributed between three main departments:

Head Office Audit

The Head Office Audit Department is responsible for assessing the efficiency and effectiveness of LGB Operations covering the activities of business, operations, control and supporting functions centralized in the Head Office

Branches Audit

The Branches Audit Department is responsible for assessing the efficiency and effectiveness of internal controls institutionalized in different transactions conducted in LGB BANK branches.

Information Technology Audit

The Information Technology Audit Department is responsible for assessing the efficiency, effectiveness, security and reliability of IT operations, by mainly covering IT key general controls, reviewing the Bank's applications and reasonably ensuring compliance with international standards and best practices.

Compliance Management

It is the policy of LGB BANK and its employees to comply with all applicable laws and regulations, and embrace the highest ethical standards in conducting business.

In managing and mitigating compliance risk, the Bank always strives to adopt International Standards as well as the latest best practices applicable in the banking industry around the globe.

The Compliance Function is an independent function whose main responsibility is to identify, assess and monitor the Bank's compliance risk, that is, the risk of legal or regulatory sanctions, financial loss or reputational loss, that the Bank may suffer from as a result of its failure to comply with applicable Laws and Regulations.

The Management of Compliance Risk follows a Risk-Based approach by which compliance risks are identified and assessed first and controls are then proposed and set to mitigate those risks.
The above approach covers the following areas:

- Money Laundering
- Financing of Terrorism
- Sanctions
- Laws and Regulations
- Tax Evasion (FATCA and CRS)
- Cybercrime
- Data Protection Laws and Customer Rights

A Three-Line-of-Defense mechanism has been adopted across the Bank where each line has been assigned a clear and defined role:

- The 1st Line of Defense owns and manages risk. It is primary responsible for the execution and effectiveness of risk management
- The 2nd Line of Defense oversees risk management and compliance. It is responsible for setting policies and advising and reporting on compliance risks.
- The 3rd Line of Defense is responsible for the independent assurance on the set-up and functioning of both Lines of Defense.

Compliance with AML/CFT Rules and Regulations

LGB BANK has developed and implemented a set of policies and procedures that govern all activities of the Bank, to ensure compliance with the Lebanese AML/CFT Laws and Regulations, as well as International Standards.
The Bank's policies and procedures follow a Risk Based Approach in managing the relationship with its customers, both at onboarding and on an ongoing basis. This includes the following:

- Customer Due Diligence
- Customer Screening
- Transaction Monitoring
- Identification and reporting of suspicious activity.

Compliance with International Sanctions

LGB is committed to the highest standards of compliance with International Sanctions Programmes, and requires management and employees to adhere to the approved Sanctions Management Framework and Policy. The Bank's Sanctions management strategy conforms to the guidelines issued by The Central Bank of Lebanon and fulfills the requirements set by its correspondent banks around the world.
LGB BANK's Sanctions Management Framework pays specific attention to the Sanctions Programmes imposed by the UN, US and EU, and employs the latest technologies to screen customers and transactions, to avoid breaches and prevent evasions.

Compliance with Tax Evasion Initiatives

LGB BANK is fully engaged in the international efforts to combat and prevent tax evasion. The Bank has developed and implemented adequate policies and procedures to fulfill its duties and obligations under the US FATCA Law as well as the CRS initiative led by the OECD.

Compliance with Laws and Regulations

The main responsibility of the Compliance Department is to emphasize the Bank's commitment to the full conformity to applicable Laws and Regulations, and to establish a legal compliance framework that proactively supports the Bank and its personnel in managing the obligations imposed under law. The Compliance Department has compiled a comprehensive repository of applicable Laws and Regulations, that is used as a foundation for the monitoring work carried out to ensure that any incident of non-compliance is immediately identified, documented, reported and promptly acted upon.

Transparency and Disclosures

In an endeavor to further strengthen its corporate governance standards and enhance transparency and disclosure in its financial reports, the Bank has adopted one of the strongest global standards of transparency in financial reporting, the International Financial Reporting Standards (IFRS) as certified by the International Accounting Standards Board.
The Board directs the process of disclosure and communication with stakeholders, to ensure that they are fair, transparent, comprehensive and timely. These disclosures include the Bank's profile, statements of its vision and mission, strategy and objectives as well as its financial statements.
The appropriate financial and practical information is disclosed through our main shareholders, annual report, website, brochures, newsletters as well as regular announcements in the media.

Social Responsibility Programs

LGB BANK plays a dynamic role in supporting and sponsoring various local social and community initiatives and programs that are aligned with the Bank's business and corporate social responsibility communication strategy. LGB BANK is committed to support and endorse Lebanese non-profit associations and community institutions that address different humanitarian and social issues in Lebanon.

Loyalty

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Independent Auditors' Report

To the shareholders of
LEBANON & GULF BANK S.A.L.

Qualified Opinion

We have audited the separate financial statements of Lebanon & Gulf Bank S.A.L. (the "Bank"), which comprise the separate statements of financial position as at 31 December 2018, and the separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the separate financial statements, including significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in the *"Basis for Qualified Opinion"* section of our report, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

As described in Note 22 to the separate financial statements, during the year ended 31 December 2016 the bank sold some treasury bills denominated in Lebanese Lira currency "LBP", based on Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016, which led to realized gains amounting to LBP 52,292 million (net of tax). The Bank's management had accounted for an amount of LBP 15,212 million as a "Deferred Revenue" within the "Other Liabilities" line item and an amount of LBP 37,080 million as "Other Provisions" within the "Provision for Risks and Charges" line item. In our opinion this constitutes a departure from IFRS 9 "Financial Instruments", which requires accounting for the gains or losses on derecognition, of a financial asset that is classified and measured at amortized cost, to be recognized in the statement of profit or loss and other comprehensive income.

Our Independent Auditor's Report of the Bank as of and for the year ended 31 December 2017 included a qualified opinion in respect of this matter.

Further, when the Bank adopted IFRS 9 "Financial Instruments" impairment requirements as at 1 January 2018, the Bank's management has not recognized the identified impairment loss under the expected credit loss model in the retained earnings as at 1 January 2018 "due to the transition method chosen" and the statement of profit or loss and other comprehensive income for the year ended 31 December 2018, respectively, instead, on 1 January 2018 and during the year ended 31 December 2018, the Bank's management re-classified and allocated an amount of LBP 36,998 million from "Other Provision" to the "Expected Credit Loss" line item and an amount of LBP 15,212 million and LBP 82 million from the "Deferred revenues" and "Other provisions", respectively, to the "Expected Credit Loss" line item directly without impacting the retained earnings as at 1 January 2018 and the statement of profit or loss and other comprehensive income for the year ended 31 December 2018. In our opinion this constitutes a departure from IFRS 9 "Financial Instruments", which requires to recognize the Expected Credit Loss's impairment in the retained earnings as at 1 January 2018 "due to the transition method chosen" and the statement of profit or loss and other comprehensive income for the year ended 31 December 2018, respectively.

The Bank's records indicate that had management properly accounted for these transactions, events and conditions in accordance with IFRS 9 "Financial Instruments", the opening retained earnings as at 1 January 2017 would be increased by LBP 52,292 million and the opening retained earnings as at 1 January 2018 would be decreased by LBP 36,998 million. Additionally, profit for the year ended 31 December 2018 would be decreased by LBP 15,294 million.

Basis for Qualified Opinion (continued)

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

Other information

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

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and we will exercise professional judgement to determine whether we need to take appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditors' report is prepared.

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit losses Impairment allowances represent management's best estimate of the losses within the loans and advances to customers at the financial position date. As described in the notes to the separate financial statements, the impairment losses have been determined in accordance with International Financial Reporting Standard 9 "Financial Instruments" (IFRS 9). We focused on this area because management makes complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of the impairment, such as: o Determining criteria for significant increase in credit risk (SICR); o Choosing appropriate models and assumptions for the measurement of Expected Credit Losses (ECL) including Probability of default (PD), Loss Given default (LGD), and Exposure at Default (EAD); o Assessing the recoverability of Stage 3 financial assets; o Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; o Establishing portfolios of financial assets with similar characteristics for the purposes of measuring ECL; and o Determining disclosure requirements in accordance with accounting standards. We also focused on the following areas: o Adjustment that was passed as of 1 January 2018, as part of the transition to IFRS 9 expected loss model of impairment, which resulted in an increase in other reserves of LBP 1.4 billion. o At 31 December, assets subject to credit risk together with off - balance sheet finance amounted to LBP 8.1 trillion which is considered to be material to the Bank's total assets.	We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances; We performed the following substantive procedures : o Read the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; o Obtained an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation including where applicable the relevant interface to the expected credit loss model; o Obtained an understanding of and tested the grouping of financial assets with similar characteristics in the portfolios for the purposes of measuring ECL; o Tested a sample of loans to determine the appropriateness and application of the staging criteria; o Obtained an understanding of the methodology to identify and calculate individual impairment allowance for stage 3 exposures and tested a sample of credit exposures against the methodology; o Assessed the related financial statement disclosures to determine if they are in accordance with the requirements of accounting standards; and o Checked the appropriateness of the opening balance adjustments; o Assessed the separate financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9. We involved our specialists in areas that required specific expertise (e.g. ECL model) including: o Testing the implementation of IFRS 9 methodology for the ECL calculation; o Testing the reasonableness of historical macroeconomic and forward looking information and assumptions used; o Assessing the appropriateness of the definition of default and testing the application of the default criteria;

Information on the impact of adoption of the ECL model on opening balances, the credit risk and the Bank's credit risk management is provided in notes 3 and 41 (b). Disclosure of the impairment allowance and net impairment charge is provided in notes 3 and 41.	o Assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD including provisions held against a sample of Stage 3 credit exposures; o Assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; o Testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting.

Responsibilities of Management and the Audit Committee for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free form 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 have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditors' Report (continued)

Auditors' responsibilities for the Audit of the Separate Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Mr. Wissam Safwan for KPMG and Mr. Nehmé Semaan for BDO, Semaan, Gholam & Co.

BDO, Semaan, Gholam & Co.

KPMG

31 May 2019
Beirut, Lebanon

Gratitude

Financial Statements

Separate statement of Financial Position

In millions of LBP — As at December 31

	Notes	2018	2017
Assets			
Cash and balances with Central banks	6	4,099,416	2,984,201
Due from Banks and Financial Institutions	7	514,292	380,676
Loans to banks and financial institutions		3,042	4,011
Loans and advances to customers at amortized cost	8	1,965,113	2,038,666
Loans and advances to related parties at amortized cost	9	6,908	6,702
Financial assets at fair value through profit or loss	10	65,436	56,225
Financial assets at fair value through OCI	11	35,394	-
Financial assets at amortized cost	12	1,475,238	1,462,248
Debtors by acceptances	13	40,828	29,131
Investment in a subsidiary	14	6,320	6,320
Property and equipment	15	79,263	50,942
Assets obtained in settlement of debt	16	113,881	57,293
Other assets	17	7,774	5,702
Total assets		**8,412,905**	**7,082,117**
Liabilities			
Due to central bank	18	980,398	265,772
Due to Banks and Financial Institutions	19	139,028	51,305
Due to Banks under repurchase agreements	19	109,182	199,801
Deposits from customers	20	6,417,487	5,863,470
Deposits from related parties	9	10,640	11,167
Debt securities issued at amortized cost	21	33,745	-
Engagements by acceptances	13	41,093	29,131
Other liabilities	22	22,344	37,386
Provisions for risks and charges	23	10,216	45,912
Total liabilities		**7,764,133**	**6,503,944**
Equity			
Share capital - common shares	24	211,323	194,068
Share capital - preferred shares	24	18,879	18,879
Share premium - preferred shares	24	121,482	121,482
Non distributable reserves	25	168,373	110,096
Reserves for revaluation variance - real estate	25	29,402	1,904
Fair value reserve	25	(4,425)	-
Retained earnings	26	63,441	71,454
Net results of the financial period - Profit	26	40,297	60,290
Total equity		**648,772**	**578,173**
Total liabilities and equity		**8,412,905**	**7,082,117**

The attached notes are an integral part of these separate financial statements.

Separate statement of Profit or Loss and other comprehensive income

In millions of LBP — As at December 31

	Notes	2018	2017
Interest and similar income	27	479,343	344,668
Interest and similar expense	27	399,513	278,608
Net interest and similar income		**79,830**	**66,060**
Fee and commission income	28	14,139	14,702
Fee and commission expense	28	587	916
Net fee and commission income		**13,552**	**13,786**
Net gain from financial assets at fair value through profit or loss	29	6,571	7,550
Net gain/loss from financial assets at amortized cost	30	(1,081)	48,476
Net gain/loss from financial assets at FVOCI	30	(305)	
Other operating income	31	2,230	2,988
Total operating income		**100,797**	**138,860**
Net impairment releases / (charges)	32	142	(11,104)
Net operating income		**100,939**	**127,756**
Personnel expenses	33	33,107	33,622
Depreciation of property and equipment	15	4,149	3,859
Other operating expenses	34	18,586	17,703
Total operating expenses		**55,842**	**55,184**
Net loss on disposal of property and equipment		(250)	(82)
Profit before tax		**44,847**	**72,490**
Income tax expense	35	4,550	12,200
Profit for the year		**40,297**	**60,290**
Other Comprehensive Income			
Items that are or may be reclassified subsequently to profit or loss Movement in fair value reserve (debt instruments):			
Net change in fair value during the period		**(3,304)**	**-**
Reclassification to profit or loss		**305**	**-**
Net Losses On Debt Instuments At Fair Value Through Other Comprehensive Income		**(2,999)**	**-**
Other Comprehensive Income For The Year		**(2,999)**	**-**
Total other comprehensive income for the year		**37,298**	**60,290**

The attached notes are an integral part of these separate financial statements.

Separate statement of Changes in Equity

In millions of LBP **As at December 31**

	Note	Share capital- Common shares	Share capital- Preferred shares	Share premium Preferred shares	Non distributable reserves	Fair value reserve	Retained earnings	Net Results of the financial period - Profit	Total equity
Balance at 1 January 2018		194,068	18,879	121,482	112,000	–	71,454	60,290	578,173
Adjustment on initial application of IFRS 9		–	–	–	–	(1,426)	–	–	(1,426)
Restated balance at 1 January 2018		**194,068**	**18,879**	**121,482**	**112,000**	**(1,426)**	**71,454**	**60,290**	**576,747**
Total comprehensive income									
Profit for the year		–	–	–	–	–	–	40,297	40,297
Other comprehensive income									
Net change in fair value of financial assets at fair value through other comprehensive income		–	–	–	–	**(2,999)**	–	–	**(2,999)**
Total other comprehensive income		–	–	–	–	(2,999)	–	–	(2,999)
Total comprehensive income		–	–	–	–	**(2,999)**	**–**	**40,297**	**37,298**
Transactions with owners of the bank									
Contributions and distributions									
Appropriation of 2017 profits	25	–	–	–	58,263	–	2,027	(60,290)	–
Dividends distributions	36	–	–	–	–	–	(10,040)	–	(10,040)
Revaluation of fixed assets	25	–	–	–	27,498	–	–	–	27,498
Issuance of common shares	24	17,255	–	–	–	–	–	–	17,255
Other movements		–	–	–	14	–	–	–	14
Total contributions and distributions		17,255	–	–	85,775	–	(8,013)	(60,290)	34,727
Balance at 31 December 2018		**211,323**	**18,879**	**121,482**	**197,775**	**(4,425)**	**63,441**	**40,297**	**648,772**
Balance at 1 January 2017		**194,068**	**18,879**	**121,482**	**88,560**	–	**51,509**	**53,425**	**527,923**
Total comprehensive income									
Profit for the year		–	–	–	–	–	–	**60,290**	**60,290**
Total comprehensive income		–	–	–	–	–	–	60,290	60,290
Transactions with owners of the bank									
Contributions and distributions									
Appropriation of 2016 profits	25	–	–	–	23,440	–	29,985	(53,425)	–
Dividends distributions	36	–	–	–	–	–	(10,040)	–	(10,040)
Total contributions and distributions		–	–	–	23,440	–	19,945	(53,425)	(10,040)
Balance at 31 December 2017		**194,068**	**18,879**	**121,482**	**112,000**	–	**71,454**	**60,290**	**578,173**

The attached notes are an integral part of these separate financial statements.

Separate statement of cash Flows

In millions of LBP	Notes	As at December 31 2018	2017
Operating activities			
Profit for the period before tax		44,847	72,490
Adjustments for:			
Depreciation of property and equipment	15	4,149	3,859
Provision for employees' end of service benefits	33	502	1,039
Net impairment (releases) / charges	32	(142)	11,104
Net gain on disposal of assets obtained in settlement of debts	31	-	(379)
Net Loss on disposal of property and equipment		250	82
Net loss / (gain) from financial assets	30	1,081	(48,476)
Net unrealized gain on financial assets at fair value through profit or loss	29	(2,577)	(3,124)
Net interest income		(79,830)	(66,060)
Realized gain on financial assets at fair value through profit or loss	29	(39)	-
Provisions for structural exchange position	23	(72)	26
Operating profit before working capital changes		**(31,831)**	**29,439**
Changes in operating assets and liabilities:			
Cash and balances with central banks		(1,327,522)	(1,755,675)
Due from banks and financial institutions		18,666	(13,608)
Financial assets at fair value through profit or loss		(8,029)	(4,534)
Loans and advances to customers at amortized cost		43,621	115,732
Loans and advances to related parties at amortized cost		(206)	(306)
Assets obtained in settlement of debt		(56,638)	(6,035)
Proceeds from disposal of assets obtained in settlement of debt		50	1,481
Other assets		(2,072)	4,525
Due to Banks and Financial Institutions		93,202	(34,700)
Deposits from customers		540,758	505,356
Deposits from related parties		(527)	2,053
Debt securities issued at amortized cost		(595)	-
Other liabilities		(20,129)	(28,490)
Provisions for risks and charges		19,447	17,080
Cash used in operations		**(731,805)**	**(1,226,560)**
Interset received		444,751	344,668
Interset paid		(383,308)	(278,608)
Taxation paid		537	2,179
Retirement benefits paid	23	(511)	(81)
Net cash used in operating activities		**(670,336)**	**(1,158,402)**

The attached notes are an integral part of these separate financial statements.

Separate statement of Cash Flows (continued)

In millions of LBP	Notes	As at December 31 2018	2017
Investing activities			
Net change in investment securities		(61,019)	835,554
Loans to Banks and Financial Institutions		949	953
Net acquisition of property and equipment	15	(4,043)	(3,594)
Proceeds from sale of property and equipment		(28,680)	197
Dividends received	29	1,434	1,419
Net cash (used in) from investing activities		**(91,359)**	**834,529**
Financing activities			
Dividends paid	36	**(10,040)**	**(10,040)**
Due to banks under repurchase agreements		(90,450)	108,828
Due to central bank		708,503	227,269
Issuance of debt securities at amortised cost		33,745	-
Issuance of common shares		17,255	-
Other movements under reserves		14	-
Revaluation of fixed assets		27,498	-
Net cash from financing activities		**686,525**	**326,057**
Net effect of foreign exchange		**3**	**(13)**
Decrease in cash and cash equivalents		**(75,167)**	**2,171**
Cash and cash equivalents at 1 January		582,586	580,415
Cash and cash equivalents at 31 December	37	**507,419**	**582,586**

The attached notes are an integral part of these separate financial statements.

Bond

1. Reporting entity

Lebanon & Gulf Bank SAL (the "Bank") is a Lebanese joint stock company incorporated in 1963 under the name of Agricultural Credit Bank. The name of the Bank was changed to Lebanon & Gulf Bank SAL in year 1980. The Bank is registered under No 43171 in the Beirut Register of Commerce and under No 94 on the banks' list published by the Central Bank of Lebanon.

The Bank provides a full range of commercial banking activities through its headquarter located in Beirut Central District, Allenby street, Beirut, Lebanon, and its branches in Lebanon and a foreign branch in Larnaca (Cyprus).

On 14 March 2013, the Central Bank of the United Arab Emirates licensed the Bank to open a representative office in Dubai. This license is valid till 13 March 2020. The representative office conducted its business starting from the above date.

2. Basis of preparation

a. STATEMENT OF ACCOUNTING

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

This is the first set of the Bank's annual financial statements in which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied noting that the Bank has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010).

Changes to significant accounting policies are described in Note 3.

b. Basis of measurement

The separate financial statements have been prepared on the historical cost basis except for the following material items in the separate statement of financial position:

- Financial assets at fair value through other comprehensive income are measured at fair value; and
- Financial assets at fair value through profit and loss are measured at fair value.
- Property and equipment are measured at fair value starting 2018 (change of accounting policies).

c. Functional and presentation currency

The separate financial statements are presented in Lebanese Pound (LBP) which is the functional and presentation currency of the Bank and all amounts are rounded to the nearest million (LBP million) except when otherwise indicated.

d. Use of judgments and estimates

In preparing these separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A. Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the separate financial statements are included in the following notes:

Applicable to 2018 only

Note 41 (b) - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Applicable to 2018 and 2017:

Note 3 (i) and 4 (g) (ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes.

Applicable to 2018 only

Note 41 (b) - impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Applicable to 2018 and 2017:

Note 39: determination of the fair value of financial instruments with significant unobservable inputs.

Note 4 (f): recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

Note 38: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Note 41 (b) - impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

3. Changes in accounting policies

The Bank has initially adopted IFRS 9 *Financial Instruments* (see (i)) except for the classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010) which were early adopted, and IFRS 15 *Revenue from Contracts with Customers* (see (ii)) from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Banks' financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

The effect of initially applying these standards is mainly attributed to the following:

- An increase in impairment losses recognised on financial assets (see Note 6,7,8,11,12 and 13);
- Additional disclosures related to IFRS 9 (see Note 41).

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all years presented in these separate financial statements.

(i) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the full adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 *Presentation of Financial Statements* which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Additionally the Bank has adopted consequential amendments to. IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification – financial assets and financial liabilities

The Bank has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at portfolio of debt instruments for which amortised cost information, as well as fair value information is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

As the date of application of IFRS 9 (2014), the Bank reassessed the classification and measurement for all financial assets debt instruments that satisfy the contractual cash flow characteristic (SPPI test) and classified them within the category that it is consistent with the business model for managing these financial assets in the bases of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments or debt instruments that do not meet the contractual cash flow characteristics (SPPI test) and financial liabilities remain unchanged from previous versions of IFRS 9.

The classification of financial liabilities under IFRS 9 remained the same of IAS 39.

The following table shows the new classification of financial assets under IFRS 9 July 2014:

	Classification under IFRS 9 (2010) at 31 December 2017		Impact of IFRS 9 adoption Re-classification	Classification under IFRS 9 (2014) at 1 January 2018	
	Category	**Amount**		**Category**	**Amount**
Financial assets					
Cash and balances with central banks	Amortized cost	2,984,201	–	Amortized cost	2,984,201
Due from banks and financial institutions	Amortized cost	380,676	–	Amortized cost	380,676
Loans to banks and financial institutions	Amortized cost	4,011	–	Amortized cost	4,011
Financial assets at fair value through profit or loss	FVTPL	56,225	–	FVTPL	56,225
Loans and advances to customers at amortised cost	Amortized cost	2,038,666	–	Amortized cost	2,038,666
Loans and advances to related parties at amortised cost	Amortized cost	6,702	–	Amortized cost	6,702
Debtors by acceptances	Amortized cost	29,131	–	Amortized cost	29,131
Financial assets at amortized cost	Amortized cost	1,382,004	–	Amortized cost	1,382,004
Financial assets at fair value through other comprehensive income	Amortized cost	80,244	(1,426)	OCI	78,818
			(1,426)		
Other comprehensive income					
Fair value reserve			(1,426)		
Net impact on opening equity			**(1,426)**		

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 4 (i) (vii).

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provision Contingent Liabilities and Contingent Assets to the ECL allowance under IFRS 9.

	Impairment allowance under IAS 39/ IAS 37 at 31 December 2017	Re-measure-ment	ECL under IFRS 9 1 January 2018
Cash and balances with Central Banks	-	5,730	5,730
Due from banks and financial institutions	-	1,029	1,029
Loans to banks and financial institutions	-	15	15
Loans and advances to customers and related parties at amortised cost	78,930	24,360	103,290
Acceptances	-	-	-
Financial assets at amortised cost	-	5,238	5,238
Financial assets at FVOCI	-	589	589
Financial guarantee contract and documentary credit	-	37	37
Other provisions (note 23)	36,998	(36,998)	-
	115,928	**-**	**115,928**

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively except as described below:

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

4. Significant accounting policies

Except for the changes explained in Note 3, the Bank has consistently applied the following accounting policies to all years presented in these separate financial statements.

a. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of financial assets at fair value through other comprehensive income are recognised in other comprehensive income (from 1 January 2018).

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into LBP at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into LBP at spot exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve).

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

b. Interest

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal 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 expected credit loss allowance (or impairment allowance before 1 January 2018).

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 4 (g).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- Interest on financial assets and financial liabilities measured at amortised cost;
- Interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net (see Note 4 (d)).

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included all transaction costs and fees paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- Interest on financial assets and financial liabilities measured at amortised cost;
- Interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

Interest income and expense on all trading assets and liabilities were considered to be incidental to the Bank's trading operations and were presented together with all other changes in the fair value of trading assets and liabilities (see Note 4 (d)).

c. Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see Note 4 (e)).

Other fee and commission income -including account servicing fees, investment management fees, sales commission and placement fees- are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

d. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

e. Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for quoted equity securities. Dividends are presented in net gain from financial assets at fair value through profit or loss.

f. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable on receivables on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

The Bank's profits from operations in Lebanon are subject to a tax rate of 17% (15% applicable for the period starting 1 January 2017 till 26 October 2017 inclusive, while 17% starting 27 October 2017). In addition, the Ministry of Finance published a new Decision no. 1504/1 dated 22 December 2017 regarding the implementation of Article 51 of Law no. 497/2003 which states that interest income is subject to a tax rate of 7% (5% applicable for the period starting 1 January 2017 till 26 October 2017 inclusive, while 7% starting 27 October 2017) and banks can no longer benefit from deducting the tax on interest received when calculating the income tax.

Dividends are subject to a flat 10% tax.

g. Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also iv), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities as explained in Note 3 (m). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a seperate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written-off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

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

If such a modification is carried out because of financial difficulties of the borrower (see Note 4 (d)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see Note 4 (b)).

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see (iii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see (vii)).

Financial liabilities

The Bank derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Bank has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand future (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Impairment

See also Note 41 (b).

Policy applicable from 1 January 2018

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

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowance for lease receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the Difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *Financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

See also Note 41 (b).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 41 (b)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- The probability that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *Financial assets measured at amortised cost:* as a deduction from the gross carrying amount of the assets;
- *Loan commitments and financial guarantee contracts:* as a provision;
- Where a *financial instrument* includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:

the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- *Debt instruments measured at FVOCI:* no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written-off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written-off are included in 'Net impairment releases / charges' in the statement of profit or loss and OCI.

Financial assets that are written-off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Objective evidence of impairment

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that the

loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a retail loan that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- Significant financial difficulty of a borrower or issuer;
- Default or delinquency by a borrower;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- Indications that a borrower or issuer would enter bankruptcy;
- The disappearance of an active market for a security; or
- Observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlated with defaults in the Bank.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Bank considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Bank considered evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and a collective level. All individually significant loans and advances and investment securities at amortised cost were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified.

Loans and advances and investment securities at amortised cost that were not individually significant were collectively assessed for impairment by grouping together loans and advances and investment securities at amortised cost with similar credit risk characteristics.

In making an assessment of whether an investment in sovereign debt was impaired, the Bank considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes a judgment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and investment securities at amortised cost with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, and assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance. Loans that were subject to a collective impairment provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversal of impairment

If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or investment securities at amortised cost.

Write-off

The Bank wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank determined that there was no realistic prospect of recovery.

(viii) Designation at fair value through profit or loss

Financial assets

At initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

Note 35 sets out the amount of each class of financial asset that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

h. Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

i. Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

j. Loans and advances

Policy applicable from 1 January 2018

Loans and advances captions in the statement of financial position include:

- Loans and advances measured at amortised cost (see Note 4 (g) (ii)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Loans and advances mandatorily measured at FVTPL or designated as at FVTPL (see Note 4 (g) (ii)); these are measured at fair value with changes recognised immediately in profit or loss.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Policy applicable before 1 January 2018

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank did not intend to sell immediately or in the near term.

Loans and advances to banks were classified as amortised cost. Loans and advances to customers included:

- Those classified as amortised cost; and
- Those designated as at FVTPL.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. When the Bank chose to designate the loans and advances as measured at FVTPL as described in (i) (viii), they were measured at fair value with face value changes recognised immediately in profit or loss.

When the Bank purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Bank's financial statements.

k. Investment securities

Policy applicable from 1 January 2018

The investment securities caption in the statement of financial position includes:

- Debt investment securities measured at amortised cost (see Note 4 (g) (ii)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see Note 4 (g) (ii)); these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note 4 (g) (ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either amortised cost, FVOCI or FVTPL.

l. Property and equipment

(i) Recognition and measurement

Before 1 January 2018

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income/other expenses in profit or loss.

After 1 January 2018

The Bank changes the accounting policy of property and equipment to fair value. After recognition as an asset, an item of property and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairement losses. Revaluations shall be made with sufficient regulatory supervision to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting date.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of real estate revaluation surplus.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated using the straight-line method to write-off the cost of items of property and equipment to their residual values over their estimated useful lives and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives are as follows:

- Freehold land and buildings 50 years;
- Vehicles 10 years;
- Office installations 16.66 years;
- Furniture 12.5 years; and
- Computer equipment 5 years.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

m. Assets obtained in settlement of debt

The Bank occasionally acquires assets in settlement of certain loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Assets obtained in settlement of debt" which is in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267.

Upon sale of repossessed assets, any gain or loss realised is recognised in the income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for assets in settlement of debts disposed off" in the following financial year. These reserves cannot be distributed as dividends.

n. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

o. Deposits, debt securities issued and financial liabilities classified as amortised cost

Deposits, debt securities issued and subordinated liabilities issued are the Bank's sources of debt funding.

Deposits, debt securities issued and subordinated debt issued are initially measured at fair value minus incremental direct

transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

p. Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- From 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see i (vii)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- Before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- From 1 January 20l8: the Bank recognises a loss allowance;
- Before 1 January 20l8: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

q. Provisions for risks and charges

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined using management's best estimates to the risk specific to the liability.

r. Employees' end-of-service benefits

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

For the Bank and its branches operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches are accrued for in accordance with the laws and regulations of the respective countries in which the branches are located.

s. Assets held in custody and under administration

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

t. Dividends on ordinary shares

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

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

u. Customers' acceptances

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

v. Net gain from financial assets at fair value through profit or loss

Net gain from financial assets at FVTPL relate to financial assets and financial liabilities designated as at FVTPL and, from 1 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes and interest dividends.

5. Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Bank has not early adopted them in preparing these separate financial statements.

Of the standards that are not yet effective, IFRS 16 is not expected to have a significant impact on the Bank's separate financial statements in the period of initial application.

A. IFRS 16 *Leases*

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has not yet assessed the estimated impact that the initial application of IFRS 16 will have on its separate financial statements.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

B. Other standards

The following amended standards are not expected to have a significant impact on the Bank's separate financial statements.

- *Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- *Amendments to References to Conceptual Framework in IFRS Standards*
- IFRS 17 *Insurance Contracts.*

6. Cash and balances with central banks

In millions of LBP	Note	As at December 31 2018	2017
Cash on hand		25,143	22,771
Current accounts with Central Bank		183,273	160,527
Deposits with the Central Banks		3,856,108	2,785,033
Interest receivable		48,562	15,870
Less: Allowance for impairment ECL	8,41(b)	(13,670)	–
		4,099,416	2,984,201

Cash and balances with the Central Banks include balances with the Central Bank in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Pound as required by the Lebanese banking rules and regulations.

This obligatory reserve is calculated on the basis of 25% of the weekly average of current accounts denominated in Lebanese Pounds and 15% of the weekly average of term deposits. Accordingly, the obligatory reserve amounted to LBP 148,862 million at 31 December 2018 (2017: LBP 127,897 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon placements equivalents to 15% of total deposits in foreign currencies regardless of their nature. These placements amounted to US$ 455,001 thousands (equivalent to LBP 685,914 million) as at 31 December 2018 (2017: US$ 414,800 thousands equivalent to LBP 625,311 million).

Foreign branches are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

The obligatory reserve at Cyprus branch at 31 December 2018 amounted to € 92,684 equivalent to LBP 160 million (2017: € 53,851 equivalent to LBP 97 million).

7. Due from banks and financial institutions

In millions of LBP	Note	As at December 31 2018	2017
Current accounts		180,491	243,468
Term accounts		305,613	89,565
Checks for collection		18,841	23,120
Blocked accounts		11,233	24,405
Interest receivable		582	118
Less: Allowance for impairment ECL	8,41(b)	(2,468)	–
		541,292	380,676

8. Loans and advances to customers at amortised cost

In millions of LBP			2018
	Gross amount	Expected credit loss allowance	Carrying amount
Regular retail customers:			
Normal:			
Housing	214,574	(81)	214,493
Car Loan	943	(6)	937
Personal	31,653	(277)	31,376
Credit cards	8,585	(45)	8,540
Watch	8,381	(183)	8,198
Regular corporate customers:			
Normal	939,121	(23,367)	915,754
Watch	697,553	(5,452)	692,101
Classified retail customers:			
Substandard	2,591	(753)	1,838
Doubtful	6,060	(781)	5,279
Bad	1	(1)	–
Classified corporate customers:			
Substandard	92,455	(17,057)	75,398
Doubtful	66,067	(55,785)	10,282
Bad	5,975	(5,975)	–
Accrued interest receivable	**917**	**–**	**917**
	2,074,876	(109,763)	1,965,113

In millions of LBP				2017
	Gross amount	Unrealised interest	Impairment allowance	Carrying amount
Regular retail customers:				
Normal:				
Housing	207,460	–	–	207,460
Car Loan	1,120	–	–	1,120
Personal	28,029	–	–	28,029
Credit cards	7,551	–	–	7,551
Watch	4,291	–	–	4,291
Regular corporate customers:				
Normal	1,246,380	–	–	1,246,380
Watch	463,228	–	–	463,228
Classified retail customers:				
Substandard	269	(10)	(73)	186
Doubtful	6,633	(21)	(246)	6,366
Bad	–	–	–	–
Classified corporate customers:				
Substandard	82,387	(5,268)		77,119
Doubtful	65,364	(623)	(52,967)	11,774
Bad	4,726	(2,284)	(2,796)	(354)
Collective allowance	**–**	**–**	**(14,642)**	**(14,642)**
Accrued interest receivable	158	–	–	158
	2,117,596	**(8,206)**	**(70,724)**	**2,038,666**

Impairment allowance for loans and advances to customers at amortised cost

a) Below is the movement of the impairment allowance booked on loans and advances to customers in 2017.

In millions of LBP

	Note	2017
Balance at 1 January		69,991
Impairment allowance for the year based on IAS 39:		
Charge for the year *	32	10,042
Foreign exchange difference		220
Provisions related to loans written-off		(8,906)
Write-back of provisions	32	(623)
		70,724
Unrealised interest		(8,206)
Balance at 31 December		
Individual impairment		56,082
Collective impairment		14,642
		70,724

9. Related parties balances and transactions

Related parties include Key Management Personnel of the Bank, close family members of Key Management Personnel and entities controlled or jointly controlled by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Directors of the Bank.

Entities under common directorships are defined as those entities for which members of the Bank's Board or Key Management Personnel also serve as directors.

Terms and conditions of transactions with related parties

The Bank enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates.

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

In millions of LBP

	2018		2017	
	Outstanding balance	Income (expense)	Outstanding balance	Income (expense)
Key Management Personnel				
Loans and advances	6,046	54	5,940	65
Deposits	10,640	(536)	11,167	(534)
Guarantees taken	176	–	106	–
Entities under common directorships				
Loans and advances	862	61	762	55

Compensation of Key Management Personnel of the Bank

In millions of LBP

	2018	2017
Short-term benefits*	1,497	1,633

Short-term benefits comprise salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

- During the year ended 31 December 2018, the Bank paid attendance fees to the members of the Board of Directors amounting to LBP 738 million (2017: LBP 738 million);
- During the year ended 31 December 2018, the Bank received dividends amounting to LBP 1,234 million (2017: LBP 1,184 million) from CSC Bank S.A.L.

10. Financial assets at fair value through profit or loss

In millions of LBP

	2018	2017
Private sector-unquoted:		
Equity securities	61,873	52,328
Mutual funds	3,563	3,897
	65,436	56,225

11. Financial assets at fair value through other comprehensive income

In millions of LBP

	Note	2018	2017
Quoted			
Governmental debt securities		35,082	–
Interest receivable		681	–
Less: Allowance for impairment ECL	8, 41(b)	(369)	–
		35,394	**–**

12. Financial assets at amortised cost

In millions of LBP

	Note	2018	2017
Quoted investment securities			
Governmental debt securities		515,818	614,107
Unquoted investments securities			
Central Bank's certificates of deposits		418,626	429,123
Governmental debt securities		535,208	415,991
Subordinated bonds		3,027	3,027
		966,861	**848,141**
Less: Allowance for impairment ECL			
Government debt securities	8,41(b)	(5,433)	–
Central Bank's certificates of deposits	8,41(b)	(1,977)	–
Subordinated bonds	8,41(b)	(31)	–
		(7,441)	–
		1,475,238	1,462,248

13. Debtors and engagements by acceptances

In millions of LBP

	Note	2018	2017
Customers' acceptances		41,093	29,131
Less: Allowance for impairment ECL	8,41(b)	(265)	–
		40,828	29,131

14. Investment in a subsidiary

In millions of LBP

Company	Country of incorporation	% of ownership 2018	% of ownership 2017	2018	2017
L & Gulf Company Limited	U.A.E	100	100	6,320	6,320

During 2014, the Bank acquired 100% of shares of L & Gulf Company Limited a newly incorporated entity in UAE. The principal activity of the offshore company is to purchase and own an office in Dubai for Lebanon & Gulf Bank Rep Office.

15. Property and equipment

In millions of LBP

	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Total
Cost				
At 1 January 2018	38,733	2,602	52,363	93,698
Additions	–	1,112	2,931	4,043
Disposals	–	(992)	(21)	(1,013)
Change in fair value	29,206	–	–	29,206
Write-offs	–	(3)	(6)	(9)
Translation difference	(6)	(4)	(29)	(39)
At 31 December 2018	**67,933**	**2,715**	**55,238**	**125,886**
Accumulated depreciation				
At 1 January 2018	6,970	641	35,145	42,756
Depreciation for the year	653	252	3,244	4,149
Disposals	–	(234)	(4)	(238)
Write-offs	–	(1)	(7)	(8)
Translation difference	(5)	(2)	(29)	(36)
At 31 December 2018	**7,618**	**656**	**38,349**	**46,623**
Carrying amount:				
Balance at 31 December 2018	**60,315**	**2,059**	**16,889**	**79,263**

In millions of LBP

	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Total
Cost				
At 1 January 2017	38,716	2,330	49,561	90,607
Additions	–	852	2,742	3,594
Disposals	–	(573)	(10)	(583)
Write-offs	–	(13)	(6)	(19)
Translation difference	17	6	76	99
At 31 December 2017	**38,733**	**2,602**	**52,363**	**93,698**
Accumulated depreciation				
At 1 January 2017	6,305	708	32,121	39,134
Depreciation for the year	653	241	2,965	3,859
Disposals	–	(308)	(6)	(314)
Write-offs	–	(6)	(3)	(9)
Translation difference	12	6	68	86
At 31 December 2017	**6,970**	**641**	**35,145**	**42,756**
Carrying amount:				
Balance at 31 December 2017	**31,763**	**1,961**	**17,218**	**50,942**

16. Assets obtained in settlement of debt

In millions of LBP

	2018	2017
Net carrying amount:		
At 1 January	57,293	52,360
Acquisitions	58,002	5,145
Rehabilitation and formality fees	(1,364)	890
Disposals	(50)	(1,102)
At 31 December	113,881	57,293

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

17. Other assets

In millions of LBP

	2018	2017
Prepayments	5,272	3,620
Due from National Social Security Fund	2,126	1,609
Others assets	376	473
	7,774	5,702

18. Due to the central bank

Following the Central Bank of Lebanon basic decision no. 6116 related to basic circular no. 23 and intermediate circular no. 367 issued on 11 August 2014, the Central Bank of Lebanon offered the commercial banks facilities that are subject to an interest rate of 1% per annum payable on a yearly basis. These facilities were given subject to granting mainly housing loans back to clients at an average interest rate of 5.44%.

During 2017 and 2018, the Bank made term placements in USD with the Central Bank of Lebanon amounting to LBP 497,475 million (2017: LBP 181,051 million). In return the Central Bank of Lebanon granted a loan in LBP subject to an interest rate of 2% per annum amounting to a certain multiplier. The Central Bank of Lebanon would provide such return under one condition that the amount is reinvested in Lebanese Republic Treasury Bills or BDL Placements denominated in LBP.

19. Due to banks and financial institutions

In millions of LBP

	2018	2017
Time deposits	33,637	31,032
Term loans *	101,996	17,336
Current accounts	3,171	2,677
Accrued interest payable	224	260
	139,028	51,305

* Term loans represent loans granted from supranational entities for the purpose of financing small and medium-sized enterprises in the private sector, with fixed annual interest rate of 5.369%. The loan is repaid in quarterly instalments starting 15 March 2019 and ending in 15 December 2022.

Due to banks under repurchase agreements

In millions of LBP

	2018	2017
Repurchase agreements		
Deutsche Bank *	108,540	90,450
Standard Chartered Bank (SCB) **	–	90,450
First National Bank (FNB) ***	–	18,090
	108,540	198,990
Accrued interest payable	642	811
	109,182	199,801

* During 2018, out of the total repurchase agreement with Deutsche Bank, USD 30 million has matured. As a result, the Bank entered into a new agreement for increasing the existing repurchase agreement to reach USD 72 million (c/v LBP 108,540 million) through an incremental funding of USD 42 million (c/v LBP 63,315 million), having a fixed rate of 5.33% against quoted investment securities held at amortised cost having a nominal value of USD 177.8 million (c/v LBP 150,750 million).

As at 31 December 2017, Deutsche Bank repurchase agreement amounted to USD 60 million (c/v LBP 90,450 million) of which USD 30 million having a fixed rate and USD 30 million with a floating rate renewable over 180 days against quoted investment securities held at amortised cost having a nominal value of USD 100 million (c/v LBP 150,750 million). The blocked account against these repurchase agreements amounted to USD 2.69 million (c/v LBP 4,059 million)

** The repurchase agreement with SCB has matured during 2018 (2017: aggregate amount of USD 60 million (c/v LBP 90,450 million) having a fixed rate of 4.75% per annum against quoted investment securities held at amortised cost having a nominal value of USD 104.5 million (c/v LBP 157,534 million)).

*** The repurchase agreement with FNB has matured during 2018 (2017: aggregate amount of USD 12 million (c/v LBP 18,090 million) having a fixed rate of 6% per annum against quoted investment securities held at amortised cost having a nominal value of USD 26.7 million (c/v LBP 40,250 million)).

20. Deposits from customers

In millions of LBP

	2018	2017
Sight deposits	289,677	284,777
Time deposits	1,012,076	1,049,920
Saving accounts	4,908,251	4,339,216
Credit accounts and deposits against debit accounts	163,666	161,351
Margins on letters of credit	12,218	9,866
Accrued interest payable	31,599	18,340
	6,417,487	**5,863,470**

Customers' deposits include coded deposit accounts amounting to LBP 5,755 million as of 31 December 2018 (2017: LBP 5,668 million). These accounts were opened under the provisions of article 3 of the banking secrecy law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank is not permitted to disclose the identities of the coded deposit accounts to third parties including its auditors.

21. Debt securities issued at amortised cost

In millions of LBP

	2018	2017
Debt securities issued at amortised cost	33,150	–
Accrued interest payable	595	–
	33,745	–

During 2018, the Bank issued certificates of deposit for an amount of LBP 33,150 million divided as follows:

- LBP 6,407 million bearing an interest rate of 8% payable annually with a maturity of 3 years,
- LBP 26,743 million bearing an interest rate of 9% payable annually with a maturity of 5 years.

22. Other liabilities

In millions of LBP

	2018	2017
Deferred revenues*	–	15,212
Current tax liability	6,944	11,284
Other taxes	14,239	9,362
Due to National Social Security Fund	526	508
Accrued expenses and other regularization accounts	424	402
Sundry creditors	131	551
Other liabilities	80	67
	22,344	37,386

* During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realised by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognise in the income statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to note 23) and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognise up to 70% of the remaining balance of the gain realised net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

The Bank did not recognise in its separate statement of profit or loss and other comprehensive income for the year ended 31 December 2016 an amount of LL 32,292 million (net of tax) in gains realised from certain financial transactions with the Central Bank of Lebanon. The related taxes amounting to LL 5,699 million were recorded directly in current tax liability. The amount recorded as deferred revenues qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

During 2017, the Bank transferred from the "Deferred revenues" account the remaining balance of the collective provisions equivalent to 2% of 2016 consolidated risk weighted loans and advances to customers balance constituted in line with the Central Bank of Lebanon Intermediate Circular number 439 which amounted to LBP 17,080 million (2016: LBP 20,000 million) (Note 23).

During 2018 and upon the implementation of IFRS 9, the Bank has allocated LBP 15,212 million to allowance for impairment ECL (see note 3) .

23. Provisions for risks and charges

In millions of LBP

	Note	2018	2017
Other provisions*		–	37,080
Provision for employees' end-of-service benefits**		8,505	8,514
Structural exchange position		171	243
Net trading foreign exchange position		75	75
Allowance for impairment ECL on financial guarantee contract and documentary credit	8, 41(b)	1,465	–
		10,216	45,912

* During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk-weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2017 include an amount of LL 37,080 million in excess of the provisioning requirements of IAS 39.

Upon the implementation of IFRS 9, the Bank has allocated LBP 36,998 million to allowance for impairment ECL (see note 3) as at 1 January 2018 and the remaining amount was transferred during the year.

** The movement in the provision for employees' end of service benefits during the year is as follows:

In millions of LBP

	Note	2018	2017
Balance at 1 January		8,514	7,556
Charge for the year	33	502	1,039
Benefits paid		(511)	(81)
Balance at 31 December		**8,505**	**8,514**

24. Share capital and share premium

In millions of LBP

	2018		2017	
	Share capital	Share premium	Share capital	Share premium
Common shares – Authorized, issued and fully paid				
10,410,000 nominal shares at LBP 20,300 each (2017: 9,560,000 nominal shares at LBP 20,300 each)	211,323	–	194,068	–
Preferred shares – Authorized, issued and fully paid				
300,000 (2010 issue) of LBP 20,300 each (2017: LBP 20,300 each)	6,090	39,245	6,090	39,245
230,000 (2013 issue) of LBP 20,300 each (2017: LBP 20,300 each)	4,669	30,057	4,669	30,057
200,000 (2014 issue) of LBP 20,300 each (2017: LBP 20,300 each)	4,060	26,090	4,060	26,090
200,000 (2015 issue) of LBP 20,300 each (2017: LBP 20,300 each)	4,060	26,090	4,060	26,090
	18,879	121,482	18,879	121,482

Pursuant to the Extraordinary Assembly of shareholders resolution on 10 August 2018, the capital of the Bank increased by LBP 17,255 million through the issuance of 850 thousands common shares of LBP 20,300 each.

The table below summarizes all preferred shares series issued by the Bank and outstanding at 31 December 2018:

	2010 issue	2013 issue	2014 issue	2015 issue
Date of Extraordinary General Assembly Resolution	1 September 2010	26 October 2013	19 September 2014	27 July 2015
Date of Central Bank of Lebanon approval	20 October 2010	20 November 2013	5 November 2014	30 September 2015
Number of shares	300,000	230,000	200,000	200,000
Issue price	100 USD	100 USD	100 USD	100 USD
Par value of issued shares (LBP 20,300 per share)	LBP 6,090 million	LBP 4,669 million	LBP 4,060 million	LBP 4,060 million
Premium calculated in USD as the difference between the issue price and the counter value of the nominal value per share based on the exchange rate at the subscription dates	(USD 26,033 thousands) LBP 39,245 million	(USD 19,938 thousands) LBP 30,057 million	(USD 17,307 thousands) LBP 26,090 million	(USD 17,307 thousands) LBP 26,090 million
Distributions (non-cumulative, subject to the approval of the general assembly and the availability of distributable income) calculated on a pro rata basis in the year of issuance	7.5%	7%	7%	7%
Call option redeemable, pursuant to the exercise of that option, 60 days after the annual general assembly dealing with the accounts for the years	2015 and any of the following years	2018 and any of the following years	2019 and any of the following years	2020 and any of the following years
Redemption price per share (no entitlement to dividend in the year of redemption)	104 USD	103.50 USD	103.50 USD	103.50 USD

In the event of any liquidation, dissolution or winding-up of the Bank, the holders of any series of preferred shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders on a pro rata basis, before any payment shall be made to common shareholders.

Refer to note 36 for information about dividends declared and paid during the year.

25. Non-distributable reserves

In millions of LBP

	Reserve for general banking risks	Real estate revaluation reserve	Legal reserve	Reserve for assets in settlement of debts	Reserve for capital increase	Reserve for redemption of preferred shares	General non-distributable reserve	Total
At 1 January 2017	48,383	1,904	12,119	15,010	–	11,144	–	88,560
Appropriation of 2016 profits	11,130	–	5,342	3,124	632	3,212	–	23,440
At 31 December 2017	59,513	1,904	17,461	18,134	632	14,356	–	112,000
Appropriation of 2017 profits	–	–	6,029	1,525	135	3,212	47,376	58,277
Real estate re-valuation surplus	–	27,498	–	–	–	–	–	27,498
Transfer to general reserve	(59,513)	–	–	–	–	–	59,513	–
At 31 December 2018	**–**	**29,402**	**23,490**	**19,659**	**767**	**17,568**	**106,889**	**197,775**

In millions of LBP — **As at December 31**

	2018	2017
Reserve for general banking risks (a)	–	59,513
Legal reserves (b)	23,490	17,461
Real estate revaluation reserve (c)	29,402	1,904
Reserve for assets in settlement of debts (d)	19,659	18,134
Reserve for capital increase (e)	767	632
Reserve for redemption of preferred shares (f)	17,568	14,356
General non-distributable reserves (g)	106,889	–
	197,775	112,000

(a) Reserve for general banking risks / Reserve for unspecified banking risks

In compliance with the Central Bank of Lebanon's basic circular 50, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position accounts as a reserve for general banking risks. The consolidated ratio should not be less than 1.25 percent of these risks by the year 2007 and 2 percent by the year 2017 as per BCC memo number 13/2015. This reserve is considered part of Tier I capital and is not available for distribution. As stipulated by the Central Bank's basic circular 143, the Bank has transferred the unspecified banking risks reserve to a newly created general non-distributable reserve.

(b) Legal reserve

According to the Lebanese Code of Commerce and to the Money and Credit article number 132, banks operating in Lebanon have to appropriate 10% of their annual net profit to legal reserve. This reserve is not available for distribution.

(c) Real estate revaluation reserve

In accordance with law number 66 issued on 3 November 2017, Decision number 514/1 and article 8 of the Central Bank of Lebanon's law 6393, the Bank has assigned a valuator during 2018 to value the properties recorded under "Property and equipment". The revaluation surplus was approved by the Central Bank of Lebanon on 5 January 2018 which was recorded under "Real Estate revaluation reserve", net of tax.

(d) Reserve for assets in settlement of debts

In compliance with the Central Bank of Lebanon circular 78, banks are required to deduct from annual profits an amount of 20% or 5% of the carrying value of its properties acquired in settlement of debts within 2 years from the date of acquisition. The required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank's tier capital nor is available for distribution. Upon disposal of these properties, this reserve is transferred to "Reserve for capital increase".

(e) Reserve for capital increase

In compliance with Banking Control Commission circular no. 173, all gains recognised on the sale of properties acquired in settlement of debt (note 16) should be appropriated from retained earnings and recorded as "Reserve for capital increase".

(f) Reserve for redemption of preferred shares

In accordance with the resolutions of the Ordinary General Assembly of Shareholders of the Bank, held on 27 April 2018 (2017: 12 June 2017), an amount of LBP 3,212 million (2017: LBP 3,212 million) has been appropriated to the reserve for the redemption of preferred shares (issue 2010 and 2014).

26. Retained earnings

In accordance with the resolutions of the Ordinary General Assembly of Shareholders held on 27 April 2018 (2017: 12 June 2017), the profits of the Bank were appropriated and distributed as follows:

In millions of LBP

	2018	2017
Prior year retained earnings	71,454	51,509
Prior year profit	60,290	53,425
Dividends declared to preferred shareholders (note 36)	(10,040)	(10,040)
Appropriations to:		
- Legal reserve	(6,029)	(5,342)
- Reserve for general banking risks	–	(11,130)
- Reserve for assets in settlement of debts	(1,525)	(3,124)
- Reserve for capital increase	(135)	(632)
- Reserve for redemption of preferred shares	(3,212)	(3,212)
- Reserve for general non-distributable reserves	(47,376)	–
- other	14	–
	(58,263)	(23,440)
At 31 December	63,441	71,454

27. Net interest and similar income

Interest and similar income

In millions of LBP — **As at December 31**

	2018	2017
Balances with Central Banks	260,912	100,310
Due from banks and financial institutions	9,056	4,963
Financial assets at amortized cost	88,243	121,570
Financial assets at fair value through other comprehensive income	6,446	–
Loans to banks and financial institutions	98	128
Loans and advances to customers at amorized cost	114,473	117,577
Loans and advances to related parties at amorized cost	115	120
Total interest income	**479,343**	**344,668**

Interest and similar expense

In millions of LBP

	2018	2017
Due to Central Banks	13,811	1,475
Due to banks and financial institutions	7,386	2,315
Due to banks under repurchase agreements	8,562	6,985
Deposits from customers	368,485	267,299
Deposits from related parties	536	534
Debt securities issued at amortised cost	733	–
Total interest expense	399,513	278,608
Net interest and similar income	**79,830**	**66,060**

28. Net fee and commission income

In millions of LBP

	2018	2017
Fee and commission income		
Credit related fees and commissions	6,434	7,040
Trade finance	4,052	4,049
General banking transactions	2,820	2,826
Electronic Banking	783	741
Other services	50	46
	14,139	14,702
Fee and commission expense		
Correspondents' accounts	(587)	(916)
Net fee and commission income	**13,552**	**13,786**

29. Net gain from financial assets at fair value though profit or loss

In millions of LBP

	2018	2017
Net gain from debt instruments at fair value through profit or loss	**39**	**–**
Net gain from equity instruments at fair value through profit or loss		
-Unrealized gain from revaluation	4,141	3,287
-Unrealized loss from revaluation	(1,564)	(163)
-Dividend income	1,434	1,419
Net gain from equity instruments at fair value through profit or loss	**4,011**	**4,543**
Foreign exchange gain	2,521	3,007
Net gain from financial assets at fair value through profit or loss	**6,571**	**7,550**

30. Net (loss) / gain from financial assets at amortised cost

Derecognition of financial assets at amortised cost were made during the year due to liquidity gap and yield management, in addition to the exchange transaction with the Lebanese Central Bank.

In millions of LBP

	2018	2017
Financial assets at amortized cost		
Central Bank's certificates of deposit	–	24,215
Governmental debt securities	(1,081)	24,261
	(1,081)	48,476
Financial assets at fair value through other comprehensive income		
Governmental debt securities	(305)	–
	(1,386)	48,476

31. Other operating income

In millions of LBP

	2018	2017
Net gain from disposal of assets obtained in settlement of debt	–	379
Other income	2,230	2,609
	2,230	2,988

32. Net impairment releases / (charges)

In millions of LBP

	Note	2018	2017
New and increased impairement allowances			
Loans and advances to customers	41 (b)	(348)	(10,042)
Recoveries and releases			
Write-back of provisions	41 (b)	14	623
		(334)	(9,419)
Direct write-offs		(94)	(2,196)
Release of unrealized interest on loans and advances to customers and related parties		570	511
		142	(11,104)

33. Personnel expenses

In millions of LBP

	Note	2018	2017
Salaries and related charges		23,076	22,873
Social security contributions		3,353	3,351
Bonus		1,513	1,464
Provision for end of service indemnity	23	502	1,039
Additional allowances paid		4,663	4,895
		33,107	33,622

34. Other operating expenses

In millions of LBP

	Note	2018	2017
Maintenance and repairs		2,538	2,558
Fees for guarantee of deposits		2,530	2,337
Professional fees		1,618	1,252
Rent and related charges		1,022	970
Travel expenses		950	966
Postage and telecommunications		853	902
Marketing and advertising		822	689
Subscriptions and fees		761	812
Board of directors' attendance fees	9	738	738
Donations		701	617
Taxes and fees		683	581
Electricity and fuel		633	526
Stationery and printing		495	444
Insurance premiums		286	275
Other expenses		3,956	4,036
		18,586	17,703

35. Income tax expense

The components of income tax expense for the years ended 31 December 2018 and 2017 are detailed as follows:

In millions of LBP

	2018	2017
Income tax expense	4,550	12,200

The Bank's books and records were reviewed by the Department of Income Tax Authorities up until year 2017.

The books and records of the Bank remain subject to review by the Department of Income Tax Authorities for the year 2018.

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2017 and 2016 is as follows:

In millions of LBP

	2018	2017
Accounting profit before income tax - Lebanon branches	44,858	79,176
	44,858	79,176
Less:		
Share of profit on financial assets under equity method	(2,577)	(3,287)
Dividends received and previously subject to income tax	(1,434)	(1,419)
Non taxable income	–	(911)
Taxable profit	40,847	73,559
Effective income tax rate	17.00%	15.34%
Income tax due	**6,944**	**11,284**

36. Dividends declared and paid

According to the Ordinary General Assembly of Shareholders held on 27 April 2018 (2017: 12 June 2017), dividends amounting to LBP 10,040 million (2017: LBP 10,040 million) were declared and paid to the preferred shareholders.

37. Cash and cash equivalents

In millions of LBP

	2018	2017
Cash and balances with central banks	27,483	258,812
Due from banks and financial institutions	510,557	356,271
Due to central bank	(3,567)	–
Due to banks and financial institutions	(27,054)	(32,497)
	507,419	582,586

38. Contingent liabilities and commitments

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Bank enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon any client's default.

As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the aggregate amount of the nominal principal is not indicative of future liquidity requirements.

The Bank has the following credit related commitments:

In millions of LBP	As at December 31	
	2018	2017
Commitments issued to financial institutions	30,727	23,823
Commitments issued to customers	36,591	44,527
Guarantees issued to financial institutions	4,277	4,484
Guarantees issued to customers	120,757	117,735
Acceptances	41,093	29,131
Undrawn credit lines	35,496	65,061
Balance at 31 December	268,941	284,761

Commitments

Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Guarantees

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees which are contracts that have similar features to the financial guarantees contracts. These include mainly performance and tender guarantees.

Undrawn credit lines and other commitments

Undrawn credit lines and other commitments to lend are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal procedures and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effect which the claims may have on its financial standing. At year end, the Bank had several unresolved legal claims.

Based on advice from legal counsel, management believes that legal claims will not result in any material financial loss to the Bank.

Lease arrangements

The Bank does not have material capital expenditures and operating lease payments as of the separate statement of financial position date.

Other contingencies

The Bank's books for the year 2016 to 2018 are still subject to review by the tax authorities. The ultimate outcome of such review cannot be presently determined.

The Bank's books in Lebanon have not been reviewed by the National Social Security Fund (NSSF) since 1 November 2006. The ultimate outcome of any review by the NSSF on the Bank's books in Lebanon cannot be presently determined.

39. Fair value of the financial instruments

See accounting policy in Note 4

A. Valuation models

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

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist.

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

B. Fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses unobservable inputs.

Additionally the following table sets out the fair values of financial assets not measured at fair value and analyses them by level in the fair value hierarchy into each fair value measurement in which it is categorized.

In millions of LBP — **As at December 31 2018**

	Carrying amount				Fair value			
	Designated at fair value	Amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Financial assets at fair value through profit or loss								
Unquoted equity securities	65,436	–	–	65,436	–	–	65,436	65,436
Financial assets at fair value through other comprehensive income								
Governmental debt securities	35,394	–	–	35,394	–	35,394	–	35,394
	100,830	–	–	100,830	–	35,394	65,436	100,830
Financial assets not measured at fair value								
Cash and balances with central banks	–	4,099,416	–	4,099,416	25,143	3,676,813	–	3,701,956
Due from banks and financial institutions	–	514,292	–	514,292	–	514,292	–	514,292
Loans to banks and financial institutions	–	3,042	–	3,042	–	3,042	–	3,042
Loans and advances to customers at amortized cost	–	1,965,113	–	1,965,113	–	1,818,024	–	1,818,024
Loans and advances to related parties at amortized cost	–	6,908	–	6,908	–	6,731	–	6,731
Financial assets at amortized cost								
Governmental debt securities	–	1,045,593	–	1,045,593	515,142	411,592	–	926,734
Certificates of deposit - Central Bank of Lebanon	–	426,649	–	426,649	–	338,551	–	338,551
Subordinated bonds	–	2,996	–	2,996	–	–	2,996	2,996
	–	8,064,009	–	8,064,009	540,285	6,769,045	2,996	7,312,326
Financial liabilities not measured at fair value								
Due to Central Bank	–	–	980,398	980,398	–	980,398	–	980,398
Due to banks and financial institutions	–	–	139,028	139,028	–	139,028	–	139,028
Due to banks under repurchase agreements	–	–	109,182	109,182	–	109,182	–	109,182
Deposits from customers	–	–	6,417,487	6,417,487	–	6,417,487	–	6,417,487
Deposits from related parties	–	–	10,640	10,640	–	10,640	–	10,640
Debt securities issued at amortised cost	–	33,745	–	33,745	–	33,745	–	33,745
	–	33,745	7,656,735	7,690,480	–	7,690,480	–	7,690,480

In millions of LBP — **As at December 31 2017**

	Carrying amount				Fair value			
	Designated at fair value	Amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Financial assets at fair value through profit or loss								
Unquoted equity securities	56,225	–	–	56,225	–	–	56,225	56,225
	56,225	–	–	56,225		–	56,225	56,225
Financial assets not measured at fair value								
Cash and balances with central banks	–	2,984,201	–	2,984,201	22,771	2,961,430	–	2,984,201
Due from banks and financial institutions	–	380,676	–	380,676	–	380,676	–	380,676
Loans to banks and financial institutions	–	4,011	–	4,011	–	4,011	–	4,011
Loans and advances to customers at amortized cost	–	2,038,666	–	2,038,666	–	2,038,666	–	2,038,666
Loans and advances to related parties at amortized cost	–	6,702	–	6,702	–	6,702	–	6,702
Financial assets at amortized cost								
Governmental debt securities	–	1,030,098	–	1,030,098	581,919	416,078	–	997,997
Certificates of deposit - Central Bank of Lebanon	–	429,123	–	429,123	–	414,877	–	414,877
Subordinated bonds	–	3,027	–	3,027	–	–	3,027	3,027
	–	6,876,504	–	6,876,504	604,690	6,222,440	3,027	6,830,157
Financial liabilities not measured at fair value								
Due to Central Bank	–	–	265,772	265,772	–	265,772	–	265,772
Due to banks and financial institutions	–	–	51,305	51,305	–	51,305	–	51,305
Due to banks under repurchase agreements	–	–	199,801	199,801	–	199,801	–	199,801
Deposits from customers	–	–	5,863,470	5,863,470	–	5,863,470	–	5,863,470
Deposits from related parties	–	–	11,167	11,167	–	11,167	–	11,167
	–	–	6,391,515	6,391,515	–	6,391,515	–	6,391,515

40. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Bank's assets and liabilities as at 31 December 2018 is as follows:

In millions of LBP — **As at December 31 2018**

	Amounts without contractual maturity	Less than one year	More than one year	Total
Assets				
Cash and balances with Central Banks	25,143	445,715	3,628,558	4,099,416
Due from banks and financial institutions	514,269	–	23	514,292
Loans to banks and financial institutions	–	242	2,800	3,042
Financial assets at fair value through profit or loss	65,436	–	–	65,436
Financial assets at fair value through other comprehensive income	–	316	35,078	35,394
Financial assets at amortized cost	–	37,106	1,438,132	1,475,238
Loans and advances to customers at amortized cost	–	1,361,548	603,565	1,965,113
Loans and advances to related parties at amortized cost	–	2,904	4,004	6,908
Debtors by acceptances	–	40,828	–	40,828
Investment in a subsidiary	6,320	–	–	6,320
Property and equipment	79,263	–	–	79,263
Assets obtained in settlement of debt	–	–	113,881	113,881
Other assets	–	7,774	–	7,774
Total assets	**690,431**	**1,896,433**	**5,826,041**	**8,412,905**
Liabilities				
Due to Central Bank	–	49,496	930,902	980,398
Due to banks and financial institutions	37,272	25,439	76,317	139,028
Due to banks under repurchase agreements	–	244	108,938	109,182
Deposits from customers	–	6,145,207	272,280	6,417,487
Deposits from related parties	–	10,640	–	10,640
Debt securities issued at amortised cost	–	1,349	32,396	33,745
Engagements by acceptances	–	41,093	–	41,093
Other liabilities	–	22,344	–	22,344
Provisions for risks and charges	10,216	–	–	10,216
Total liabilities	**47,488**	**6,295,812**	**1,420,833**	**7,764,133**
Net	**642,943**	**(4,399,379)**	**4,405,208**	**648,772**

The maturity profile of the Bank's assets and liabilities as at 31 December 2017 is as follows:

In millions of LBP — **As at December 31 2017**

	Amounts without contractual maturity	Less than one year	More than one year	Total
Assets				
Cash and balances with Central Banks	22,771	548,702	2,412,728	2,984,201
Due from banks and financial institutions	380,653	–	23	380,676
Loans to banks and financial institutions	–	504	3,507	4,011
Financial assets at fair value through profit or loss	56,225	–	–	56,225
Financial assets at amortized cost	–	127,241	1,335,007	1,462,248
Loans and advances to customers at amortized cost	–	1,581,434	457,232	2,038,666
Loans and advances to related parties at amortized cost	–	3,452	3,250	6,702
Debtors by acceptances	–	29,131	–	29,131
Investment in a subsidiary	6,320	–	–	6,320
Property and equipment	50,942	–	–	50,942
Assets obtained in settlement of debt	–	–	57,293	57,293
Other assets	–	5,702	–	5,702
Total assets	**516,911**	**2,296,166**	**4,269,040**	**7,082,117**
Liabilities				
Due to Central Bank	–	98,562	167,210	265,772
Due to banks and financial institutions	33,914	–	17,391	51,305
Due to banks under repurchase agreements	–	–	199,801	199,801
Deposits from customers	–	5,863,470	–	5,863,470
Deposits from related parties	–	11,167	–	11,167
Engagement by acceptances	–	29,131	–	29,131
Other liabilities	–	37,386	–	37,386
Provisions for risks and charges	45,912	–	–	45,912
Total liabilities	**79,826**	**6,039,716**	**384,402**	**6,503,944**
Net	**437,085**	**(3,743,550)**	**3,884,638**	**578,173**

41. Financial risk management

a. Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

Risk management framework

The Bank manages its business activities within risk management guidelines as set by the Bank's "Risk Management Policy" approved by the board of directors (the "Board"). The Bank recognises the role of the Board and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognised that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board as does the setting up of Bank's risk appetite and tolerance levels. The Board delegates through its risk management committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank to the Chief Risk Officer, who is directly appointed by the Board, in coordination with executive management at the Bank.

The Bank is exposed mainly to credit risk, liquidity risk, market risk and operational risk.

The Board's risk management committee has the mission to periodically (1) review and assess the Bank's risks' charter, (2) review the adequacy of the Bank's capital and its allocation within the Bank, and (3) review risk limits and reports and make recommendations to the Board.

The Chief Risk Officer undertakes his responsibilities through the "Risk Management Division" overseeing and monitoring risk management activities throughout the Bank. The Risk Manager is responsible for establishing the function of Risk Management.

Lebanon & Gulf Bank's risk management division aids executive management in controlling and actively managing the Bank's overall risk. The division mainly ensures that:

- Risk policies and methodologies are consistent with the Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank's "Risk Management Policy". Discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

The major objective of risk management is the implementation of sound risk management practices and the Basel framework as well as all related regulatory requirements within the Bank. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of pillar I have been initiated. Risk Management is progressively complying with the requirements of pillars II and III of the Basel framework.

Excessive risk concentration

Concentrations arise when the Bank has significant exposure to one borrower or a group of related borrowers or to a number of counterparties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

b. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risks).

The Bank manages credit risk in line with the regulatory guidelines. The Bank has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Bank intends to deliver and the acceptable limits;
- The mechanism of the approval on credit-facilities;
- The mechanism for managing and following up credit-facilities; and
- The required actions for analyzing and organizing credit files.

Credit initiation and approval

Credit granting comprises the identification of suitable business to include in the portfolio and the best approaches to capture it. The process begins at the Board level by developing the Bank's strategy. Once the strategy is approved, the Senior Management executes it. The Board does not interfere with the execution process, but observes and monitors the execution of the strategy to ensure its proper implementation, as per set guidelines.

The Bank is essentially split into two parts: (1) the one that generates the business, and (2) the one that monitors and ensures that this business is in line with the strategy of the Bank. And accordingly, the credit processing stage is governed by three major steps, namely:

a) Business Origination Unit: This centralized Unit is the generator of the business and includes all the relationship officers and analysts that liaise with clients. The main function of this Unit is to identify, analyze and recommend potential clients and the suitable facilities to these clients.

In essence, the Business Origination Unit is the engine of the Bank that creates the requisite business and manages it in a manner to ensure that sufficient profitability is attained to compensate the Bank for the operating expenses and risks taken. The Business Origination Unit benefits directly from risk adjusted profits generated from clients, as such, has a vested interest in ensuring that credits are passed and processed quickly. For internal fraud avoidance, the Client Relationship and the Transaction Processing sides of the Business Origination Unit are managed and controlled separately with sufficient Chinese walls to allow the Business Origination Unit head to function efficiently.

b) Credit Control and Review Unit: For each recommended credit, a separate independent Unit within the Risk Management Division called the Control and Review Unit will examine it to ensure that the analysis and recommendations are in line with the Bank's Policies and Procedures Guidelines. This Unit acts on behalf of the Credit Committee to guarantee the sanctity of the credit granting process.

c) Credit Committee: The credit is finally passed on to the Credit Committee, which approves or disapproves the credit based on various parameters. Should the credit be approved, the Credit Administration Unit, which acts as a separate clerical control function and custodian of the credit requisite documentation and limits, enters the credit's characteristics and features into the Bank's core system.

Any amendments to the granted credits, renewals, or any excess to the approved limit need a special approval based on a predefined credit grid. The grid assigns approval levels based primarily on the riskiness of the credit, (nature of credit and the credit's risk exposure). The delegation of authority involves the allocation of such limits to designated credit functionaries within the Bank. Such functionaries hold independent positions, but caution is exercised to ensure that a functionary cannot recommend, approve and/or process credits singularly.

Loans follow up and monitoring

The Bank's Risk Management is designed to identify and set appropriate risk limits and to monitor the risk adherence to these limits. Actual exposures against the limits are monitored daily, monthly and periodically. Bank Risk Management is responsible for monitoring the risk profile of the Bank's loan portfolio by producing internal reports highlighting any exposure of concern in commercial and consumer lending. The Bank examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Bank monitors non-performing loans and takes the required provisions for these loans.

The Bank in the ordinary course of lending activities holds collaterals and guarantees as securities to mitigate credit risk from the loans and advances. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the recovery unit in the Bank dynamically manages and takes remedial actions for non-performing loans.

In compliance with credit best practices, and within the framework of the supervisory directives related to Basel implementation and more specifically the Central Bank of Lebanon Intermediary Circular 256 dated 27 April 2011, the Bank uses an Internal Risk Rating System to grade the credit risk of obligors in the Corporate and Middle market business.

For this purpose, and for the time being, the Bank will use two classification schemes; the first will be an internal rating system (that will be referred to as "The Internal Loan Grading System") purchased from Moody's and divided into ten grades, and the second will be a more subjective loan classification system (that will be referred to as "Supervisory Classification System"), divided into six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "OA" and special mention – watch list: risk rating "B1" and "B2"), one grade relates to substandard loans (risk rating "OC") and two grades relate to non-performing loans (risk ratings "OD" and "OE").

Credit cards, personal loans, car loans and housing loans are classified in compliance with Banking Control Commission Circular 280 dated 2 January 2015. Each individual borrower is classified based on an internally developed scoring model that evaluates risk based on financial and qualitative inputs. These scores are reviewed on an annual basis. In addition to that, the bank works in full compliance with the new supervisory circulars. Non-performing loans are managed proactively by a dedicated collection unit. These loans are closely monitored and well provisioned, with appropriate corrective actions taken.

Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can however, be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk for its Risk Management Committee, Credit Policy Committee and dedicated Credit Committees. An independent Credit Risk Management function, reporting to the Chief Risk Officer (CRO), is responsible for management of the Bank's credit risk, including:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk. The Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and sectors. The Bank's approach to controlling this concentration of exposure is by the diversification of its commitments and by setting limits at level of aggregate of products, economic sectors, region and segments.
- Developing and maintaining the Bank's credit risk rating system. This system is a summary indicator of the Bank's individual credit exposure. An internal rating system categorises all credits into various classes on the basis of underlying credit quality. A well structured credit rating framework is an important tool for monitoring and controlling risk inherent in individual credits as well as in credit portfolios of the Bank or a business line. The importance of internal credit rating framework becomes more eminent due to the fact that historically major losses to banks stemmed from default in loan portfolios.

While the Bank already has a system for rating individual credits in addition to the risk categories prescribed by the Central Bank of Lebanon, the Bank established an internal rating framework. The internal rating framework benefits the Bank in a number of ways such as: credit selection, amount of exposure, tenure and price of facility, frequency or intensity of monitoring, analysis of migration of deteriorating credits and more accurate computation of future loan loss provision; and deciding the level of approving authority of loan.

- Reviewing compliance with agreed exposure limits, including those for selected sectors, geography and product types. Regular reports on the credit quality of portfolios are provided to the Credit Committee who may require appropriate corrective action to be taken.
- Providing advice, guidance and specialist skills to promote best practice throughout the Bank in the management of credit risk.
- Conducting, approving and monitoring the appropriate staging of the Bank's financial assets (including any upgrades or downgrades between stages) and compute the Expected Credit Losses (ECLs) of the Bank's Sovereign, Financial Sector, Lending and Financial Instruments portfolios, in line with IFRS 9 Requirements and local regulatory requirements.

Each Credit Officer is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each Credit Officer reports on all credit related matters to management and the Bank Credit Committee.

Each Credit Officer is responsible for the quality and performance of his/her credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval.

Regular audits of Bank Credit processes are undertaken by Internal Audit.

Credit risk analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and at fair value through other comprehensive income.

Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

For lending commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: "Stage 1", "Stage 2" and "Stage 3" is included in Note 4 g (vii).

In millions of LBP

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with Central Banks					
Grade 1-2: Low / fair risk	4,113,086	–	–	4,113,086	2,984,201
	4,113,086	–	–	4,113,086	2,984,201
Less allowance	(13,670)	–	–	(13,670)	–
Carrying amount	4,099,416	–	–	4,099,416	2,984,201
Due from banks and financial institutions					
Grade 1-2: Low / fair risk	516,760	–	–	516,760	380,676
	516,760	–	–	516,760	380,676
Less allowance	(2,468)	–	–	(2,468)	–
Carrying amount	514,292	–	–	514,292	380,676
Loans to banks and financial institutions					
Grade 1-2: Low / fair risk	3,058	–	–	3,058	4,011
	3,058	–	–	3,058	4,011
Less allowance	(16)	–	–	(16)	–
Carrying amount	3,042	–	–	3,042	4,011
Loans and advances to customers and related parties at amortised cost					
Grade 1-2: Low / fair risk	1,201,641	846	216	1,202,703	1,495,260
Grade 3: Low / fair risk	65	704,892	977	705,934	469,660
Grade 4: Substandard	–	439	94,607	95,046	82,656
Grade 5: Impaired	–	–	72,125	72,125	71,996
Grade 6: Impaired	–	–	5,976	5,976	4,726
	1,201,706	706,177	173,901	2,081,784	2,124,298
Less allowance	(17,690)	(11,336)	(80,737)	(109,763)	(70,724)
Unrealised interest	–	–	–	–	(8,206)
Carrying amount	1,184,016	694,841	93,164	1,972,021	2,045,368

In millions of LBP

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Financial assets at amortised cost					
Grade 1-2: Low / fair risk	1,482,679	–	–	1,482,679	1,462,248
	1,482,679	–	–	1,482,679	1,462,248
Less allowance	(7,441)	–	–	(7,441)	–
Carrying amount	1,475,238	–	–	1,475,238	1,462,248
Debt securities at FVOCI					
Grade 1-2: Low / fair risk	35,763	–	–	35,763	–
	35,763	–	–	35,763	–
Less allowance	(369)	–	–	(369)	–
Carrying amount - fair value	35,394	–	–	35,394	–
Debtors by acceptance					
Grade 1-2: Low / fair risk	41,093	–	–	41,093	29,131
	41,093	–	–	41,093	29,131
Less allowance	(265)	–	–	(265)	–
Grade 1-2: Low / fair risk	40,828	–	–	40,828	29,131
Loan commitments					
Grade 1-2-3: Low / fair risk	28,585	6,911	–	35,496	65,061
Less allowance	–	–	–	–	–
Carrying amount	28,585	6,911	–	35,496	65,061
Financial guarantee contract and documentary credit					
Grade 1-2-3: Low / fair risk	182,596	9,368	–	191,964	190,569
Grade 4-5-6	–	–	1,853	1,853	–
	182,596	9,368	1,853	193,817	190,569
Less allowance	(1,020)	(147)	(298)	(1,465)	–
Carrying amount	181,576	9,221	1,555	192,352	190,569

Collateral held and other credit enhancements

The Group holds collateral and other credit enhancements against certain of its credit exposures.

Residential mortgage lending

The following table stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

In millions of LBP

	2018	2017
Commitments to advance residential mortgage loans		
LTV ratio		
Less than 50%	62,549	58,354
51 - 70%	65,833	56,938
71 - 90%	41,710	46,204
91 - 100%	48,408	43,811
More than 100%	5,693	7,851
Balance at 31 December	224,193	213,158

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 4 i (vii).

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime Probability of Default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instruments requires identifying the date of initial recognition of the instrument. For certain revolving facilities, (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Bank will allocate each exposure by credit risk grade based on a variety of data determined to be predictive of the risk of default and by applying experienced credit judgment. The Bank will use these grades in identifying significant increase in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data;

Corporate exposures	Retail exposures	All exposures
-Client's inability to update or submit financial statements for the last 3 years -Excessive reliance of client on leverage accompanied by a significant decrease in financial ratios especially liquidity, profitability and cash flow ratios -Erosion of equity due to accumulated losses -Any restructuring of existing debt -Lawsuits against the client with potential adverse impact on financial status and ability to repay -Significant change in the value of the collateral against the exposure -Expected adverse change in the economic environment with potential negative impact on the borrower -Expected or actual breach of loans covenants -Any financial strain faced by the borrower with another bank -Any change in borrower's conditions which would have resulted in a higher required interest rate on a similar loan if granted today	- Internally collected data on customer behaviour; e.g. utilisation of credit card facilities -Redundant delays and past dues in repayments. -Excessive reliance on external debt.	- Quoted bond and credit default swap (CDS) prices for the borrower where available - Data from credit reference agencies, press articles, changes in external credit ratings

The table below provides an indicative mapping of how the Banks' internal credit risk grades relate to PD, and for the wholesale portfolio, to external credit ratings.

Sovereign exposure

Grading	12-month weighted-average PD	External rating
Grade 1-3: Low / fair risk	0.32%	AAA to B
Grade 5-6: Doubtful, loss	–	Default

Banks' exposure

Grading	12-month weighted-average PD	External rating
Grade 1-3: Low / fair risk	0.53%	AAA to B
Grade 5-6: Doubtful, loss	-	Default

Loans and advances to customers' exposure:

Commercial portfolio - by Industry	12-month weighted-average PD	Lifetime PD
Wholesale trade	2.88%	7.59%
Services	3.04%	8.13%
Retail trade	3.90%	9.81%
Hotels and restaurants	2.83%	3.75%
Financial intermediation	4.25%	7.61%
Real estate related	3.59%	8.12%
Industrial manufacturing	3.14%	6.90%

Retail portfolio - by type	12-month weighted-average PD	Lifetime PD
Other retail	1.72%	18.20%
Car loan	1.15%	4.69%
Housing loan	0.41%	1.79%
Credit cards	0.82%	6.47%

Generating the term structure of PD

Credit risk grades is a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. For some portfolios information obtained from external credit reference agencies may also be used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. For most exposures, key macro- economic indicators are likely to include GDP growth, benchmark interest rates and unemployment.

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending. Such factors are based on its expert judgment and relevant historical experiences.

i. For the retail portfolio, a significant increase in credit risk of an exposure, which would prompt a transition from Stage 1 to Stage 2, is defined using the following criteria:

- For Amortized loans – 60 days past due
- For Credit Cards –Stage 2 criteria used to derive historical PDs

For a transition between Stage 2 and Stage 3, the following quantitative and qualitative criteria are considered:

- For Amortized loans – 90 days past due unless the Bank has supported evidence that client will repay within 30 days
- For Credit Cards –definition of default used to derive historical PDs

ii. For the corporate portfolio, a significant increase in credit risk of an exposure, which would prompt a transition from Stage 1 to Stage 2, is defined using the following criteria:

- For Amortized loans – 60 days past due.
- For Overdrafts –Stage 2 criteria used to derive historical PDs.
- Client's inability to update or submit financial statements for the last 3 years.
- Excessive reliance of client on leverage accompanied by a significant decrease in financial ratios especially liquidity, profitability and cash flow ratios.
- Erosion of equity due to accumulated losses.
- Any restructuring of existing debt.
- Lawsuits against the client with potential adverse impact on financial status and ability to repay.
- Significant change in the value of the collateral against the exposure.
- Expected adverse change in the economic environment with potential negative impact on the borrower.
- Expected or actual breach of loans covenants.
- Any financial strain faced by the borrower with another bank.
- Any change in borrower's conditions which would have resulted in a higher required interest rate on a similar loan if granted today.

For a transition between stage 2 and stage 3, the following quantitative and qualitative criteria are considered:

- For Amortized loans – 90 days past due unless the Bank has supported evidence that client will repay within 90 days.
- For Overdrafts –definition of default used to derive historical PDs.
- Any other qualitative or quantitative indicator of the client's inability to repay its dues.

iii. For the sovereigns, a significant increase in credit risk of an exposure, which would prompt a transition from Stage 1 to Stage 2, is defined using the following criteria:

- 60 days past due.
- Rating downgrade of more than 1 notch (if rated).

- Any financial strain faced by the borrower with another creditor.

For a transition between stage 2 and stage 3, the following quantitative and qualitative criteria are considered:

- 90 days past due unless the Bank has supported evidence that client will repay within 30 days.
- Any other qualitative or quantitative indicator of the client's inability to repay its dues.

Definition of default

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

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

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

Based on a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by "The World Bank".

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at 31 December 2018 included the following ranges of key indicator for Lebanon for the years ending 31 December 2019 to 2022.

	2019	2020	2021	2022
GDP growth	4.28%	4.35%	4.93%	5.06%
	-0.62% AND 9.41%	-0.67% AND 9.37%	0.09% AND 9.95%	0.04% AND 10.08%

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The remaining lifetime PD at the reporting date based on the modified terms: with
- The remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank renegotiates loans of customers with financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principle and the Bank's previous experience of similar forbearance action.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be in default/credit-impaired or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECLs.

Measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models.

PD estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures.

LGD refers to the magnitude of the likely loss if there is a default.

EAD represents the expected exposure in the event of default. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- Instrument's type,
- Credit risk grading's,
- Industry;
- Geographic location of the borrower.

ECL movement during the year 2018

	Impairment allowance under IAS 39 Impairement balance at 31 December 2017	Impact of IFRS 9 adoption Additional ECL at 1 January 2018	New ECL Balance at 1 January 2018	Re-measurement during the year	Unrealised interest during the year	Net release of ECL during the year	ECL under IFRS 9 at 31 December 2018
Financial assets							
Cash and balances with Central Banks	–	5,730	5,730	7,940	–	–	13,670
Due from banks and financial institutions	–	1,029	1,029	1,439	–	–	2,468
Loans to banks and financial institutions	–	15	15	1	–	–	16
Loans and advances to customers and related parties at amortised cost	78,930	24,360	103,290	2,238	3,999	236	109,763
Acceptances	–	–	–	265	–	–	265
Financial assets at amortised cost	–	5,238	5,238	2,203	–	–	7,441
Financial assets at FVOCI	–	589	589	(220)	–	–	369
Off-Financial Position							
Financial guarantee contract and documentary credit	–	37	37	1,428	–	–	1,465
	78,930	**36,998**	**115,928**	**15,294**	**3,999**	**236**	**135,457**
Allocation from:							
- Other provisions (note 23)		(36,998)		(82)			
- Deferred revenues (note 22)		–		(15,212)			
		(36,998)		**(15,294)**			

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent impairment allowance for credit losses and unrealised interest and reflect measurement basis under IAS 39.

In millions of LBP

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with Central Banks					
Balance at 1 January	5,730	–	–	5,730	–
Reallocation of loss allowance	7,940	–	–	7,940	–
Balance at 31 December	13,670	–	–	13,670	–
Due from banks and financial institutions					
Balance at 1 January	1,029	–	–	1,029	–
Reallocation of loss allowance:					
Reallocation during the year	1,384	–	–	1,384	–
Reallocation of new financial assets originated	92	–	–	92	–
Reallocation of financial assets derecognised	(37)	–	–	(37)	–
Balance at 31 December	2,468	–	–	2,468	–
Loans to banks and financial institutions					
Balance at 1 January	15	–	–	15	–
Reallocation of loss allowance	1	–	–	1	–
Balance at 31 December	16	–	–	16	–
Loans and advances to customers and related parties at amortised cost					
Balance at 1 January	19,481	10,416	73,393	103,290	69,991
Transfer to 12-month ECL	(462)	390	72	–	–
Transfer to lifetime ECL not credit-impaired	459	(494)	35	–	–
Transfer to lifetime ECL credit-impaired	607	–	(607)	–	–
Net remeasurement of loss allowance	(17)	416	(169)	230	10,042
New financial assets originated or purchased	118	–	–	118	–
Write-back of provisions	–	–	(14)	(14)	(623)
Reallocation of loss allowance	(2,496)	608	4,045	2,157	–
Transfer from unrealised interest	–	–	3,982	3,982	–
Write-offs	–	–	–	–	(8,906)
Foreign exchange and other movements	–	–	–	–	220
Balance at 31 December	17,690	11,336	80,737	109,763	70,724

In millions of LBP — **As at December 31**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost - corporate customers *				
Balance at 1 January	19,120	10,335	73,026	102,481
Transfer to 12-month ECL	(456)	385	71	–
Transfer to lifetime ECL not credit-impaired	459	(490)	31	–
Transfer to lifetime ECL credit-impaired	607	–	(607)	–
Net remeasurement of loss allowance	(515)	375	(120)	(260)
New financial assets originated or purchased	58	–	–	58
Write-back of provisions	–	–	(14)	(14)
Reallocation of loss allowance	(1,734)	389	3,252	1,907
Transfer from unrealised interest	–	–	3,982	3,982
Balance at 31 December	17,539	10,994	79,621	108,154
Loans and advances to customers at amortised cost - retail customers *				
Balance at 1 January	361	81	367	809
Transfer to 12-month ECL	(6)	5	1	–
Transfer to lifetime ECL not credit-impaired	–	(4)	4	–
Transfer to lifetime ECL credit-impaired	–	–	–	–
Net remeasurement of loss allowance	498	41	(49)	490
New financial assets originated or purchased	60	–	–	60
Reallocation of loss allowance	(762)	219	793	250
Balance at 31 December	151	342	1,116	1,609

* Movement of loss allowance by type of customer is above.

In millions of LBP — **As at December 31**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortised cost				
Balance at 1 January	5,238	–	–	5,238
Reallocation of loss allowance	2,203	–	–	2,203
Balance at 31 December	7,441	–	–	7,441
Debt securities at FVOCI				
Balance at 1 January	589	–	–	589
Reallocation of loss allowance	(220)	–	–	(220)
Balance at 31 December	369	–	–	369
Debtors by acceptance				
Balance at 1 January	–	–	–	–
Reallocation of loss allowance	265	–	–	265
Balance at 31 December	265	–	–	265
Financial guarantee contracts				
Balance at 1 January	37	–	–	37
Reallocation of loss allowance	1,428	–	–	1,428
Balance at 31 December	1,465	–	–	1,465

The following table provides a reconciliation between:

- Amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- The impairment losses on financial instruments line item in the separate statement of profit or loss and other comprehensive income.

In millions of LBP — **As at December 31**

	Cash and balances with Central Banks	Due from banks and financial institutions	Financial assets at fair value through other comprehensive income	Loans to banks and financial institutions	Debtors by acceptances	Financial assets at amortized cost	Loans and advances to customers at amortized cost	Loan commitments and financial guarantee contracts	Total
Net movement of loss allowance	–	–	–	–	–	–	230	–	230
New financial assets originated or purchased	–	–	–	–	–	–	118	–	118
Recoveries and releases	–	–	–	–	–	–	–	–	–
Write-back of provisions	–	–	–	–	–	–	(14)	–	(14)
Total	**–**	**–**	**–**	**–**	**–**	**–**	**334**	**–**	**334**

Impaired financial assets – Comparative information under IAS 39

In millions of LBP	As at December 31 2017
	Loans and advances to customers
Loans with renegotiated terms	
Gross carrying amount	11,175
Impaired amount	–
Allowance for impairement	–
Net carrying amount	11,175
Neither past due nor impaired	
Grade 1-3: Low / fair risk	1,929,713
	1,929,713
Past due but not impaired	
30 - 60 days	9,906
61- 90 days	4,246
91 - 180 days	7,993
181 days +	6,360
	28,505
Individually impaired	
Grade 4: Substandard	82,656
Grade 5: Doubtful	71,996
Grade 6: Loss	4,726
	159,378
Allowance for impairement	
Individual (including unrealised interest)	64,288
Collective	14,642
Total allowance for impairement	78,930

Collateral and other credit enhancements

Type of credit exposure

The Bank holds collateral against certain of its credit exposures. The table below sets out the principal types of collateral held against loans and advances to customers and related parties.

In millions of LBP	As at December 31	
	2018	2017
Principal type of collateral held for secured lending		
Personal guarantees received	1,517,228	1,580,952
Mortgages and real securities received	1,584,063	1,495,477
Mobilisation bills received as guarantee	832	832
Bills received as guarantee	15,149	18,771
Commitments and contingencies received	11,337	9,086
	3,128,609	3,105,118

The main types of collateral obtained are as follows:

Securities:

The balances shown above represent the fair value of the securities.

Letters of credit / guarantees:

The Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.

Real estate (commercial and residential):

The Bank holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property up to the related mortgaged amount.

Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and financial assets at amortised cost and debt securities at FVOCI is shown below:

In millions of LBP — **As at December 31**

	Loans and advances to customers		Loans and advances to related parties		Balances with Central Banks, other banks and financial institutions		Financial assets at amortised cost		Debt securities at FVOCI	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Carrying amount	1,965,113	2,038,666	6,908	6,702	4,591,607	3,346,117	1,475,238	1,462,248	35,394	–
Concentration by sector										
Retail	393,406	304,129	6,908	6,702	–	–	–	–	–	–
Trade and services	251,734	88,483	–	–	–	–	–	–	–	–
Industries	137,893	190,590	–	–	–	–	–	–	–	–
Construction	547,344	518,447	–	–	–	–	–	–	–	–
Agriculture and mining	3,793	14,426	–	–	–	–	–	–	–	–
Banks and financial institutions	30,401		–	–	517,334	384,687	2,996	3,027	–	–
Commercial	575,425	869,912	–	–	–	–	–	–	–	–
Government	–	–	–	–	4,074,273	2,961,430	1,472,242	1,459,221	35,394	–
Other	25,117	52,679	–	–	–	–	–	–	–	–
	1,965,113	2,038,666	6,908	6,702	4,591,607	3,346,117	1,475,238	1,462,248	35,394	–
Concentration by location										
Lebanon	1,792,459	1,873,408	6,908	6,702	4,269,854	3,084,121	1,475,238	1,462,248	35,394	–
Middle East and Africa	62,880	42,259	–	–	190	47	–	–	–	–
Europe	5,237	51,729	–	–	161,811	111,775	–	–	–	–
Other	104,537	71,270	–	–	159,752	150,174	–	–	–	–
	1,965,113	2,038,666	6,908	6,702	4,591,607	3,346,117	1,475,238	1,462,248	35,394	–

Concentration by location for loans and advances to customers, related parties and other banks and financial institutions are based on the country of domicile. Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

Trading assets

An analysis of the credit quality of the maximum credit exposure, based on the median rating of the three eligible rating agencies as per Basel II (Moody's, Standard & Poor's and Fitch) where applicable, is as follows:

In millions of LBP — **As at December 31**

	From A+ to A-	From BBB+ to BBB-	From BB+ to BB-	From B+ to B-	From CCC+ to CCC- or NR	Total
31 December 2018						
Financial assets at fair value through profit or loss	–	–	–	53,219	12,217	65,436
31 December 2017						
Financial assets at fair value through profit or loss	–	–	–	50,557	5,668	56,225

c. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the Risk Committee and ALCO. ALCO approves the Bank's liquidity policies and procedures. Central Treasury manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of both the Bank and foreign branches.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows:

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and maintaining contingency facilities;
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
- Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Bank's financial assets and liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.

In addition, the Bank maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain non-interest bearing balances with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Bank must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance, with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Pounds should not be less than 10% and 40% respectively.

The highly liquid net assets consist of cash and balances with Central Banks, balances with other banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year. Deposits and commitments are composed of total deposits from customers in addition to acceptances and loans that mature within one year.

When Cyprus branch is subject to a liquidity limit imposed by its local regulator, the branch is responsible for managing its overall liquidity within the regulatory limit in coordination with Central Treasury. Central Treasury monitors compliance of Cyprus branch with local regulatory limits on a daily basis.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment debt securities for which there is an active and liquid market less any deposits from banks and financial institutions, other borrowings and commitments maturing within the next month.

A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Central Bank of Lebanon and the Banking Control Commission. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date was as follows:

	Loans to deposits	
	2018 %	2017 %
Year-end	30.68%	34.82%

Maturity analysis of financial assets and financial liabilities

The table below shows the remaining contractual maturities of the Bank's financial assets and financial liabilities:

In millions of LBP — **As at December 31**

	2018				
	Less than 3 monts	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with Central Banks	331,000	139,858	678,183	2,950,375	4,099,416
Due from banks and financial institutions	509,915	4,354	23	–	514,292
Loans to banks and financial institutions	–	242	2,800	–	3,042
Financial assets at fair value through other comprehensive income	–	316	35,078	–	35,394
Financial assets at amortized cost	11,453	25,653	147,143	1,290,989	1,475,238
Loans and advances to customers at amortized cost	1,004,324	357,224	408,968	194,597	1,965,113
Loans and advances to related parties at amortized cost	2,891	13	457	3,547	6,908
Debtors by acceptances	31,401	9,427	–	–	40,828
Total undiscounted financial assets	**1,890,984**	**537,087**	**1,272,652**	**4,439,508**	**8,140,231**
Financial liabilities					
Due to Central Bank	2,593	46,903	61,053	869,849	980,398
Due to banks and financial institutions	41,345	21,366	76,317	–	139,028
Due to banks under repurchase agreements	–	244	108,938	–	109,182
Deposits from customers	4,715,352	1,429,855	268,263	4,017	6,417,487
Deposits from related parties	7,823	2,817	–	–	10,640
Debt securities issued at amortised cost	1,349	–	32,396	–	33,745
Engagements by acceptances	31,666	9,427	–	–	41,093
Total undiscounted financial liabilities	**4,800,128**	**1,510,612**	**546,967**	**873,866**	**7,731,573**
Net undiscounted financial assets / (liabilities)	(2,909,144)	(973,525)	725,685	3,565,642	408,658

In millions of LBP — **As at December 31**

	2017				
	Less than 3 monts	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with central banks	397,120	174,353	636,241	1,776,487	2,984,201
Due from banks and financial institutions	380,653	–	23	–	380,676
Loans to banks and financial institutions	–	504	3,507	–	4,011
Financial assets at amortized cost	52,491	74,750	195,806	1,139,201	1,462,248
Loans and advances to customers at amortized cost	886,244	695,190	324,405	132,827	2,038,666
Loans and advances to related parties at amortized cost	3,452	–	–	3,250	6,702
Debtors by acceptances	21,895	7,236	–	–	29,131
Total undiscounted financial assets	**1,741,855**	**952,033**	**1,159,982**	**3,051,765**	**6,905,635**
Financial liabilities					
Due to central bank	812	97,750	35,162	132,048	265,772
Due to banks and financial institutions	33,914	–	17,391	–	51,305
Due to banks under repurchase agreements	–	–	199,801	–	199,801
Deposits from customers	3,689,004	2,174,466	–	–	5,863,470
Deposits from related parties	11,167	–	–	–	11,167
Engagements by acceptances	21,895	7,236	–	–	29,131
Total undiscounted financial liabilities	**3,756,792**	**2,279,452**	**252,354**	**132,048**	**6,420,646**
Net undiscounted financial assets / (liabilities)	(2,014,937)	(1,327,419)	907,628	2,919,717	484,989

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date on which it can be drawn down.

In millions of LBP — **As at December 31**

	2018			
	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial guarantees	55,873	57,251	11,910	125,034
Documentary credits	58,412	8,906	–	67,318
Undrawn credit lines	4,899	22,201	8,396	35,496
	119,184	88,358	20,306	227,848

In millions of LBP — **As at December 31**

	2017			
	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial guarantees	57,715	52,734	11,770	122,219
Documentary credits	9,768	58,582	–	68,350
Undrawn credit lines	8,426	30,744	25,891	65,061
	75,909	142,060	37,661	255,630

The Bank expects that not all of the contingent liabilities or commitments will be demanded before maturity.

d. Market risk

'Market risk' is the risk that changes in market prices such as interest rates, equity prices, foreign exchange and credit spreads (not relating to changes in the obligor's/issuer's credit standing)- will affect the Bank's income or the value of its holding of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

Risk Management is responsible for generating internal reports quantifying the Bank's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management on a monthly basis. The Bank's Asset and Liability Management policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of the Bank. Risk Management is responsible for monitoring compliance with all limits set in the policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

The following table analyses the sensitivity to a reasonably possible change in interest rates, with all other variables held constant of the Bank's profit or loss and other comprehensive income.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities held at the year-end, including the effect of hedging instruments.

As at December 31

	2018	
currency	Increase in basis points	Sensitivity of net interest income
Lebanese Pound	200	(21,017)
United States Dollar	100	(18,525)
Euro	50	(114)

As at December 31

	2017	
currency	Increase in basis points	Sensitivity of net interest income
Lebanese Pound	200	(17,775)
United States Dollar	100	(16,229)
Euro	50	(258)

A decrease in basis points will have an opposite effect on net interest income.

Interest sensitivity gap
The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

In millions of LBP — **As at December 31**

	2018							
	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
Assets								
Cash and balances with Central Banks	299,537	9,045	127,384	86,681	591,502	2,950,375	34,892	4,099,416
Due from banks and financial institutions	495,624	16,176	4,354	23	–	–	(1,885)	514,292
Loans to banks and financial institutions	–	–	250	–	2,800	–	(8)	3,042
Financial assets at fair value through profit or loss	65,436	–	–	–	–	–	–	65,436
Financial assets at fair value through other comprehensive income	–	–	–	–	35,078	–	316	35,394
Financial assets at amortized cost	–	256	20,317	–	147,143	1,290,988	16,534	1,475,238
Loans and advances to customers at amortized cost	356,978	369,868	960,550	141,755	57,733	14,898	63,331	1,965,113
Loans and advances to related parties at amortized cost	3,460	–	–	–	–	3,448	–	6,908
Debtors by acceptances	8,460	23,206	9,427	–	–	–	(265)	40,828
Total	**1,229,495**	**418,551**	**1,122,282**	**228,459**	**834,256**	**4,259,709**	**112,915**	**8,205,667**
Liabilities								
Due to Central Bank	–	–	45,929	–	61,053	869,849	3,567	980,398
Due to banks and financial institutions	24,806	111,499	2,261	–	–	–	462	139,028
Due to banks under repurchase agreements	–	–	–	108,938	–	–	244	109,182
Deposits from customers	4,082,691	1,101,368	427,076	498,973	7,689	–	299,690	6,417,487
Deposits from related parties	8,588	1,799	186	–	–	–	67	10,640
Debt securities issued at amortised cost	754	–	–	–	32,396	–	595	33,745
Engagements by acceptances	8,460	23,206	9,427	–	–	–	–	41,093
Total	**4,125,299**	**1,237,872**	**484,879**	**607,911**	**101,138**	**869,849**	**304,625**	**7,731,573**
Total interest rate sensitivity gap	**(2,895,804)**	**(819,321)**	**637,403**	**(379,452)**	**733,118**	**3,389,860**	**(191,710)**	**474,094**

In millions of LBP — **As at December 31**

	2017							
	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
Assets								
Cash and balances with central banks	203,801	–	174,115	165,071	469,978	1,772,066	199,170	2,984,201
Due from banks and financial institutions	104,151	9,799	–	23	–	–	266,703	380,676
Loans to banks and financial institutions	–	–	–	500	3,500	–	11	4,011
Financial assets at fair value through profit or loss	–	–	–	–	–	–	56,225	56,225
Financial assets at amortized cost	–	51,277	73,640	17,319	195,485	1,101,892	22,635	1,462,248
Loans and advances to customers at amortized cost	346,106	358,334	1,006,097	134,743	94,842	3,454	95,090	2,038,666
Loans and advances to related parties at amortized cost	3,452	–	–	–	–	3,250	–	6,702
Debtors by acceptances	14,685	7,210	7,236	–	–	–	–	29,131
Total	**672,195**	**426,620**	**1,261,088**	**317,656**	**763,805**	**2,880,662**	**639,834**	**6,961,860**
Liabilities								
Due to central bank	–	–	97,553	–	35,162	132,046	1,011	265,772
Due to banks and financial institutions	21,065	8,755	18,548	–	–	–	2,937	51,305
Due to banks under repurchase agreements	–	45,225	63,315	90,450	–	–	811	199,801
Deposits from customers	3,700,876	1,056,754	807,243	6,607	–	–	291,990	5,863,470
Deposits from related parties	5,757	2,738	187	–	–	–	2,485	11,167
Engagements by acceptances	14,685	7,210	7,236	–	–	–	–	29,131
Total	**3,742,383**	**1,120,682**	**994,082**	**97,057**	**35,162**	**132,046**	**299,234**	**6,420,646**
Total interest rate sensitivity gap	**(3,070,188)**	**(694,062)**	**267,006**	**220,599**	**728,643**	**2,748,616**	**340,600**	**541,214**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Bank is allowed to maintain a net trading position not to exceed 1 percent of its net Tier 1 equity, as long as the global foreign position does not exceed, at the same time, 40 percent of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

The table below indicates the separate statement of financial position detailed in Lebanese Pound (LBP) and foreign currencies, translated into LBP:

In millions of LBP — **As at December 31 2018**

	Foreign currencies in Lebanese Pound					
	Lebanese Pound	US Dollar in LBP	Euro in LBP	Other foreign currencies in LBP	Total foreign currencies in LBP	Total
Assets						
Cash and balances with Central Banks	2,026,954	2,004,694	66,823	945	2,072,462	4,099,416
Due from banks and financial institutions	67,551	346,812	66,340	33,589	446,741	514,292
Loans to banks and financial institutions	3,042	–	–	–	–	3,042
Financial assets at fair value through profit or loss	51,978	13,458	–	–	13,458	65,436
Financial assets at fair value through other comprehensive income	–	35,394	–	–	35,394	35,394
Financial assets at amortized cost	605,094	870,144	–	–	870,144	1,475,238
Loans and advances to customers at amortized cost	348,511	1,511,635	100,958	4,009	1,616,602	1,965,113
Loans and advances to related parties at amortized cost	4,455	2,424	20	9	2,453	6,908
Debtors by acceptances	–	36,867	2,443	1,518	40,828	40,828
Investment in a subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	79,145	–	118	–	118	79,263
Assets obtained in settlement of debt	46	113,835	–	–	113,835	113,881
Other assets	7,639	72	19	44	135	7,774
Total assets	**3,194,415**	**4,935,335**	**236,721**	**46,434**	**5,218,490**	**8,412,905**
Financial liabilities						
Due to Central Bank	969,086	11,312	–	–	11,312	980,398
Due to banks and financial institutions	3,496	135,444	55	33	135,532	139,028
Due to banks under repurchase agreements	–	109,182	–	–	109,182	109,182
Deposits from customers	1,830,241	4,316,849	233,629	36,768	4,587,246	6,417,487
Deposits from related parties	4,469	5,784	264	123	6,171	10,640
Debt securities issued at amortised cost	–	33,745	–	–	33,745	33,745
Engagements by acceptances	–	37,132	2,443	1,518	41,093	41,093
Other liabilities	17,488	4,729	127	–	4,856	22,344
Provisions for risks and charges	8,969	1,247	–	–	1,247	10,216
Total liabilities	**2,833,749**	**4,655,424**	**236,518**	**38,442**	**4,930,384**	**7,764,133**
Net exposure	**360,666**	**279,911**	**203**	**7,992**	**288,106**	**648,772**

In millions of LBP — **As at December 31 2017**

	Foreign currencies in Lebanese Pound					
	Lebanese Pound	US Dollar in LBP	Euro in LBP	Other foreign currencies in LBP	Total foreign currencies in LBP	Total
Assets						
Cash and balances with central banks	1,405,965	1,504,718	71,724	1,794	1,578,236	2,984,201
Due from banks and financial institutions	16,380	254,844	42,754	66,698	364,296	380,676
Loans to banks and financial institutions	4,011	–	–	–	–	4,011
Financial assets at fair value through profit or loss	49,122	7,103	–	–	7,103	56,225
Financial assets at amortized cost	486,664	955,988	19,596	–	975,584	1,462,248
Loans and advances to customers at amortized cost	369,573	1,566,313	101,986	794	1,669,093	2,038,666
Loans and advances to related parties at amortized cost	4,495	2,186	21	–	2,207	6,702
Debtors by acceptances	–	26,693	1,831	607	29,131	29,131
Investment in a subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	50,873	–	69	–	69	50,942
Assets obtained in settlement of debt	46	57,247	–	–	57,247	57,293
Other assets	5,569	73	14	46	133	5,702
Total assets	**2,392,698**	**4,375,165**	**237,995**	**76,259**	**4,689,419**	**7,082,117**
Financial liabilities						
Due to central bank	262,850	2,922	–	–	2,922	265,772
Due to banks and financial institutions	6,730	44,275	260	40	44,575	51,305
Due to banks under repurchase agreements	–	199,801	–	–	199,801	199,801
Deposits from customers	1,772,301	3,816,409	235,434	39,326	4,091,169	5,863,470
Deposits from related parties	5,484	5,395	232	56	5,683	11,167
Engagements by acceptances	–	26,693	1,830	608	29,131	29,131
Other liabilities	33,915	3,361	110	–	3,471	37,386
Provisions for risks and charges	45,912	–	–	–	–	45,912
Total liabilities	**2,127,192**	**4,098,856**	**237,866**	**40,030**	**4,376,752**	**6,503,944**
Net exposure	**265,506**	**276,309**	**129**	**36,229**	**312,667**	**578,173**

Bank's sensitivity to currency exchange rates

The table below shows the currencies to which the Bank has significant exposure at 31 December 2018 and 2017 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities). A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

In millions of LBP — **As at December 31**

Currency	Change in currency rate %	2018 Effect on profit before tax	2017 Effect on profit before tax
US Dollar	5	+/-8,619	+/-11,118
Euro	5	+/-10	+/-8
Other currencies	5	+/-75	+/-1,493

e. Prepayment risk

Prepayment risk is the risk that the Bank incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall. The fixed rate financial assets of the Bank are not significant compared to the total assets. Moreover, other market conditions causing prepayment are not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income as not material after taking into account the effect of any prepayment penalties.

f. Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff awareness and assessment of processes, including the use of internal audit.

42. Capital management

By maintaining an actively managed capital base, the Bank's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon Basic Circular No 44 and related amendments (latest in March 2014). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-financial position commitments at a weighted amount to reflect their relative risk. To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the below capital adequacy at or above 15% to be achieved in 2018.

The limit of the Common Equity tier 1 Ratio is 9%, the Tier 1 Ratio to 12% and the Total Capital Ratio to 14.5%, by the end of 2017.

In millions of LBP — **As at December 31**

	2018	2017
Credit risk	3,800,315	3,547,132
Market risk	128,916	109,457
Operational risk	199,643	184,359
Total risk weighted assets	4,128,874	3,840,948

The capital base as per Basel III requirements as of 31 December is as follows:

In millions of LBP — **As at December 31**

	Excluding net income for the year 2018	Excluding net income for the year 2017	Including net income for the year less proposed dividends 2018	Including net income for the year less proposed dividends 2017
Tier 1 Capital	557,525	488,772	587,782	544,047
Tier 2 Capital	59,444	17,116	59,444	17,116
Total Capital	616,969	505,888	647,226	561,163

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.
The capital adequacy ratio as of 31 December is as follows:

	Excluding net income for the year 2018	Excluding net income for the year 2017	Including net income for the year less proposed dividends 2018	Including net income for the year less proposed dividends 2017
Capital adequacy - Tier 1	13.50%	12.73%	14.24%	14.16%
Capital adequacy - Total Capital	14.94%	13.17%	15.68%	14.61%

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

	Supervisory 2018	Supervisory 2017	Basel III 2018
Capital adequacy - Tier 1	13.00%	12.00%	6.00%
Capital adequacy - Total Capital	15.00%	14.50%	10.50%

43. Comparative figures

The Ministry of Finance published a new Decision no. 1504/1 dated 22 December 2017 regarding the implementation of Article 51 of Law no. 497/2003 which states that interest income is subject to a tax rate of 7% (5% applicable for the period starting 1 January 2017 till 26 October 2017 inclusive, while 7% starting 27 October 2017) and banks can no longer benefit from deducting the tax on interest received when calculating the income tax. Therefore, the below comparative figures have been reclassified in order to comply with the basis of preparation adopted in the current year.

In millions of LBP — **As at December 31**

	2017 balances as per 2018 issued Financial state-ments	2017 balances as per 2017 issued Financial statements	Reclassification
Reclassification from:			
Income tax expense	(12,200)	(18,958)	6,758
Reclassification to:			
Interest and similar income	344,666	351,284	(6,618)
Other operating expenses	(17,701)	(17,561)	(140)
			(6,758)

Leverage

LIST OF MAJOR CORRESPONDENTS

NORTH AMERICA

CANADA
- Bank of Montreal

UNITED STATES OF AMERICA
- The Bank of New York Mellon
- Standard Chartered Bank

SOUTH AMERICA

BRAZIL
- Banco Safra SA

EUROPE

AUSTRIA
- Unicredit Bank Austria AG

BELGIUM
- KBC Bank N.V

DENMARK
- Danske Bank A/S
- Saxo Bank A/S

FINLAND
- Danske Bank A/S

FRANCE
- Natixis
- Banque Fédérative du Crédit Mutuel - CIC
- Union De Banques Arabes et Francaises - UBAF

GERMANY
- Commerzbank AG
- Deutsche Bank AG
- The Bank of New York Mellon

ITALY
- Intesa Sanpaolo SPA
- Unicredit SpA
- Banca UBAE SPA

SPAIN
- Banco de Sabadell S.A.

SWEDEN
- Skandinaviska Enskilda Banken AB

SWITZERLAND
- Banque de Commerce et de Placements SA

TURKEY
- Turkiye Is Bankasi AS
- A&T Bank
- Turkiye Garanti Bankasi AS
- Yapi Ve Kredi

UNITED KINGDOM
- Standard Chartered Bank

AUSTRALIA

AUSTRALIA
- Standard Chartered Bank

ASIA

CHINA
- Bank of China Limited ltd
- Industrial and Commercial Bank of China LTD
- Standard Chartered Bank (China) Ltd

INDIA
- Indian Overseas Bank
- Mashreqbank PSC
- Canara Bank

JAPAN
- Sumitomo Mitsui Banking Corporation

KOREA
- KEB Hana Bank

MALAYSIA
- Malayan Banking Berhad

PHILIPPINES
- Philippines National Bank

SRI LANKA
- Bank of Ceylon

THAILAND
- Export-Import Bank of Thailand

MIDDLE EAST & NORTH AFRICA

BAHRAIN
- Mashreqbank PSC
- The Housing Bank for Trade & Finance

EGYPT
- Mashreqbank PSC

JORDAN
- The Housing Bank for Trade & Finance

KUWAIT
- Burgan Bank SAK
- The Gulf Bank K.S.C.

MOROCCO
- Banque Marocaine du Commerce Exterieur SA
- Attijariwafa

QATAR
- Doha Bank
- Qatar National Bank SAQ

SAUDI ARABIA
- The National Commercial Bank

TUNISIA
- Banque de Tunisie SA
- Banque Internationale Arabe de Tunisie SA

U.A.E.
- Mashreqbank PSC
- Emirates NBD
- First Abu Dhabi Bank

11 Head Office and Branches Network

HEAD OFFICE & BRANCHES NETWORK

HEAD OFFICE

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E-mail: dealing@lgbbank.com

AFFILIATED AND PARTICIPATIONS

- CSCBank SAL
- Société Financière du Liban S.A.L
- Banque de L'Habitat S.A.L
- Société de Garantie des Prêts aux Petites et Moyennes Entreprises S.A.L

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Hamra Branch
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Mazraa Branch
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Cell: +961 3 316884, Fax: +961 1 651985

Ramlet El Baida Branch
Naccache Avenue, M.E. Hospital Bldg.
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Cell: +961 3 222471, Fax: +961 1 809359

Tarik El Jdideh Branch
Bustani Street, Al Jundi Bldg.,
facing Municipal Stadium Square
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Noueiri Branch
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MOUNT LEBANON

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Cell: +961 71 511300, Fax: +961 5 956453

Dora Branch
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Cell: +961 3 316887, Fax : +961 1 259938

Ghobeiry Branch
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Cell: +961 3 316882, Fax: +961 1 826112

Kaslik Branch
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Jal El Dib Branch
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NORTH

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BEKAA

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Cell: +961 3 316883, Fax: +961 8 801154

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