SARADARBANK

ANNUAL REPORT 2018

BANKING MADE SIMPLE.

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STRATEGIC **REPORT**

1.1

CHAIRMAN **STATEMENT**

Our 2018 financial year was an interesting period of contrasts and challenges for the banking sector. While assets and deposits were up through the year, it was buffered by shifting economic realities and a turbulent political environment which led to considerable uncertainties.

Nonetheless, we were able to consolidate and reinforce our position within the Alpha Group, with assets reaching USD 3.2 billion as of December 2018, a 26% increase year-over-year. Our growth rate was among the highest, and we did not shy away from growing our loan portfolio by 14.3% to support our clients in sustaining their operations. Despite improving most of our key performance indicators, we recorded modest net profits of USD 1.54 million in 2018, mainly driven by the implementation of our restructuring plan and its related exceptional expenses.

In 2018, we continued to inspire innovation and change. We made strong progress on our digital transformation, which translates into "Banking Made Simple": this is our objective and new brand promise, which culminates into more convenience and an improved response time to our customers.

Putting our customers' interest first is embedded in our core values. In 2018, we implemented a new personal data privacy policy and adopted the European Union's General Data Protection Regulations (GDPR) as our standard. We resolved to treat people's privacy with transparency and integrity, honoring the trust they place in us. Our compliance office liaises with regulatory bodies, sets policies and guidelines, rallies internal stakeholders, and coordinates training and awareness.

Saradar Bank has been built by our committed, professional and talented colleagues. We recognized their performance, invested in upskilling our people with training programs, and further grew our talent base. We also celebrated our female colleagues on different occasions, and supported a variety of initiatives including the Saradar Bank Women's race.

In 2018, we were awarded the "Most Socially Responsible Bank in Lebanon" for 2018 by Capital Finance International. While rewards are a mere sign of appreciation, we believe that our Bank should always serve the community and support the most pressing initiatives that make our society grow healthier.

Furthermore, in 2018 our shareholders committed to capitalize the Bank by an additional USD 40 million to support the implementation of our strategy and our growing balance sheet.

While we achieved a number of milestones in 2018, we have a number of headwinds to deal with in 2019, and we are ready for the different scenarios that our challenging market context will unveil throughout the year. We will focus on profitable growth while delivering on our brand promise and building sustainable capabilities for the long term.

I hope you find it informative and enjoyable to read more about Saradar Bank in the following pages and on our website, where you'll see more examples of how we're helping to make financial lives better for our customers. I am proud to work with my 400-plus teammates who are ready to listen to your concerns and address them.

Thank you for your support and for banking with us.
Sincerely,

Mario Saradar
Chairman-CEO

1.2

CORE **VALUES**

PUT CUSTOMERS' INTEREST FIRST

1. Build lasting relationship with our customers based on **trust and honesty**
2. Use our full capabilities to **protect our customers' interest** and preserve their confidences
3. Offer our customers a unique experience through **convenience and simple banking**
4. Tailor our products and services to **meet our customers' needs**

INSPIRE INNOVATION AND CHANGE

1. Question the status quo and dare to be **different and disruptive**
2. **Re-invent and improve** our offering to shape the future
3. **Rapidly adapt** to changing environments by embracing an **agile way of working**

CREATE A UNIQUE ENVIRONMENT FOR OUR PEOPLE

1. **Attract, retain and empower** talented people to deliver their very best
2. **Encourage transparency and inclusiveness,** and support each other to succeed
3. Use the **meritocracy-based model** as the only path to grow
4. Uphold **highest level of accountability** in pursuing performance and results

ADHERE TO THE HIGHEST ETHICAL AND PROFESSIONAL STANDARDS

1. Maintain highest standards of **respect and equality**
2. Observe high **integrity and confidentiality** standards
3. **Deliver what we promise** to our shareholders and partners
4. Use the Bank's resources **cost-effectively**

1.3

2018 **HIGHLIGHTS**

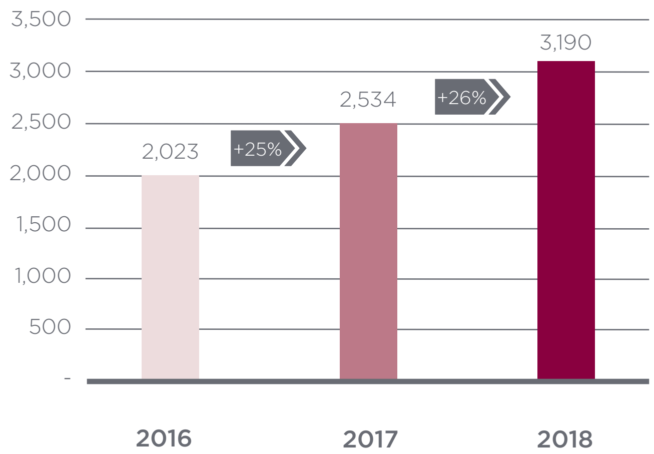
In 2018 – despite a turbulent political environment and a stagnating banking sector with decreasing returns – Saradar Bank was among the highest growing banks within its alpha peer category. The Bank grew its deposits by 6.3% between 2017 and 2018 versus a market growth rate of 2.1%; and its asset base grew by 26.0% vs. a market rate of 11.3%. Saradar Bank realized highest operating profits compared to the last 2 years and outperformed its 2018 net income budget, which was set at a lower level compared to 2017 driven by exceptional restructuring costs.

In 2018, Saradar Bank implemented a critical phase of its transformation-based strategy and realized a number of achievements:

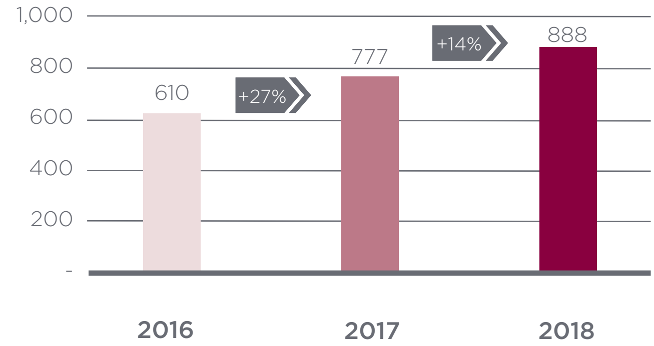
- Increased operational efficiencies and optimized its cost structure: C/I ratio dropped from 107% in December 2017 to 70% in January 2019
- Improved front-end and back-end processes, leading to a direct impact on customer service level: Reduced complaints by ~3 folds
- Revamped its core banking system: Completed the migration to Temenos, and stabilized operations
- Restructured its Human Resources: Completed the redundancy plan which lead to an annualized gross saving of USD ~2.5m, and invested in new key capabilities
- Optimized its treasury investments to improve significantly the return rates
- Focused on low-risk lending products and improved NPL ratio
- Launched Saradar Bank's new brand identity, with a strong presence on social media
- Reinforced its retail offering and channels, and focused on digitization as a key differentiator:
    - Completed the revamp of flagship branches and other key branches within the retail network
    - Launched Saradar Bank's revamped mobile app and online portal
    - Launched a number of unique digital features as part of Saradar Bank's digital banking proposition
    - Launched S17, Saradar Bank's latest disruptive branch format

Throughout 2018, the management team has been driving the transformation at Saradar Bank at high pace, while investing in new capabilities and working within a performance-based culture. Moving forward, the Bank will continue to execute its transformation plan with clarity and focus: 2019 will be the year of profitable growth, consolidation of assets, further improvement of efficiencies, and most importantly launching new digital features and initiatives.

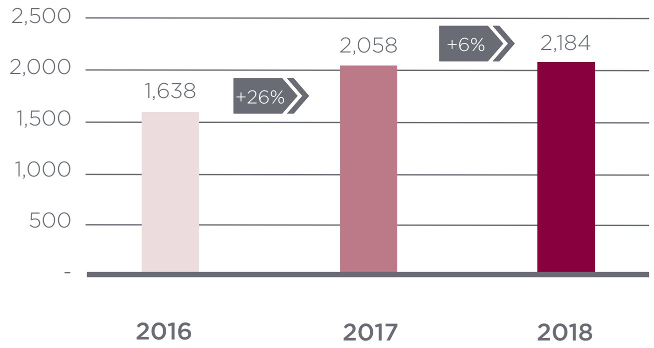
ASSETS (USD Milllion)



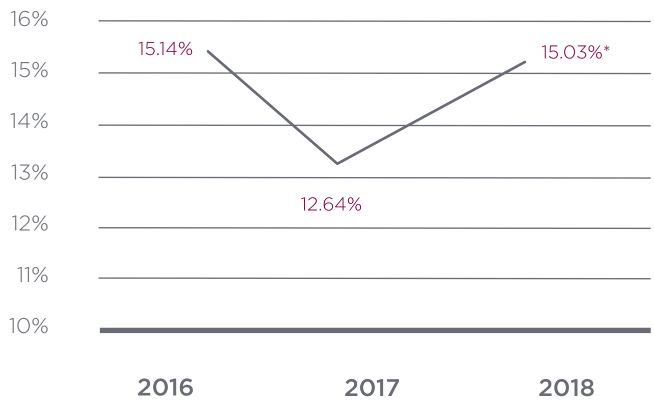
LOANS (USD Milllion)



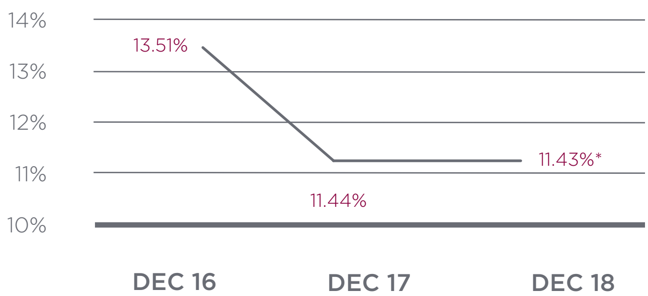
DEPOSITS (USD Milllion)



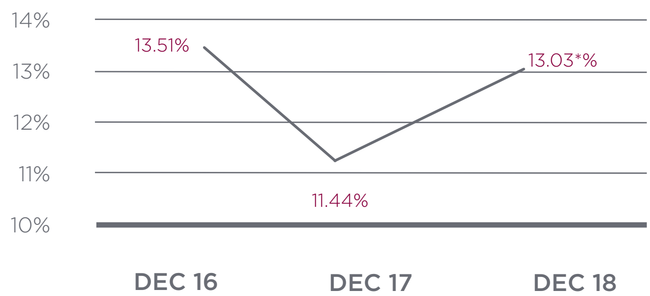
CAPITAL ADEQUACY RATIO



CET 1



TIER ONE



*Refer to Note 42 "Capital Management" in the Disclosures

2

CORPORATE **GOVERNANCE**

2.1

CORPORATE GOVERNANCE **LANDSCAPE**

Good governance is vital in any sector. In the banking industry, it forms the bedrock of a financially sound and well-run institution.

INTRODUCTION

At Saradar Bank, we are committed to upholding the highest standards of corporate governance and integrity.

We believe that effective Board and management oversight, combined with solid corporate governance practices, drive the long-term success of our Bank. We continuously seek to enhance and promote exemplary core values and strong ethics throughout the organization.

Our systems, processes, and policies are aligned with industry-leading standards to ensure full compliance with laws and regulations. We continuously monitor our structures to identify potential improvements, and implement international best practices with regards to transparency and corporate governance.

We seek to lead by example: we have established high standards at all levels and make every effort to meet them. We understand that trust, confidence and engagement with our clients, employees, shareholders and the wider community are at the heart of our business; achievements are a source of pride when reached through the right set of values.

OUR BOARD **IN 2018**

Number of Board Members 11

Number of independent Board Members 3

Committees of the Board and Number of Meetings

Full Board 4

Strategy Retreat 1

Audit Committee 5

Remuneration, Nomination and Corporate Governance Committee 5

Risk Committee 3

AML/CFT Committee 2

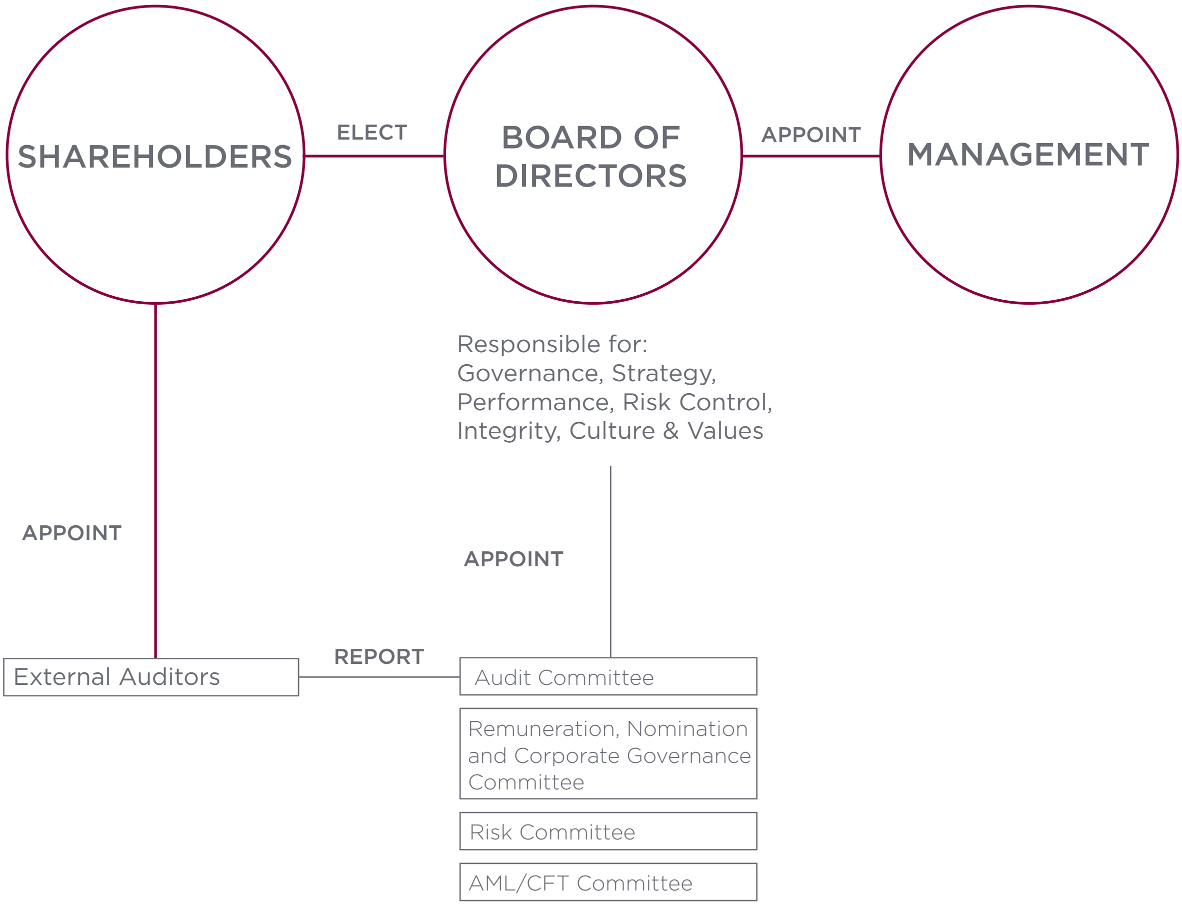
HOW WE OPERATE

At Saradar Bank, the Board sets the tone at the top, working in close collaboration with management to ensure the proper conduct of business. The Board promotes integrity and corporate values, through a sound corporate governance framework.

2.2

BOARD GOVERNANCE **FRAMEWORK**

Saradar Bank boasts a clear, well-structured governance framework to support the Board in achieving its long-term strategic goals and generating sustainable returns for shareholders. This framework defines the role of the Board and management by setting out their respective priorities and ensuring all critical concerns are addressed.



2.3

CORPORATE GOVERNANCE **APPROACH**

The Board of Directors of the Bank is composed of highly qualified, independent and diverse members with a strong blend of experience and diverse expertise. They are leaders in their fields, bringing a wealth of knowledge to their role.

The Board is composed of a number of Directors sufficient for it to exercise its duties and responsibilities, and function efficiently. This number may vary between 3 and 12 members, and currently, stands at 11.

The Directors' deep commitment is essential to the Bank's successful performance. It is ultimately responsible for ensuring the proper conduct of business and for overseeing the management of the Bank. The Board is primarily responsible for improving the Bank's value to its shareholders by defining strategic direction and objectives, providing leadership and guidance, putting in place a sound corporate governance framework, promoting corporate values and ensuring that effective internal control processes are in place.

In order to preserve its necessary independence from management, the Board aims to increase its number of independent non-executive Directors in future exercises. The Corporate Governance standards set forth herein reflect best practices in the industry. In light of changing circumstances, the Board reevaluates governance principles from time to time and where deemed necessary, to ensure the Bank remains at the vanguard of leading corporate governance practices.

2.4

OWNERSHIP **BREAKDOWN**

The Bank’s shareholders are local and international visionaries, including global leaders, such as the Wiederkehr Group, and prominent figures on the Lebanese scene, including the Saradars, Bustanis, Mecattafs, Mikatis, El-Khazens and Shammas.

SHAREHOLDERS

SARADAR PARTNERS	30.81%
STÉ AL BUSTANIA SAL	19.71%
WIEDERKEHR GROUP HOLDING SAL	12.62%
SHAMMAS ECONOMIC INSTITUTE SAL	12.04%
SAIFI INVEST HOLDING SAL	11.32%
CARLOS GHOSN	4.58%
BEATRICE WIEDERKEHR	2.36%
MYRNA BUSTANI	2.03%
JAMIL EL-KHAZEN	1.96%
LAURA EL-KHAZEN LAHOUD	1.96%
OTHERS	0.61%

2.5

COMPOSITION OF THE **BOARD OF DIRECTORS**

A minimum of four Board meetings are scheduled per year, two of which should be held in Lebanon. Board members are required to attend all Board meetings, with exceptions made for extraordinary extenuating circumstances.

BOARD MEMBERS

MR. MARIO SARADAR	Chairman-CEO	Executive
MR. EDMOND CARTON	Member *(pending BDL's approval)*	Independent, Non-executive
SHEIKH JAMIL EL-KHAZEN	Member	Non-executive
MRS. LAURA EL-KHAZEN LAHOUD	Member	Non-executive
MR. MICHEL FERNEINI	Member *(pending BDL's approval)*	Independent, Non-executive
MR. CARLOS GHOSN	Member	Non-executive
MR. JOE ISSA-EL-KHOURY	Member	Non-executive
MR. JOSEPH SADDI	Member	Independent, Non-executive
MR. CHRISTIAN STEINFELS	Member	Non-executive
SAIFI INVEST HOLDING SAL represented by Mr. Nabil Moukattaf	Member	Non-executive
SHAMMAS ECONOMIC INSTITUTE SAL represented by Mr. Nizam Shammas	Member	Non-executive

MS. DINA SFEIR	Corporate Secretary and Secretary of the Board

2.6
BOARD **BIOGRAPHY**

MARIO SARADAR
Chairman-CEO

Mr. Mario Saradar is Chairman-CEO of Saradar Bank sal. He is also Chairman-CEO of Marius Saradar Holding SAL – Saradar Group and other affiliates of the Group since 1992, when he was appointed Chairman and General Manager of Banque Saradar. Following the merger between Banque Saradar and Bank Audi in 2004 and until December 2010, he held the role of Chairman and General Manager of Audi Saradar Private Bank. During the same period, Mr. Saradar was appointed Chairman of Bank Audi Suisse.

A graduate of London's University College with a B.S. in Economics, Mr. Saradar also holds a diploma in Financial Instruments from "Institut des Techniques de Marché", and a diploma in Portfolio Management from "Institut de la Bourse et du Titre", both in Paris. He has repeatedly been elected to the Board of the Lebanese Banks Association, and is currently a member of the "Rassemblement des Dirigeants et des Chefs d'Entreprise Libanais", International Chamber of Commerce, and of the Young Presidents' Organization.

JAMIL EL-KHAZEN
Member

In addition to being a board member of several institutions, Mr. El-Khazen is active in the Real Estate and Financial Investment fields.

He holds a Bachelor of Science in International Business from the University of Evansville, Indiana, USA.

LAURA EL-KHAZEN LAHOUD
Member

Mrs. Laura Lahoud is involved in different family businesses, mainly the management of Al Bustan Hotel and the organisation of Al Bustan Festival.

She holds a Master's in Science in Mathematics & Operational research from the London School of Economics (London, UK).

EDMOND CARTON

Member *(pending BDL's approval)*

Mr. Edmond Carton is the former Executive Chairman of Bank J. Safra Sarasin Asset Management entities in the Middle East and South Asia.

Out of his 45 years of experience in international commercial, corporate and private banking, Mr. Carton spent the last 30 years in the private banking industry. He has extensive work experience and been posted to the Middle East, Latin America, North America and Europe. He held senior management and various Board and Executive committee positions with Julius Baer, Credit Suisse, HSBC, Republic National Bank of New York and JP Morgan.

Before moving to Dubai with Bank Sarasin-Alpen, later Bank J. Safra Sarasin Asset Management, he was Head of the Middle East for Bank J. Safra Sarasin Ltd, Switzerland.

He holds degrees in Law and History from Université Saint-Joseph in Beirut.

MICHEL FERNEINI

Member *(pending BDL's approval)*

Mr. Michel Ferneini is the Chairman-General Manager of Société Financière du Liban, a financial group composed of 34 banks, providing Treasury Bills, certificates of deposit trading and interbank brokerage in the Lebanese market, as well as other financial structures in collaboration with the Central Bank of Lebanon.

Mr. Ferneini brings extensive banking experience including over 20 years with Merrill Lynch in their Beirut, Brussels and Paris offices. He is a Board member of several institutions including: Intra Investment Company, Jammal Trust Bank, Fenicia Bank, Société Immobilière du Port de Beyrouth, Société Générale d'Entreprises Touristiques and Vitas. He was awarded the Medal of the French National Assembly as a recognition of his outstanding contribution to cultural projects.

Mr. Ferneini holds a Bachelor's degree in Business Administration from the American University of Beirut.

CARLOS GHOSN
Member

Mr. Carlos Ghosn is the former Chairman and CEO of Nissan Motor Corp., former Chairman and CEO of the Renault Group, former Chairman of Mitsubishi Motors, and former Chairman and CEO of the Renault-Nissan-Mitsubishi Alliance BV.

He joined Renault in 1996 as Executive Vice President of the Group and Nissan in 1999 as its Chief Operating Officer. He was appointed Chief Executive Officer in June 2001. From June 2013 to June 2016, Mr. Ghosn was also the Chairman of AvtoVAZ, a Russian car manufacturer. Following Nissan's acquisition of a 34% stake in Mitsubishi Motors in October 2016, Mr. Ghosn became the Chairman of Mitsubishi Motors.
Mr. Ghosn spent 15 years with Michelin in various capacities from1981 to 1996.

A national of Brazil, France and Lebanon, Mr. Ghosn holds Engineering Degrees from France's École Polytechnique (1974) and École des Mines de Paris (1978).

JOE ISSA-EL-KHOURY
Member

Following a degree in Civil Engineering from the American University of Beirut and an MBA from INSEAD, Mr. Issa-El-Khoury spent several years at Merrill Lynch in Paris, after which he joined the Méditerranée Group in Lebanon as advisor to the Chairman and Deputy General Manager of Méditerranée Investment Bank. For many years, he served as Chairman-General Manager of Saradar Investment House, the investment banking arm of Saradar Group.

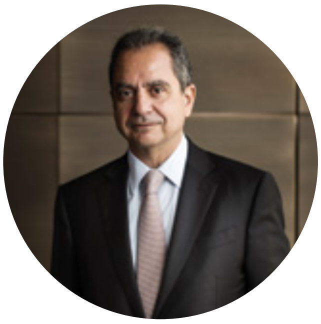
His multi-disciplined assignments covered areas in portfolio and wealth management, project finance, corporate finance, mergers and acquisitions, capital markets as well as real estate investment. In Lebanon, Mr. Issa-El-Khoury was a pioneer in leading the first Euro Deposit program issued by a bank, the first convertible bond issued by an industrial group and the first REIT-like structure issued by a real estate company.

Currently an Executive Director and a member of the Investment Committee at M1 Group, he is a prominent leader in business development. Mr. Issa-El-Khoury is also the CEO of M1 Investments while holding board representations at institutions such as Saradar Bank, LibanPost, Hope Construction Materials, Jetscape, ITCC, Façonnable and Pepe Jeans Group.

NABIL MOUKATTAF
Member, *representing Saifi Invest Holding sal*

Mr. Nabil Moukattaf has a significant international experience in Gold and Foreign Exchange trading activities as well as Private Banking.

He is a graduate of L'Ecole des Hautes Etudes Commerciales in Paris (France).



JOSEPH SADDI
Member

Mr. Joseph Saddi is a former Partner and Chairman of Strategy&'s (formerly Booz & Company) Middle East business, with over 30 years of consulting experience in strategic, organizational, and restructuring services.

Over the years, he has led major privatization programs in such sectors as oil and gas, mining, steel and electricity; advised Middle East governments on sector deregulation and sector policy; and led the reorganization of national oil companies and large corporations. He also works closely with large family-owned companies to help design governance and portfolio strategies.

Mr. Saddi holds an MBA from Cornell University, New York, USA, and a Bachelor of Business Administration from ESSEC in France.

NIZAM SHAMMAS
Member, *representing Shammas Economic Institute sal*

Mr. Nizam Shammas is a seasoned engineer and businessman involved in construction with The C.A.T. Group (MEA), industry with STAL (LB), tourism with New Forest Hotels (UK) and St. Raphael Resort & Marina (CY), real-estate development through Rabieh Co. (LB) and Shammas Investment (LB), and banking as a MD of Shammas Economic Institute (LB) and shareholder in Saradar Bank (LB).

He holds a B.Sc. in Civil Engineering from the American University of Beirut (Beirut, LB), MBA from Brunel University (London, UK), and an Advanced Management Program from Cornell University (New York, USA).

CHRISTIAN STEINFELS
Member

Mr. Christian Steinfels holds a Bachelor of Arts and an MBA degree. He has held various positions in banking in the USA, London, Frankfurt and Switzerland.

In addition, he has been a member of the Supervisory Boards of ASEA AB, ABB AG, Voest-Alpine AG and Böhler-Uddeholm AG.

He has acted as an independent financial advisor since 1996.

2.7

BOARD **COMMITTEES**

The composition of each Committee is approved by the Board, in line with applicable rules and procedures and any other relevant consideration. In endorsing suitable membership on Committees, the Board makes every effort to compose each Committee with Directors who strike the right balance of know-how, experience, and diversity of perceptions.

BOARD COMMITTEES	CHAIRPERSON	MEMBERS
Audit Committee	Mr. Joseph Saddi	Mrs. Laura El-Khazen Lahoud Saifi Invest Holding SAL represented by Mr. Christian Mecattaf Mr. Joe Issa-El-Khoury Mr. Christian Steinfels
Remuneration, Nomination and Corporate Governance Committee	Mr. Joseph Saddi	Shammas Economic Institute represented by Mr. Nizam Shammas Saifi Invest Holding SAL represented by Mr. Nabil Moukattaf Mr. Joe Issa-El-Khoury
Risk Committee	Mr. Edmond Carton *pending BDL's approval*	Saifi Invest Holding SAL represented by Mr. Christian Mecattaf Sheikh Jamil El-Khazen Mr. Michel Ferneini *(pending BDL's approval)*
AML/CFT Committee	Mr. Michel Ferneini *pending BDL's approval*	Mrs. Laura El-Khazen Lahoud Mr. Joe Issa-El-Khoury

SARADAR BANK
BOARD COMMITTEES

BOARD AUDIT COMMITTEE

Assists the Board in fulfilling its duties and supervisory roles regarding the requirements of internal control, internal audit, external audit and compliance with regulations.
Monitors the internal control efficiency and effectiveness.
Follows up on the implementation of remedial measures.
Oversees the internal audit department and supervises its performance.
Verifies that Senior Management tackles recommendations raised in the reports.
Approves the internal audit charter, the audit cycle, and the annual audit plan.
Assesses the external auditors' performance, autonomy and objectivity.
Discusses with Senior Management and external auditors the financial statements to be published.
Reviews the effectiveness of the system for monitoring compliance with laws and regulations and follows up on any instances of non-compliance.

BOARD RISK COMMITTEE

Assists the Board in fulfilling its oversight responsibilities with regards to risks inherent to the Bank's strategy and activity.
Monitors overall risk framework.
Reviews and monitors risk policies in line with the Bank's strategy and business plan.
Reviews and monitors the Risk appetite and tolerance statement.
Ensures that risks are identified, measured, monitored and managed in line with the Bank's risk appetite and the risk strategy.

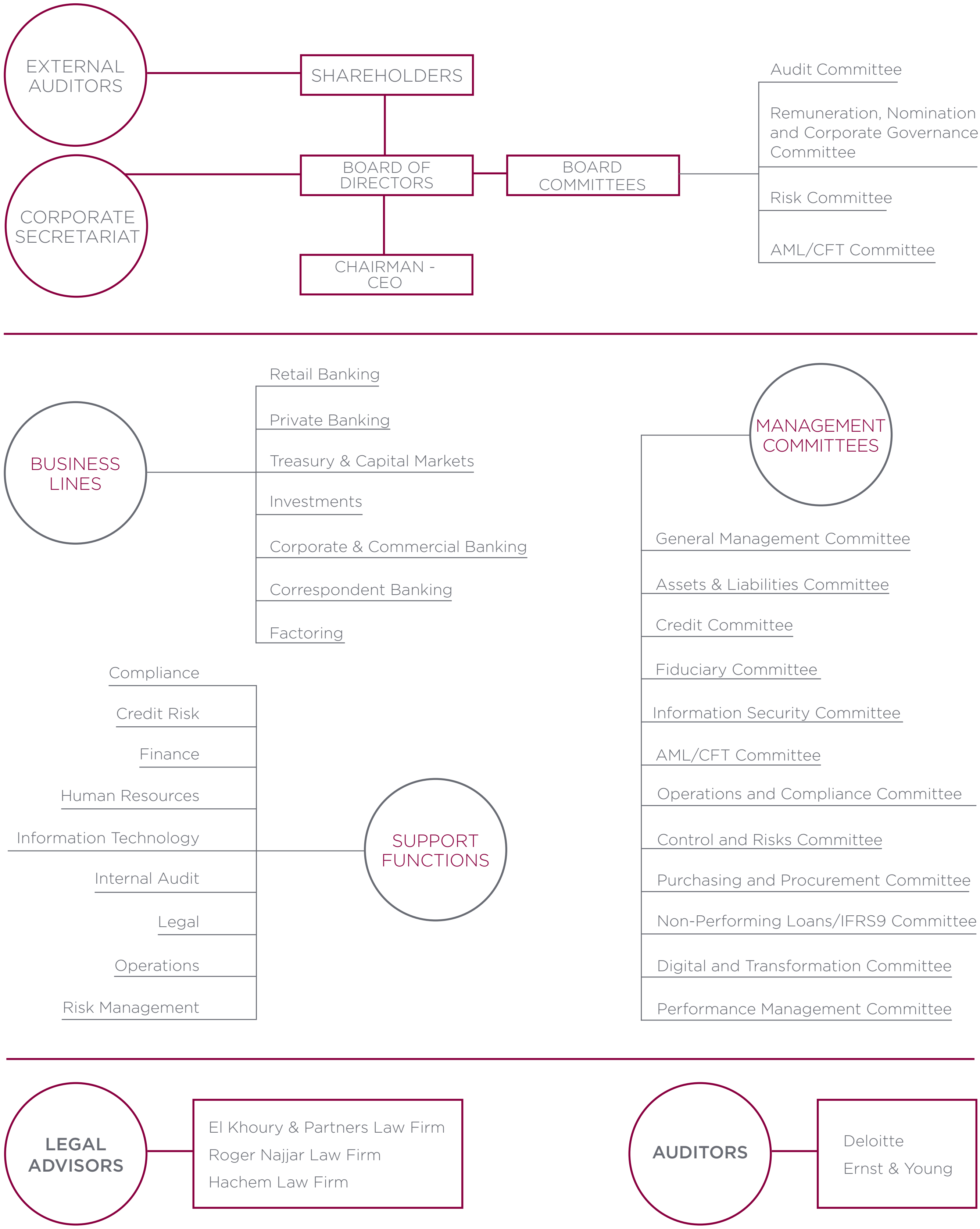
BOARD REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Advises the Board in defining and overseeing the Bank's policy on remuneration, bonuses and incentives.
Ensures that compensation measures are consistent with the Bank's vision and values, and support the strategic goals of the Bank and allow for the recruitment, motivation and retention of senior executives.
Oversees the establishment, maintenance and administration of the Bank's remuneration programs and employee benefit plans.
Assesses on a regular basis the overall structure, size and composition of the Board and of its Committees taking into account the skills, attributes, experience and tenure of each Board member, and the results of the Board self-assessment process.
Reviews on an annual basis the adequacy of the Corporate Governance guidelines, monitors the Bank's compliance with these guidelines, and recommends changes when necessary.

BOARD AML/CFT COMMITTEE

Assists the Board in exercising its functions and supervisory role, and in taking appropriate action to fight money laundering and terrorist financing.
Reviews Compliance and Internal Audit reports on adopted procedures, unusual operations and high risk accounts, and regulators and external auditors on the Bank's compliance with the AML/CFT regulations.
Identifies, assesses and mitigates AML/CFT risks.

2.8
HIGH LEVEL **STRUCTURE**



2.9

REMUNERATION **POLICY**

The purpose of the remuneration policy is to reward competent, responsible, and independent behaviour, to promote integrity, and to support productivity and job satisfaction.

It establishes clear and transparent remuneration and benefits practices aligned with the Bank's culture, long-term business objectives, risk strategy, performance, and legislative and regulatory frameworks. The policy and general incentive structures reflect the Bank's goals for sound Corporate Governance and allow the Bank to strike a sustainable balance between short and long-term value creation and responsibility for its employees, shareholders and communities. It also ensures that employees are offered a competitive remuneration package in line with the market, encouraging them to generate sustainable results and aligning their interests with those of shareholders, clients and colleagues.

The Bank makes every effort to ensure that compensation packages are commensurate with the relevant duties and responsibilities of each individual, are fair and equitable, and integrate incentives clearly and measurably linked to performance both on an individual and corporate basis. Remuneration is designed to be sustainable in the long-term.

STRUCTURE

In the first quarter of every year, the Remuneration, Nomination and Corporate Governance Committee examines the Bank's remuneration strategy and plans in light of the Bank's performance, local industry practices and market conditions.

The Board reviews, assesses and endorses the remuneration, and incentive schemes for the coming year based on the recommendations of the Remuneration, Nomination and Corporate Governance Committee. The total bonus amount to be paid is reviewed by the Committee and approved by the Board. The cumulative consolidated remuneration disbursed by the Bank is incorporated in the Bank's budget and endorsed by the Board.

PERFORMANCE EVALUATION

The Bank believes that its main strength is its human capital. The professional growth of its employees is central to attaining the Bank's vision, mission and strategy. The Bank established a general assessment of its employees to systematically analyze the strong and weaker aspects of individual performance.

Annual performance evaluations are central to the development of employees and the determination of remuneration. Performance evaluations are designed to ensure transparency, and have well-defined, pre-determined KPIs in line with the Bank's overall remuneration and incentive strategy.

REMUNERATION COMPONENTS

FIXED REMUNERATION

Fixed remuneration is established based on the role and position held by each employee, including but not limited to assigned responsibilities, professional experience, job complexity, seniority, expertise, skills, education, budgetary considerations, and local economic conditions. Fixed remuneration is payable through a direct deposit in the employee's salary account. Each employee receives a monthly salary payable 16 times per year in accordance with the Collective Labour Agreement.

PERFORMANCE-BASED INCENTIVES

Performance-based incentives are designed to motivate and recognize high performers depending on their contribution to the Bank's results, performance in line with defined expectations and clear KPIs. Incentives are awarded based on the Bank's overall financial results, the performance of the business line and/or unit, and individual performance. Both financial and behavioural criteria are taken into account when defining the individual's bonus.

EMPLOYEE BENEFITS

The Bank meets or exceeds benefits described in the Collective Labour Agreement. Various allowances are awarded to employees covering mainly individual and family medical coverage, family and education allowances, housing and transportation in addition to other auxiliary benefits.

2.10 COMMUNICATING WITH THE BOARD

Shareholders, staff and other interested parties may communicate with the Board or any of its Committees through the Corporate Secretary. Depending on the content of the correspondence, the message will be either transmitted to the Director's attention or routed to the appropriate party if the subject matter is not related to Directors' responsibilities.

Correspondence may be addressed to:
Corporate Secretary
Saradar Bank sal
Saradar Building, Charles Malek Avenue
Ashrafieh, P.O. Box: 16-5677
Beirut, Lebanon

2.11

MANAGEMENT LIST

MANAGEMENT TEAM

General Management Committee

Mario Saradar
Chairman - CEO

Pierre Naggear (Until June 2019)
General Manager
Corporate & Commercial Banking

Ibrahim Salibi (Since June 2019)
General Manager
Corporate & Commercial Banking

Youssef Dib
General Manager
Private & Investment Banking

Naim Hakim (Since December 2018)
General Manager
Retail, Operations, Finance & IT

Sami Abou Jamous
Chief Strategy & Planning Officer

Corporate & Commercial Banking

Hala Abou Jaoude (Until July 2019)
Assistant General Manager
Corporate & Commercial Banking

Retail Banking

Micheline Dib (Until May 2019)
Assistant General Manager
Retail Banking

Private & Investment Banking

Martine Hochar
Assistant General Manager
Private Banking

Emile Shalala
Head of Treasury & Capital Markets

Head of Support Functions

Amale Choueri
Chief Audit Executive

Rababa Nohra
Chief Human Resources Officer

Youmna Moukarzel
Acting Chief Operations Officer

Maya Moujaes
Head of Correspondent Banking

Dina Sfeir
Head of Corporate Secretariat

Maya Tabet
Head of Internal Legal Affairs

Jad Abou Rjeily
Head of Compliance

Henri Bouiller
Head of Risk Management

Carine Kouyoumji
Head of Credit Risk

Danielle Moutran
Head of Finance

Jean Abou Assi (Until January 2019)
Acting Chief Digital Officer

Raghid Charara (Since January 2019)
Head of Digital Technology

3

FINANCIAL **STATEMENTS**

3.1

INDEPENDENT AUDITOR'S REPORT

Deloitte.

EY
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Key Audit Matter	How our audit addresses the key audit matter
Allowances for expected credit losses Refer to note 3K of the consolidated financial statements for a description of the accounting policy and note 43 for analysis of credit risk. Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for financial assets, there is a risk that the amount of ECL may be misstated. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives. The key areas of judgement include: 1. The identification of exposure with a significant deterioration in credit quality. 2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. 3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.	The risks outlined herein were addressed by us as follows: • We assessed the modelling techniques and methodology against the requirements of IFRS 9. • We tested the data, both current and historical, used in determining the ECL. • We tested the expected credit loss models including build, validation and governance of models. • We tested the material modelling assumptions in addition to any overlays. • We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis. • We re-performed the ECL computation for sample of credit facilities. • We assessed the adequacy of disclosures in the consolidated financial statements.

Other Information Included in The Group's 2018 Annual Report

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

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

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Saradar Bank S.A.L.
Beirut, Lebanon

Opinion

We have audited the accompanying consolidated financial statements of Saradar Bank S.A.L. ("the Bank") and its subsidiaries (together, "the Group") which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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Responsibilities of Management and those Charged with Governance for the Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, within the framework of local banking laws, 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Beirut, Lebanon
12 April 2019

Deloitte & Touche

Ernst & Young

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CONSOLIDATED **FINANCIAL STATEMENTS**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Year Ended December 31	
ASSETS	Notes	**2018**	**2017**
		LBP'Million	**LBP'Million**
Cash and balances with Central Bank of Lebanon	5	2,336,992	1,090,849
Due from banks and financial institutions	6	160,557	191,636
Financial assets at fair value through profit or loss	7	2,958	2,764
Loans and advances to customers	8	1,338,077	1,170,711
Financial assets at amortized cost	9	777,546	1,210,467
Financial assets at fair value through other comprehensive income	10	5,355	6,384
Debtors by acceptances	11	26,976	1,101
Investment in an associate	12	12,191	10,863
Assets acquired in settlement of loans	13	43,926	40,952
Property and equipment	14	71,725	65,698
Intangible assets	15	14,768	13,623
Other assets	16	15,946	13,299
Goodwill	17	1,988	1,988
Total Assets		**4,809,005**	**3,820,335**
LIABILITIES			
Due to the Central Bank of Lebanon	18	1,010,444	249,349
Due to banks and financial institutions	19	48,663	27,989
Deposits from customers	20	3,044,223	2,936,346
Deposits from related parties	21	248,733	165,915
Engagements by acceptances	11	26,976	1,101
Income tax liability	37	144	154
Deferred tax liability	10	755	826
Other liabilities	22	61,812	56,785
Provisions	23	11,101	11,518
Total Liabilities		**4,452,851**	**3,449,983**
EQUITY			
Share capital	24	10,600	10,600
Share premium	24	34,980	34,980
Cash contribution to capital	25	202,937	202,937
Non-distributable reserves	26	51,967	51,986
Owned buildings revaluation surplus	27	50,503	50,503
Cumulative change in fair value of financial assets at fair value through other comprehensive income	10	3,675	4,681
Accumulated losses		(2,259)	(1,902)
Profit for the year		2,208	14,997
Equity attributable to the owners of the Bank		354,611	368,782
Non-controlling interests		1,543	1,570
Total Equity		**356,154**	**370,352**
Total Liabilities and Equity		**4,809,005**	**3,820,335**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	2018	2017
		Year Ended December 31	
		LBP'Million	LBP'Million
Interest and similar income	28	242,123	187,747
Interest and similar expense	29	(194,556)	(146,525)
Net interest income		47,567	41,222
Fee and commission income	30	24,918	23,345
Fee and commission expense		(1,687)	(1,736)
Net fee and commission income		23,231	21,609
Income from financial assets at fair value through profit or loss		702	776
(Loss)/gain on derecognition of financial assets at amortized cost	9	(61)	5,528
Other operating income	31	2,200	2,126
Total operating income		73,639	71,261
Net impairment loss on financial assets	32	(2,590)	17,693
Recoveries on debts written-off		1,208	-
Direct write-off of bad debts		(71)	(67)
Net financial revenues after impairment		72,186	88,887
Staff costs	33	(37,509)	(44,914)
General and administrative expenses	34	(27,518)	(27,492)
Depreciation and amortization	15,16	(4,703)	(3,186)
Total operating expenses		(69,730)	(75,592)
Share in profit of an associate	12	1,722	567
Provisions	35	(64)	(2,671)
Other (expenses)/income, net	36	(1,640)	6,495
Profit before income tax		2,474	17,686
Income tax	37	(144)	(2,522)
Profit for the year		2,330	15,164
Net profit attributable to:			
The owners of the Bank		2,208	14,997
Non-controlling interests		122	167
		2,330	**15,164**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2018	2017
		Year Ended December 31	
		LBP'Million	LBP'Million
Profit for the year		2,330	15,164
Other comprehensive income ("OCI"):			
Items that will not be reclassified subsequently to profit or loss:			
Loss on revaluation of properties	14	-	(211)
(Loss)/gain on financial assets at fair value through other comprehensive income	10	(1,077)	4
Deferred tax liability	10	71	-
		(1,006)	(207)
Total comprehensive income for the year		**1,324**	**14,957**
Attributable to:			
The owners of the Bank		1,202	14,790
Non-controlling interests		122	167
		1,324	**14,957**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Share Premium	Cash Contribution to Capital	Reserves	Owned Buildings Revaluation Surplus	Cumulative Change in Fair Value of Investment Securities
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance January 1, 2017	10,600	34,980	202,937	51,447	51,226	4,677
Allocation of 2016 profit	-	-	-	539	-	-
Total comprehensive income for year 2017	-	-	-	-	(211)	4
Transfer to retained earnings upon disposal of property	-	-	-	-	(513)	-
Distribution to non-controlling shareholders	-	-	-	-	-	-
Other movements	-	-	-	-	1	-
Balance December 31, 2017	10,600	34,980	202,937	51,986	50,503	4,681
Impact of IFRS 9 adoption – (note 2)	-	-	-	(15,312)	-	-
Restated balance January 1, 2018	10,600	34,980	202,937	36,674	50,503	4,681
Allocation of 2017 profit	-	-	-	15,293	-	-
Total comprehensive income for year 2018	-	-	-	-	-	(1,006)
Distribution to non-controlling shareholders	-	-	-	-	-	-
Balance, December 31, 2018	**10,600**	**34,980**	**202,937**	**51,967**	**50,503**	**3,675**

	Accumulated Losses Forward	Profit for the Year	Total Equity Attributable to Owners of the Bank	Non-Controlling Interests	Total Equity
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance January 1, 2017	(6,662)	4,785	353,990	1,574	355,564
Allocation of 2016 profit	4,246	(4,785)	-	-	-
Total comprehensive income for year 2017	-	14,997	14,790	167	14,957
Transfer to retained earnings upon disposal of property	513	-	-	-	-
Distribution to non-controlling shareholders	-	-	-	(171)	(171)
Other movements	1	-	2	-	2
Balance December 31, 2017	(1,902)	14,997	368,782	1,570	370,352
Impact of IFRS 9 adoption – (note 2)	(61)	-	(15,373)	-	(15,373)
Restated balance January 1, 2018	(1,963)	14,997	353,409	1,570	354,979
Allocation of 2017 profit	(296)	(14,997)	-	-	-
Total comprehensive income for year 2018	-	2,208	1,202	122	1,324
Distribution to non-controlling shareholders	-	-	-	(149)	(149)
Balance, December 31, 2018	**(2,259)**	**2,208**	**354,611**	**1,543**	**356,154**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31 2018	2017
		LBP'Million	LBP'Million
Cash flows from operating activities:			
Profit for the year before tax		2,474	17,686
Adjustments for:			
Interest income		(242,123)	(187,747)
Interest expense		194,556	146,525
Depreciation and amortization		4,703	3,186
Net impairment loss on financial assets	32	2,590	(17,683)
Write-off of doubtful debts		71	67
Recognition of deferred income-subsidy	36	(2,904)	(5,144)
Recognition of regulatory deferred liability	36	-	(2,856)
(Loss)/gain on derecognition of financial assets measured at amortized cost		61	(5,528)
Share of profits of an associate		(1,722)	(567)
Unrealized loss on financial assets at fair value through profit or loss		(702)	(776)
Gain on sale of property and equipment		-	34
Provision for employees' end-for-service indemnity, net	23	637	4,525
Provision for contingencies	23	62	2,111
Other provisions	23	-	560
Write off of tangible and intangible assets	14&15	166	396
Gain on disposal of assets acquired in settlement of loans	13	(7)	(71)
		(42,138)	(45,282)
Net increase due from banks		(591,765)	(390,460)
Net change in financial assets at fair value through profit or loss		508	23,159
Net increase in loans and advances to customers		(169,401)	(230,373)
Net increase in other assets		(2,647)	(863)
Net (decrease)/increase in due to banks		(69,343)	106,069
Net increase in deposits from customers		86,253	582,994
Net increase in deposits from related parties		81,735	32,269
Net increase/(decrease) in other liabilities		7,921	(11,316)
Settlements of provision for employee's end-for-service indemnity	23	(2,057)	(556)
Settlements of provision for contingencies	23	(576)	(52)
Settlements of provision for lawyer	23	(512)	-
Cash flows from operations		(702,022)	65,589
Interest received		199,337	143,585
Interest paid		(169,107)	(121,578)
Income tax paid		(144)	(2,522)
Net cash (used in)/generated by operating activities		(671,936)	85,074
Cash flows from investing activities:			
Purchase of property and equipment	14	(9,294)	(6,462)
Proceeds from sale of property and equipment		-	645
Increase in intangible assets	15	(2,745)	(6,753)
Proceeds from sale of assets acquired in settlement of loans		139	411
Net change in investment securities other than trading		637,504	(71,593)
Net change in investment in associate		394	(10,296)
Change in non-controlling interests		(149)	(171)
Net cash generated by/(used in) investing activities		625,849	(94,219)
Net (decrease) increase in cash and cash equivalents		(46,087)	(9,145)
Cash and cash equivalents at the beginning of the year	41	253,370	262,515
Cash and cash equivalents at the end of the year	41	**207,283**	253,370

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NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

Saradar Bank S.A.L. (the "Bank") (Formerly Banque de l'Industrie et du Travail S.A.L. or "BIT") was established in 1960 and registered in the Lebanese Commercial Register under No. 9849 and in the list of banks published by the Central Bank of Lebanon under No. 48. The Bank provides banking services through a network of 16 branches in the different regions of Lebanon. The Bank's headquarters are located Achrafieh, Beirut, Lebanon.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs and amendments to IFRSs and Interpretations, which became effective for annual periods beginning on or after January 1, 2018, have been adopted in these financial statements.

2.1.1 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are mandatorily effective for an accounting period that begins on or after January 1, 2018. The Group adopted the new standard on the required effective date, along with the provisions of the Central Bank of Lebanon basic circular No. 143 and the Banking Control Commission circular No. 293. Transition provisions of IFRS 9 allow an entity not to restate comparatives. Accordingly, the Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (2014). Therefore, the comparative information for 2017 is reported under IFRS 9 (2009 and 2010) and IAS 39 impairment requirements and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 (2014) have been recognized directly in retained earnings or reserves (as applicable) as of January 1, 2018 and are disclosed below. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

a. Classification and measurement of financial assets

The Group 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 fair value through other comprehensive income 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 amortized cost information, as well as fair value information is relevant and useful. A debt financial asset is measured at fair value through OCI if:

- it is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets, and
- it satisfies the contractual cash flow characteristics (SPPI test).

At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that is consistent with the business model for managing these financial assets on the basis 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 application of the classification and measurement requirements under IFRS (2014) has had no impact on the results and financial position of the Group for the current year.

b. Expected credit losses

In relation to the impairment of financial assets, IFRS 9 requires forward-looking expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new impairment model applies to all financial assets measured at amortized cost (including debts instruments measured at FVTOCI). It also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Details of the Group's impairment method are disclosed in Note 3K below. The impact of the adoption of IFRS 9 impairment model on the Group's financial assets and their carrying values and equity is disclosed in section (d) below.

c. Hedge accounting

IFRS 9 incorporates new hedge accounting rules that align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9. IFRS 9 hedge accounting provisions did not have any transition impact on the Group's consolidated financial statements.

d. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The following table sets out the impact of adopting IFRS 9 (2014) on the statement of financial position and equity from the effect of replacing IAS 39's incurred credit loss calculation with IFRS 9's expected credit loss calculation.

IMPACT OF CHANGE IN CLASSIFICATION AND MEASUREMENT

Except for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at January 1, 2018.

	Classification under IFRS 9 (2010) (December 31, 2017)					Classification under IFRS 9 (2014) (January 1, 2018)	
	Category	Net Carrying Amount	Reclassi-fication	Re-measu-rement ECL	Other	Category	Net Carrying Amount
		LBP'Million	LBP'Million	LBP'Million	LBP'Million		LBP'Million
Financial assets:							
Cash and balances with Central Bank of Lebanon	Amortized cost	1,090,849	-	(5,137)	-	Amortized cost	1,085,712
Due from banks and financial institutions	Amortized cost	191,636	-	(593)	-	Amortized cost	191,043
Financial assets at fair value through profit or loss	FVTPL	2,764	-	-	-	FVTPL	2,764
Loans and advances to customers	Amortized cost	1,170,711	-	1,033	-	Amortized cost	1,171,744
Financial assets at amortized cost	Amortized cost	1,210,467	-	(9,424)	-	Amortized cost	1,201,043
Financial assets at fair value through other comprehensive income	FVOCI	6,384	-	-	-	FVOCI	6,384
Debtors by acceptances	Amortized cost	1,101	-	-	-	Amortized cost	1,101
		3,673,912	-	(14,121)	-		3,659,791
Non-financial liabilities:							
Provision for ECL on financial guarantees and other commitments		-		(1,252)			(1,252)
Net impact on equity				(15,373)			

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 (including interest in suspense on non-performing loans) 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	Re-measurement Impact of IFRS 9	Impairment Allowance Under IFRS 9
	LBP'Million	LBP'Million	LBP'Million
Impairment allowance for:			
Cash and balances with Central Bank of Lebanon	-	5,137	5,137
Due from banks and financial institutions	-	593	593
Loans and advances to customers	90,119	(1,033)	89,086
Financial assets at amortized cost	-	9,424	9,424
	90,119	14,121	104,240
Provision for ECL on financial guarantees and other commitments	-	1,252	1,252
	90,119	15,373	105,492

2.1.2 IFRS 15 Revenue from contracts with customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. The impact of IFRS 15 is not material on the consolidated financial statements of the Group.

2.1.3 Other IFRSs and amendments

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

– Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.

– Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.

– Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

– IFRIC 22 Foreign Currency Transactions and Advance Consideration: The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after January 1, 2018.

2.2 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures:* Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	January 1, 2019
Amendment to IFRS 3 Business Combinations relating to definition of a business	January 1, 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	January 1, 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011): Relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2019. The application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases as described below.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases for period beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in its assets and liabilities by LBP31.6billion with no material impact on its retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:

- Financial assets at fair value through profit or loss,
- Financial assets at fair value through other comprehensive income,
- Land and buildings under property and equipment

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Saradar Bank S.A.L. incorporate the financial statements of the Bank and entities which the Bank controls. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated subsidiaries of the Bank as of December 31, 2018 and 2017 consisted of the following:

		Ownership December 31	
	Business Activity	2018	2017
		%	%
United Group Brokers S.A.R.L. – (Lebanon)	Insurance Brokerage	81.37	81.37
Société Immobilière pour la Construction S.A.L. (Lebanon)	Real Estate	99.99	99.99
CashUnited S.A.L. (Lebanon) Services	Money Transfer Services	70.00	70.00

On April 4, 2019, the Board of Directors of the Bank approved the sale of the entire Bank's shares in CashUnited S.A.L. for a consideration equal to the total invested capital of USD 3,127,000 to Saradar Financial House (Holding) S.A.L. a related party.

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP") which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant since many years.

Transactions in currencies other than Lebanese Pounds (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve under equity. These are recognized in profit or loss on disposal of the net investment.

E. Recognition and Derecognition of Financial Assets and Liabilities:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

Debt Instruments:

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI). Debt instruments which do not meet the amortized cost or FVTOCI criteria are measured at fair value through profit or loss ("FVTPL").

Even if a debt instrument meets the amortized cost or FVTOCI criteria, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets that comprise factoring facilities granted to clients are recognized net of guarantee account held as a margin.

Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

Equity Instruments:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Reclassification:

Debt instruments are reclassified between FVOCI, FVTPL and amortized cost or vice versa, if and only if, the Group's business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date being the next reporting period.

Reclassification is not allowed where:

- the 'other comprehensive income' option has been exercised for an equity financial instrument, or
- the fair value option has been exercised in any circumstance for a financial instrument.

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

H. Financial Liabilities at fair value through profit or loss:

The Group classifies all financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Contingent consideration recognized in a business combination in accordance with IFRS 3.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of are recognized in profit or loss. Such gains or losses that are recognized in profit or loss incorporate any interest paid on the financial liabilities and are included in the "Net interest and gain and loss on liabilities at FVTPL" in the statement of profit or loss. Change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss.

I. Offsetting:

Financial assets and liabilities are set-off and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

J. Fair Value Measurement of Financial Instruments:

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

K. Impairment of Financial Assets from 1 January 2018:

The Group recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- deposits with Central Bank, other banks and financial institutions ;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognized on equity investments.
With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that results from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that results from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group's policy is always to measure loss allowances for lease receivables as lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR).

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down.

For financial guarantee contracts, the ECL is the present value of the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.
The key inputs into the measurements of ECL are:

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

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

Credit-impaired 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

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

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset. This is the case when the Group 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. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

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:

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for financial guarantees' and other commitments contracts: as a provision.

Impairment of Financial Assets before 1 January 2018

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that a loss event has occurred and which will impact the recoverability of the asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collaterals and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at either the individual asset level or collective level for assets with similar characteristics that are not impaired individually.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

L. Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

M. Investments in Associates:

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

N. Property and Equipment:

Land and buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of property and equipment (other than advance payments on capital expenditures) less their residual values, if any, over their useful lives, using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Buildings	40-50
Office improvements and installations	16.6
Computer equipment	5
Furniture, equipment and machinery	12.5
Vehicles	10

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

O. Intangible Assets:

Intangible assets consisting of purchased software, are amortized on a straight-line basis over their useful lives (i.e. 5 years). Intangible assets are subject to impairment testing.

P. Assets acquired in settlement of loans:

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the consolidated statement of profit or loss.

Q. Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The impairment loss is charged to income.

R. Provision for Employees' End-of-Service Indemnity:

The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees' were voluntarily terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the total of the last monthly salary paid plus the monthly average of the last 12 months' other benefits and less contributions paid to the Lebanese Social Security National Fund.

S. Provisions:

Provisions are recognized if, as a result of a past event, the Group 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.

T. Leasing:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

U. Revenue and Expense Recognition:

Interest income and expense are recognized in the income statement applying the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at fair value through profit or loss and interest bearing financial assets measured at fair value through other comprehensive income.

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

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

Other fee and commission income are recognized as the related services are performed.

Interest income, dividend income, realized and unrealized gains or losses, and exchange gain or loss on trading assets measured at fair value through profit or loss are presented separately in the statement of profit or loss.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

V. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Up to October 26, 2017, part of the debt securities invested by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

During 2017, Lebanese tax amendments and new taxes and duties were issued as per Law No. 64 dated October 26, 2017. These amendments include, but are not limited to, an increase in the Lebanese corporate income tax from 15% to 17% to be applied effective on October 27, 2017 onwards. In addition, the above mentioned withheld tax by the issuer is not allowed anymore to be deducted from the annual corporate income tax amount and is considered as a deductible expense for the purpose of calculating the corporate taxable income.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

W. Fiduciary Accounts and Assets Under Management:

Fiduciary accounts and assets under management are held or invested on behalf of individuals and others either on a discretionary or non-discretionary basis and the related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

X. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Bank, deposits with banks and financial institutions, and deposits from banks and financial institutions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

A. Critical accounting judgments in applying the Group's accounting policies:

Classification of Financial Assets:

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

The Group exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group include prepayment terms, provisions to extend the maturity of assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for expected credit losses (Applicable after 1 January 2018)

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

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

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

Impairment loss on loans and advances to customers (Applicable before 1 January 2018):

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in Banks of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios, etc…), concentrations of risks, economic data and the performance of different individual Banks.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3J. For financial instruments that traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

5. CASH AND BALANCES WITH CENTRAL BANK OF LEBANON

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Cash on hand	21,281	17,037
Current accounts with Central Bank of Lebanon	46,562	116,471
Term placements with Central Bank of Lebanon	2,254,713	946,338
Accrued interest receivable	22,315	11,003
Less: Allowance for expected credit losses – note 43	(7,879)	-
	2,336,992	**1,090,849**

In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

As at December 31, 2018, the LBP obligatory reserves stood at LBP21.15billion (2017: LBP35billion) and the foreign currencies reserves stood at LBP405.18billion (2017: LBP370billion).

As at December 31, 2018, term placements in Lebanese Pounds in the amount of LBP655billion (2017: Nil) are blocked against term borrowings with the Central Bank of Lebanon with similar maturity and face amount (note 18).

6. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Current accounts	110,716	136,600
Term placements	23,852	8,588
Reverse repurchase agreements (a)	15,266	36,470
Pledged deposits	273	273
Checks in course of collection from banks	10,757	9,674
Accrued interest receivable	53	31
Less: Allowance for expected credit losses-note 43	(360)	-
	160,557	**191,636**

(a) The Group purchases certificates of deposits issued by the Central Bank of Lebanon under a commitment to resell them (reverse repurchase agreements). The securities are not included in the balance sheet of the Group, as the Group does not acquire the risk and rewards of ownership. Consideration paid (or cash collateral provided), is accounted for as a loan and amounts to LBP15.3billion as at December 31, 2018 (2017: LBP36.5billion).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss stated at LBP2.96billion as at December 31, 2018 (LBP2.76billion as at December 31, 2017) represent the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are reflected at amortized cost and consist of the following:

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Allowance for Expected Credit Loss	Net Carrying Amount	Gross Carrying Amount	Allowance for Impairment	Net Carrying Amount
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Performing loans:						
Corporate & SME	937,260	(7,143)	930,117	805,434	(8,480)	796,954
Factoring facilities	226,494	(2,074)	224,420	199,424	-	199,424
Retail & Personal	131,739	(524)	131,215	131,437	(1,560)	129,877
Credit impaired loans	139,451	(88,519)	50,932	133,709	(80,079)	53,630
Pledged guarantee funds allocated to credit impaired loans (i)	(2,120)	-	(2,120)	(12,376)	-	(12,376)
Accrued interest receivable	3,513	-	3,513	3,202	-	3,202
	1,436,337	**(98,260)**	**1,338,077**	**1,260,830**	**(90,119)**	**1,170,711**

(i) Pledged guarantee funds include LBP1.48billion (2017: LBP12.4billion) deposited by some shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for loans and advances to certain customers. During 2018, the Bank offset an amount of LBP 10.8 billion against corresponding loans as per agreement with the concerned shareholders.

Loans and advances to customers include loans to related parties in the aggregate of LBP42billion as of December 31, 2018 (LBP28.4billion in 2017) which are secured by cash collaterals to the extent of LBP20.7billion (LBP28.3billion in 2017).

The movement of the allowance for expected credit losses (under IFRS 9) during 2018 is disclosed in the Credit Risk section under note 43. The movement of the allowance for impairment of loans and advances to customers (under IAS 39) during 2017 was as follows:

	2017
	LBP'Million
Balance at January 1	101,073
Recoveries (net)	(17,693)
Write-offs	(453)
Interest in suspense	7,192
Balance at December 31	**90,119**

The allowance for impairment includes interest in suspense on non-performing loans in the amount of LBP69.8billion as of December 31, 2017 (LBP62.6billion as of January 1, 2017).

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Certificates of deposit issued by Central Bank of Lebanon	42,702	330,815
Lebanese treasury bills	442,686	409,493
Lebanese government Eurobonds	295,212	468,649
Lebanese corporate bonds	2,274	1,510
	782,874	1,210,467
Less: Allowance for expected credit losses-note 43	(5,328)	-
	777,546	**1,210,467**

(a) The Group entered into sales transactions for the purpose of liquidity gap management, exchange of certificates of deposits and Eurobonds, and currency risk management as a result of change in the currency base of client deposits. Resulting gains and losses recognized in the statement of profit or loss under "(Loss)/gain from derecognition of financial assets at amortized cost" were as follows:

	2018	2017
	LBP'Million	LBP'Million
Certificates of deposit issued by Central Bank of Lebanon	-	2,380
Lebanese government Eurobonds	(61)	3,080
Lebanese treasury bills	-	68
	(61)	**5,528**

(b) Lebanese treasury bills maturing on November 17, 2022 and amounting to LBP138.5billion have been pledged against soft loan from the Central Bank of Lebanon with similar maturity and face amount (note 18).

(c) Lebanese Treasury bills amounting to LBP199.66billion (LBP124.46billion in 2017) are pledged against term borrowings with the Central Bank of Lebanon (note 18).

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2018		
	Cost	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'Million	LBP'Million	LBP'Million
Unquoted equity securities	**925**	**5,355**	4,430
Deferred tax liability			(755)
			3,675

	December 31, 2017		
	Cost	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'Million	LBP'Million	LBP'Million
Unquoted equity securities	**877**	**6,384**	5,507
Deferred tax liability			(826)
			4,681

The movement of financial assets at fair value through other comprehensive income during 2018 and 2017 was as follows:

	2018	2017
	LBP'Million	LBP'Million
Balance at January 1	6,384	6,380
Additions	48	-
Disposals	-	-
Change in fair value	(1,077)	4
Balance at December 31	**5,355**	**6,384**

11. DEBTORS BY ACCEPTANCES

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

12. INVESTMENT IN AN ASSOCIATE

	Country of Incorporation	Interest Held	December 31 2018 Carrying Value	December 31 2017 Carrying Value
		%	LBP'Million	LBP'Million
Vitas S.A.L.	Lebanon	49	12,191	10,863
			12,191	10,863

The summarized financial information of the associate as of December 31, 2018 and 2017 is provided below:

	December 31 2018	December 31 2017
	LBP'Million	LBP'Million
Total assets	81,414	59,486
Total liabilities	62,202	43,284
Net assets	19,212	16,202
Net profit for the year	3,904	2,976
Group's share of net assets	9,598	7,876
Group's share of net profit	1,722	567

The movement of investment in an associate is as follows:

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Balance at January 1	10,863	10,296
Share in profit of an associate	1,722	567
Dividend distribution	(394)	-
Balance at December 31	12,191	10,863

13. ASSETS ACQUIRED IN SETTLEMENT OF LOANS

Assets acquired in settlement of loans represent real estate and shares acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in settlement of loans during 2018 and 2017 was as follows:

	Land	Shares	Total
	LBP'Million	LBP'Million	LBP'Million
Cost:			
Balance at January 1, 2017	32,970	8,006	40,976
Transfer from other assets	316	-	316
Disposals	(340)	-	(340)
Balance at December 31, 2017	32,946	8,006	40,952
Additions	3,106	-	3,106
Disposals	(132)	-	(132)
Balance at December 31, 2018	35,920	8,006	43,926

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% of the gross cost for certain assets when the Group meets certain conditions linked to the restructuring of non-performing loans' portfolio and for the outstanding assets which their liquidation period ends after July 20, 2018. This regulatory reserve is reflected in "Non-distributable reserves" under equity (note 26). Gains or losses on liquidation are recognized in the statement of profit and loss.

The fair value of the Group's assets acquired in settlement of loans amounted to approximately LBP73billion as at December 31, 2018 (LBP69billion as at 31 December 2017) which has been arrived at on the basis of a valuation carried out in November 2015 and February 2016 by licensed independent real estate appraisers having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

14. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2018 and 2017 was as follows:

	Land and Buildings	Furniture, Fixtures and Motor Vehicles	Computer Equipment	Installations and Improvement	Office Equipment	Work-in Progress	Electrical Equipment	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cost or valuation:								
Balance at January 1, 2017	60,690	2,358	6,509	12,217	4,014	2,079	617	88,484
Additions	-	260	370	331	474	5,028	-	6,463
Disposals	(832)	(79)	(61)	-	(100)	-	-	(1,072)
Write offs	-	-	-	(702)	(120)	-	-	(822)
Balance at December 31, 2017	59,858	2,539	6,818	11,846	4,268	7,107	617	93,053
Additions	-	146	1,096	426	291	7,335	-	9,294
Transfers	-	538	798	6,583	1,355	(9,378)	-	(104)
Write offs	-	(15)	-	(629)	(60)	-	-	(704)
Balance at December 31, 2018	59,858	3,208	8,712	18,226	5,854	5,064	617	101,539
Accumulated Depreciation:								
Balance at January 1, 2017	(7,375)	(1,413)	(5,321)	(7,319)	(3,156)	-	(617)	(25,201)
Depreciation	(1,350)	(165)	(508)	(567)	(173)	-	-	(2,763)
Disposals	20	77	61	-	26	-	-	184
Related to write offs	-	-	-	350	75	-	-	425
Balance at December 31, 2017	(8,705)	(1,501)	(5,768)	(7,536)	(3,228)	-	(617)	(27,355)
Depreciation	(1,410)	(176)	(553)	(670)	(216)	-	-	(3,025)
Related to write offs	-	6	-	500	60	-	-	566
Balance at December 31, 2018	(10,115)	(1,671)	(6,321)	(7,706)	(3,384)	-	(617)	(29,814)
Net Carrying Value:								
At December 31, 2018	49,743	1,537	2,391	10,520	2,470	5,064	-	71,725
At December 31, 2017	51,153	1,038	1,050	4,310	1,040	7,107	-	65,698

During 2017, the Group sold a plot located in Tripoli, Lebanon with a book value of LBP813million inclusive of a revaluation surplus of LBP724million for a total consideration of LBP603million. Upon disposal, a revaluation adjustment amounting to LBP211million was recorded in other comprehensive income; remaining surplus amounting to LBP513million was transferred to retained earnings.

During 2016, the Group revalued its owned real estate properties which resulted in a revaluation surplus of LBP34billion recorded under "owned buildings revaluation surplus" under equity, net of applicable tax. The fair value of the revalued properties has been arrived at on the basis of a valuation carried out in 2016 by licensed independent real estate appraisers having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The revaluation was approved by the Central Bank of Lebanon in May 2016.

15. INTANGIBLE ASSETS

Intangible assets represent purchased software and software under development during 2018 and 2017 was as follows:

	Software
	LBP'Million
Cost:	
Balance at January 1, 2017	10,475
Acquisitions	6,753
Balance at December 31, 2017	17,228
Acquisitions	2,745
Write offs	(1,096)
Transfers	104
Balance at December 31, 2018	18,981
Amortization:	
Balance at January 1, 2017	(3,182)
Amortization	(423)
Balance at December 31, 2017	(3,605)
Amortization	(1,678)
Related to write offs	1,070
Balance at December 31, 2018	(4,213)
Net Carrying Value:	
At December 31, 2018	14,768
At December 31, 2017	13,623

16. OTHER ASSETS

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Prepayments	5,994	4,803
Medical costs due from National Social Security Fund (a)	3,976	3,477
Assets in process of acquisition in settlement of loans	719	248
Salaries paid in advance	42	613
Sundry account receivables	5,215	4,158
	15,946	13,299

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to its employees.

17. GOODWILL

Goodwill is the amount of LBP1,988million resulting from the acquisition of the entire shares of Near East Commercial Bank (NECB) during 2015 and includes an amount of LBP748million relating to CashUnited S.A.L.

18. DUE TO THE CENTRAL BANK OF LEBANON

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Soft loan (a)	112,751	106,202
Leverage arrangements (b)	854,920	124,460
Subsidized loans (c)	39,884	17,124
Other current accounts	232	903
Accrued interest payable	2,657	660
	1,010,444	249,349

(a) On June 16, 2016, and as a result of the merger with NECB, the Group was granted a soft loan denominated in Lebanese Pound in the amount of LBP138.5billion from Central Bank of Lebanon for a period of 6.5 years maturing on November 17, 2022, carrying interest at the rate of circa. 1.41%. The loan was earmarked to purchase Lebanese Treasury Bills of the same face amount and maturity and which are pledged as security against the loan. The soft loan is presented net of a discount resulting from the present value of net future cash flows. The discount represents the subsidy granted by BDL through the soft loan pursuant to article 6 of law 192/93 and related decree 1423 dated 23 February 2009 (note 22).

(b) Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate of 2% per annum and having maturities ranging between 2022 and 2028 (2017: interest rate of 2% per annum and having maturities ranging between 2022 and 2027) fully invested in pledged Lebanese treasury bills and blocked term placements with Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5% per annum broken down as follows:

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Term placements with Central Bank of Lebanon- note 5	655,255	-
Lebanese treasury bills- note 9	199,665	124,460
	854,920	124,460

Simultaneously the Group has further deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies) aggregating the equivalent of LBP653billion as of 31 December 2018 (2017: LBP 100billion) carrying the same maturities.

(c) Following the Central Bank of Lebanon issued intermediate circulars 313, 331 and 318, the Central Bank of Lebanon granted the Group facilities amounting to LBP40billion (2017: LBP17billion). Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis.

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Current deposits	38,256	2,286
Current deposits – related parties	235	685
Term deposits	56	17,967
Term deposits – related parties	10,031	6,939
Accrued interest payable	1	112
Accrued interest payable-related parties	84	-
	48,663	27,989

20. DEPOSITS FROM CUSTOMERS

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Current/demand deposits	132,243	167,369
Term deposits	2,652,567	2,595,662
Collateral against loans and advances	156,842	135,192
Deposits from factoring activities	4,102	12,138
Margins for irrevocable import letters of credit	68,118	307
Margins on letters of guarantee	2,808	3,022
Other margins	5,919	5,131
Accrued interest payable	21,624	17,525
	3,044,223	2,936,346

21. DEPOSITS FROM RELATED PARTIES

	2018	2017
	LBP'Million	LBP'Million
Current/demand deposits	29,660	15,605
Term deposits	197,206	122,132
Collateral against loans and advances	20,616	27,335
Margins on letters of guarantee	168	32
Accrued interest payable	1,083	811
	248,733	165,915

22. OTHER LIABILITIES

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Escrow account (a)	8,583	-
Deferred income – Subsidy from the Central Bank of Lebanon (b)	16,997	19,900
Accrued expenses	10,628	11,977
Withheld taxes payable	4,104	4,600
Due to the National Social Security fund	346	406
Due to shareholders (c)	8,141	8,141
Sundry creditors	13,013	11,761
	61,812	56,785

(a) In its meeting held on July 24, 2018, the Extraordinary General Assembly of the Bank's shareholders approved the granting of additional cash contribution to capital in an amount of USD40million. The Bank will pay a return on these contributions at the rate of 7% per annum, which shall be resolved by a general assembly of shareholders and paid out of free profits approved by the Banking Control Commission. In November 2018, the Bank received BDL's preliminary approval on the transaction which subject to the liquidation of the excess fixed credit foreign exchange position resulting from this transaction and completion of certain formalities. The cash contribution is allowed for recognition as Tier I for the purpose of computation of the risk-based capital ratio. In this respect, an aggregate amount of LBP8.59billion was deposited by certain shareholders in an escrow account as of December 31, 2018. As of date of the approval of these financial statements the balance of this escrow account amounted to LBP38.74billion.

(b) The Central Bank of Lebanon granted the Bank a subsidy equivalent to USD28.1million or LBP42.36billion in lieu of a) the value of the merged bank's license to be cancelled due to the merger, b) the additional compensations paid to the merged bank's employees whose employment contracts have been terminated capped at the limit specified in Law 192/93, and c) a lump sum compensation for costs resulting from the merger operation computed per article 2 of Decree 1423. The subsidy was granted by way of granting the Bank a soft loan at below-market rate of interest.

The Bank is recognizing deferred income on a systematic and rational basis against merger expenses incurred. During the year ended December 31, 2018, the Bank recognized LBP 2.9billion reflected in the statement of profit or loss under "Other income" (note 36) to match merger related costs in the amount of LBP2.9billion (LBP5.14billion during the year ended December 31, 2017).

(c) Some of the Bank's shareholders agreed to purchase shares acquired in settlement of loans (note 13) at carrying value as at initial acquisition date as part of the merger deal between the Bank and NECB completed on June 1, 2016 and thus no impairment allowance was set up on these shares as at December 31, 2018 and 2017. This transaction is still pending certain legal formalities.

23. PROVISIONS

	December 31 2018 LBP'Million	December 31 2017 LBP'Million
Provision for employees' end-of-service indemnity	7,304	8,724
Provision for loss on foreign currency position	45	45
Provision for contingencies	1,625	2,137
Provision for ECL on financial guarantees and other commitments-note 43	2,027	-
Provision for lawyers' indemnity	100	612
	11,101	11,518

The movement of provisions is summarized as follows:

	Provision for Employees End-of-Services Indemnity LBP'Million	Provision for Contingencies LBP'Million	Provision for Lawyer Indemnities LBP'Million	Provision for ECL on Financial Guarantees and other Commitments LBP'Million	Provision for Loss on Foreign Currency Position LBP'Million	Total LBP'Million
Balance at January 1, 2017	4,755	78	52	-	45	4,930
Provision for employees' end of service indemnity (note 33)	3,319	-	-	-	-	3,319
Provision for severance packages	1,206	-	-	-	-	1,206
Provisions for contingencies	-	2,111		-	-	2,111
Provision for lawyer's indemnity	-	-	560	-	-	560
Settlements	(556)	(52)	-	-	-	(608)
Balance at December 31, 2017	8,724	2,137	612	-	45	11,518
Impact of IFRS 9 at January 1, 2018 (note 2)	-	-	-	1,252	-	1,252
Provisions for employees' end of service indemnity (note 33)	637		-	-	-	637
Provisions for contingencies	-	64		-	-	64
Provisions for ECL on financial guarantees and other commitments (note 32)	-	-	- -	775	-	775
Settlements	(2,057)	(576)	(512)	-	-	(3,145)
Balance at December 31, 2018	7,304	1,625	100	2,027	45	11,101

24. SHARE CAPITAL

The capital of the Bank amounting to LBP10.6billion as at December 31, 2018 and 2017 is composed of 10,600,000 shares of LBP1,000 par value each, authorized, issued and fully paid. Premium on these shares amounts to LBP34.98billion as at 31 December 2018 and 2017.

25. CASH CONTRIBUTION TO CAPITAL

Cash contribution to capital is interest free and amounts to LBP202.9billion (USD134.6million) as at December 31, 2018 and 2017. The contribution is interest free and was made by the shareholders to support the Bank in developing its activities. According to local banking laws and regulations, shareholders' cash contribution to capital is considered as Common Equity Tier I for the purpose of computation of the risk-based capital ratio.

26. NON DISTRIBUTABLE RESERVES

The movement of reserves during 2018 and 2017 was as follows:

	Reserve for Unspecified Banking Risk	Legal Reserve	General Reserves	Regulatory Reserves for Profit on Sale of Assets Acquired in Settlement of Loans	Regulatory Reserves for Assets Acquired in Settlement of Loans	Other Reserves	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance at January 1, 2017	9,188	1,451	11	581	216	40,000	51,447
Appropriation of 2016 profit	-	539	-	-	-	-	539
Balance at December 31, 2017	9,188	1,990	11	581	216	40,000	51,986
Impact of IFRS9 adoption	(2,362)	-	-	-	-	(12,950)	(15,312)
Restated balance at January 1, 2018	6,826	1,990	11	581	216	27,050	36,674
Appropriation of 2017 profit	8,874	1,581	-	2,853	1,985	-	15,293
Transfers to general reserves	(15,700)	-	42,750	-	-	(27,050)	-
Balance at December 31, 2018	-	3,571	42,761	3,434	2,201	-	51,967

Legal reserve:

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit. This reserve is not available for distribution.

Regulatory reserve for assets acquired in settlement of loans:

In compliance with the Central Bank of Lebanon basic circular no. 78, banks are required to appropriate from retained earnings an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt, in case the Bank failed to liquidate the properties within 2 years from the date of acquisition. This reserve is not considered as part of the Bank's Tier Capital and is not available for distribution (note 13).

General Reserves:

According to the Central Bank of Lebanon Main Circular 143, the Bank is required to transfer to general reserves the balance of reserves for Unspecified Banking Risk and Other Reserves amounting to LBP 42,750million. This reserve is part of the Group's equity and is not available for distribution.

27. OWNED BUILDINGS REVALUATION SURPLUS

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Bank premises	14,665	14,665
Subsidiary owned properties (SIPC)	35,838	35,838
	50,503	50,503

According to local banking regulations, 50% of the revaluation surplus of owned premises is eligible to be incorporated in Tier II capital for the purpose of computation of the risk based capital ratio.

28. INTEREST AND SIMILAR INCOME

	2018	2017
	LBP'Million	LBP'Million
Balances with Central Bank of Lebanon	67,869	33,992
Due from banks and financial institutions	2,737	2,299
Financial assets at amortized cost	75,037	74,477
Loans and advances to customers	82,880	61,349
Loans and advances to related parties	1,182	594
Factoring activities	19,750	15,812
	249,455	188,523
Withheld tax on interest	(7,332)	(776)
	242,123	187,747

29. INTEREST AND SIMILAR EXPENSE

	2018	2017
	LBP'Million	LBP'Million
Due to the Central Bank of Lebanon	13,175	9,353
Due to banks and financial institutions	879	2,965
Deposits from customers	172,236	129,226
Deposits from related parties	8,266	4,981
	194,556	146,525

30. FEE AND COMMISSION INCOME

	2018	2017
	LBP'Million	LBP'Million
Service fees on customers' transactions	15,536	13,232
Factoring fees	5,717	6,039
Commission on documentary credits	881	200
Commission on letters of guarantee	1,443	1,239
Asset management fees	1,341	2,635
	24,918	23,345

31. OTHER OPERATING INCOME

	2018	2017
	LBP'Million	LBP'Million
Dividends on financial assets at fair value through other comprehensive income	143	52
Net foreign exchange gains	2,057	2,074
	2,200	2,126

32. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2018	2017
	LBP'Million	LBP'Million
Balances with Central Bank of Lebanon	(2,742)	-
Due from banks and financial institutions	235	-
Loans and advances to customers	(3,404)	17,693
Financial assets at amortized cost	4,096	-
Financial guarantees and other commitments	(775)	-
	(2,590)	17,693

33. STAFF COSTS

	2018	2017
	LBP'Million	LBP'Million
Salaries and related benefits	28,951	33,602
Schooling allowances	548	945
Transportation	1,024	950
Social security contribution	3,873	3,788
Provision for staff indemnity costs (Note 23)	637	3,319
Board of Directors remuneration fees	531	510
Representation fees	506	552
Other benefits	1,439	1,248
	37,509	44,914

34. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
	LBP'Million	LBP'Million
Rent and rental expenses	7,007	6,730
Professional and consultancy fees	3,432	5,169
Maintenance and repairs	2,753	2,158
Printings, subscriptions and stationery	2,099	2,297
IT outsourcing expense	4,562	2,766
Insurance	1,012	1,317
Premium of guarantee of deposits	1,549	1,241
Communication and marketing fees	2,160	1,811
Fines and taxes	526	1,136
Telecommunication expenses	900	743
Electricity and fuel	117	478
Transportation and travel	470	371
Other expenses	931	1,275
	27,518	27,492

35. PROVISIONS

	2018	2017
	LBP'Million	LBP'Million
Provision for contingencies (Note 23)	64	2,111
Provision for lawyers' indemnity (Note 23)	-	560
	64	2,671

36. OTHER (EXPENSES)/INCOME, NET

	2018	2017
	LBP'Million	LBP'Million
Recognition of surplus from special transactions with Central Bank of Lebanon	-	2,856
Recognition of deferred income – subsidy from Central Bank of Lebanon (note 22)	2,904	5,144
Staff severance indemnities (a)	(5,036)	(1,974)
Other income, net	492	469
	(1,640)	6,495

(a) Represents compensations paid to certain terminated employees as a result of the restructuring of certain branches.

37. INCOME TAX

The reconciliations between average effective tax rate and enacted tax rates is summarized as follows:

	2018	2017
	LBP'Million	LBP'Million
Profit before tax	2,474	17,686
Non-deductible expenses	6,603	16,082
Non-taxable income	(8,526)	(29,225)
Taxable income	551	4,543
Income tax based on enacted rate- 17% (15.36% in 2017)	94	698
Excess tax paid on interest (5%) (Non-refundable)	-	1,779
	94	2,477
Property tax (subsidiary)	50	45
Total income tax expense	144	2,522
Tax paid during the year	-	(2,368)
Tax payable as at December 31	144	154

The tax returns of Near East Commercial Bank S.A.L., for the years 2014 and up to May 31, 2016 (merger date) are currently being examined by the tax authorities. Any additional tax liability depends on the result of this review and will be borne by the Group.

The tax returns of Saradar Bank S.A.L. since year 2014 (inclusive) remains subject to examination and final review by the tax authorities. Any additional tax liability depends on the results of these reviews.

The tax returns of the remaining subsidiaries for the years 2014 until 2018 remain subject to examination and final assessment by the tax authorities.

The Group’s social security declarations are still subject to review by the National Social Security Fund since 1997.

Management believes that the effect of reviews to be conducted by regulatory authorities on open years will not have a significant effect on the consolidated financial statements.

38. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the statement of financial position. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

	December 31	
	2018	2017
	LBP’Million	LBP’Million
Documentary and commercial letters of credit	53,624	13,701
Guarantees and standby letters of credit	86,056	85,939

39. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

	December 31	
	2018	2017
	LBP’Million	LBP’Million
Back-to-back lending	54,691	15,020
Assets under management	305,639	319,394
	360,330	334,414

40. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, and related companies. Balances with related parties consist of the following:

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
Unsecured loans and advances	5,856	6,950
Loans and advances against real estate mortgage	1,063	-
Loans and advances against cash collateral	9,035	7,267
Deposits	110,490	94,073
Indirect facilities:		
Letters of guarantee	5	6
Related companies:		
Direct facilities and credit balances:		
Unsecured loans and advances	15,026	274
Loans and advances against cash collateral	11,025	13,904
Deposits	148,593	79,466
Indirect facilities:		
Letters of guarantee	1,288	515

As of December 31, 2018, pledged guarantee funds amounting to LBP 1.48 billion (2017: LBP 12.4 billion) were deposited by some shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for loans and advances to certain customers. During 2018, the Bank offset an amount of LBP 10.8 billion against corresponding loans as per agreement with the concerned shareholders.

Interest income from loans and advances to related parties amounted to LBP1.2billion for 2018 (2017: LBP0.6billion).

Interest expense on deposits from related parties amounted to LBP8.3billion during 2018 (2017: LBP5 billion).

Secured loans and advances are covered by pledged deposits to the extent of LBP20.7billion as of December 31, 2018 (LBP27.3billion in 2017).

During 2018, the Bank granted a loan to Vitas S.A.L., an associate, in the amount of LBP15billion under BDL Intermediate Circular 313, subject to interest at the rate of 4% per annum and mature on December 31, 2025.

Executive management and the Board of Directors benefits for the year were as follows:

	2018	2017
	LBP'Million	LBP'Million
Short term benefits	7,965	9,107
End of service benefits	73	1,056
	8,038	10,163

Advisory commission income received from Sarinvest Holding Limited amounted to LBP69million during the year ended December 31, 2017 (LBP49million during the year ended December 31, 2016).

Advisory commission income received from Sarinvest Holding Limited amounted to LBP73million during the year ended December 31, 2018 (LBP69million during the year ended December 31, 2017).

During 2018, dividends received from Vitas S.A.L., an associate, amounted to LBP394million (Nil during 2017).

Related party expenses incurred during the year were as follows:

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Rent expense	3,368	3,463
Building charges	397	14
Subscription fees	231	250
Membership fees	23	61
Travel expenses	242	301
Office aid services	86	164
Financial advisory services	352	166
	4,699	4,419

Advance payment to Conseil et Gestion Immobilière S.A.L. (a related party) for construction and renovation services amounted to LBP3,647million as at 31 December 2018 (LBP2,160million in 2017 of which LBP364million were expensed during the year 2017).

During the year 2017, the Group paid to Saradar Family Office S.A.L. commission fees amounting to LBP254million related to the acquisition of Vitas S.A.L.

On January 16, 2014, the Group signed a rent contract with Clover Building S.A.L. (an entity under common control) to rent sections 14 to 19 and portion of section 22 of Clover Building property, Rmeil, plot number 144, for the period from January 16, 2014 to January 15, 2024. The annual rental fees were subject to (i) a fixed increase of 3% in the second and third years, (ii) 5% increase for the remaining 7 years. The contract can be terminated by the lessee at the end of the third year.

41. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the consolidated statement of cash flows consist of the following:

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Cash on hand	21,281	17,037
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	25,410	81,471
Current accounts with banks and financial institutions	110,716	136,600
Reverse repurchase agreements	15,266	-
Term placements with banks and financial institutions	23,853	8,588
Checks in course of collection	10,757	9,674
	207,283	253,370

Term placements with banks and financial institutions represent inter-bank placements with an original term of 90 days or less.

The following activities that represent non-cash items were excluded from the statement of cash flows:

- Negative change in fair value of investment securities at fair value through other comprehensive income of LBP1billion and related deferred tax liability of LBP78million against investment securities.
- Assets acquired in settlement of loans in the amount of LBP3billion against loans and advances to customers.

42. CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business, retain sufficient financial strength and flexibility to support new business growth, and meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon.

The Group's capital is split as follows:

TIER I CAPITAL: Comprises share capital, shareholders' cash contribution to capital, share premium, reserves from appropriation of profits, and retained earnings.

TIER II CAPITAL: Comprises 50% of the cumulative change in fair value of investment securities at fair value through other comprehensive income and revaluation surplus of owned properties approved by the Central Bank of Lebanon. It also comprises the allowance for expected credit losses calculated for stage 1 under IFRS 9 requirements.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
December 31, 2018	10.00%	13.00%	15.00%

The Group's capital adequacy ratio is determined at consolidation basis and was as follows:

	December 31	
	2018	2017
	LBP'Million	LBP'Million
Common equity Tier I	277,712	279,711
Tier II capital	48,748	29,184
Total regulatory capital (Tier I + Tier II)	326,460	308,895
Credit risk	2,276,041	2,332,799
Market risk	24,465	20,079
Operational risk	128,701	91,791
Total Risk-weighted assets	2,429,207	2,444,669
Common Equity Tier I Ratio	11.43%	11.44%
Tier I Ratio	11.43%	11.44%
Total Capital Ratio	13.44%	12.64%

As disclosed in note 22, in its meeting held on July 24, 2018, the Extraordinary General Assembly of the Group's shareholders approved the granting of additional cash contribution to capital. The cash contribution is allowed for recognition as Tier I for the purpose of computation of the risk-based capital ratio.

As of December 31, 2018 an aggregate amount of LBP8.59billion was deposited by certain shareholders in an escrow account. As of date of the approval of these financial statements the balance of this escrow account amounted to LBP38.74billion which was used for calculating the risk-based capital ratio below:

	December 31	
	2018	2017
Common Equity Tier I Ratio	11.43%	11.44%
Tier I Ratio	13.03%	11.44%
Total Capital Ratio	15.03%	12.64%

43. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The risk management framework is briefly outlined as follows:

The Board of Directors

The Board of Directors, through the General Management Committee is responsible for establishing the Group's goals and objectives and overseeing the establishment, implementation and review of the Group's risk management system.
The Chairman of the Board and the Managing Director is responsible for the efficient functioning of the corporate governance structure and for developing the Group's risk strategies that direct the Group's ongoing activities to achieve goals and objectives.

The Risk Management Unit

The Risk Management Unit is responsible for drawing a risk management strategy that addresses identified risks such as credit risk on a portfolio level, liquidity risk and interest rate risk in the banking book and operational risk. It cooperates with the Group's managers at all levels across the organization namely, the Credit Risk Management Department, the Capital Market, the Treasury Department, the Financial Department and the Internal Audit Department and the Information Technology Department.

A. CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. It arises principally from the Group's loans and advances, due from banks and financial institutions, non-trading debt investments, and certain other assets. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.
Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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 of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.
Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the departments, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.
In measuring credit risk for loans and advances, the Group considers the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdue and related reasons and the counterparty's financial position;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

EXPECTED CREDIT LOSSES

Model risk management

The Group has utilized models in its Expected Credit Loss (ECL) estimation under the IFRS 9 accounting standards. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk through monitoring the performance of the model, and proposing post-model adjustments to address model weaknesses or to account for situations where known or expected risk factors and information have not been considered in the modelling process.

Definition of default and cure

The Group may consider a financial asset in default when:

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

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 Group for regulatory capital purposes.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specified period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is made on a case by case basis and depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The Group's internal rating and PD estimation process

The Group's independent Credit Risk Department operates its internal rating methodology. The Group rates its customers based on both qualitative and quantitative information and, in addition to information specific to the borrower, based on supplemental external information that could affect the borrower's behavior. The grades generated by internal rating models are mapped to PDs using historical default observations that are specific to each loan portfolio. Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Loss given default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD term structure based on current collateral and recovery costs that is integral to the financial asset. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Significant increase in credit risk (SICR)

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition using reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

Expected life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group formulates three economic scenarios: a base case, which is the median scenario and two less likely scenarios, one upside and one downside. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The forecast of these three scenarios including the weight attributable to each scenario are determined by an expert credit judgement. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

The Group has identified the GDP growth as the key driver of credit risk. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material.

Overview of modified and forborne loans

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 derecognized and the renegotiated loan recognized as a new loan at fair value. When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).
Forbearance is when the Group renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case by case basis.

FINANCIAL ASSETS AND ECLS BY STAGE

	Gross Exposure				Impairment Allowance				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net Exposure
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
December 31, 2018									
Cash and balances with Central Bank of Lebanon	2,344,871	-	-	2,344,871	(7,879)	-	-	(7,879)	2,336,992
Due from banks and financial institutions	160,917	-	-	160,917	(360)	-	-	(360)	160,557
Loans and advances to customers	1,141,344	157,636	137,331	1,436,337	(5,730)	(4,011)	(88,519)	(98,260)	1,338,077
Financial assets at amortized cost	782,874	-	-	782,874	(5,328)	-	-	(5,328)	777,546
Financial guarantees and other commitments	121,022	19,716	-	140,738	(200)	(1,827)	-	(2,027)	138,711
	4,551,028	177,352	137,331	4,865,737	(19,497)	(5,838)	(88,519)	(113,854)	4,751,883

	Gross Exposure				Impairment Allowance				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net Exposure
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
January 1, 2018									
Cash and balances with Central Bank of Lebanon	1,090,849	-	-	1,090,849	(5,137)	-	-	(5,137)	1,085,712
Due from banks and financial institutions	191,636	-	-	191,636	(593)	-	-	(593)	191,043
Loans and advances to customers	918,036	221,461	121,333	1,260,830	(4,149)	(4,858)	(80,079)	(89,086)	1,171,744
Financial assets at amortized cost	1,210,467	-	-	1,210,467	(9,424)	-	-	(9,424)	1,201,043
Financial guarantees and other commitments	72,217	27,423	-	99,640	(96)	(1,156)	-	(1,252)	98,388
	3,483,205	248,884	121,333	3,853,422	(19,390)	(6,023)	(80,079)	(105,492)	3,747,930

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

	Stage 1	Stage 2	Stage 3	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Balance at January 1	4,149	4,858	80,079	89,086
Net re-measurements and reallocations	1,581	(847)	2,670	3,404
Write offs	-	-	(662)	(662)
Interest in suspense	-	-	6,432	6,432
Balance at December 31	5,730	4,011	88,519	98,260

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

The allowance for impairment includes interest in suspense on non-performing loans in the amount of LBP72billion as of December 31, 2018 (LBP69.8billion as of January 1, 2018).

ANALYSIS OF RISK CONCENTRATIONS

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The Group focuses its lending activity to the Lebanese sector with very limited exposure to countries outside of Lebanon.
The maximum on balance sheet credit exposure to any client or counterparty as of December 31, 2018 was LBP88.76billion (2017: LBP71.56billion), before taking into account collaterals or other credit enhancements, and LBP7.36billion (2017: LBP5.23billion) net of such protection.

Geographical location analysis (where applicable, Lebanon and Foreign)

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of December 31, 2018 and 2017 is as follows:

	December 31, 2018			December 31, 2017		
Financial Assets	Lebanon	Overseas	Total	Lebanon	Overseas	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and balances with Central Bank of Lebanon	2,336,992	-	2,336,992	1,080,572	10,277	1,090,849
Due from banks and financial institutions	33,709	126,848	160,557	58,550	133,086	191,636
Loans and advances to customers	1,256,790	81,287	1,338,077	1,116,690	54,021	1,170,711
Financial assets at amortized cost	777,546	-	777,546	1,210,467	-	1,210,467
Debtors by acceptances	583	26,393	26,976	501	600	1,101
	4,405,620	234,528	4,640,148	3,466,780	197,984	3,664,764
Documentary and commercial letters of credit	35,756	17,868	53,624	500	13,201	13,701
Guarantees and standby letters of credit	86,779	335	87,114	85,601	338	85,939

Industrial Analysis

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as of December 31, 2018 and 2017 is as follows:

December 31, 2018

	Sovereign	Consumer Loans	Financial Service	Real Estate Development and Trading	Consumer Goods Trading and Services	Manufacturing Industries	Recreational and Health Services	Other	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and balances with Central Bank of Lebanon	2,336,992	-	-	-	-	-	-	-	2,336,992
Due from banks and financial institutions	-	-	160,557	-	-	-	-	-	160,557
Loans and advances to customers	-	89,513	126,947	423,574	298,457	152,501	107,153	139,932	1,338,077
Financial assets at amortized cost	775,292	-	2,254	-	-	-	-	-	777,546
Debtors under acceptances		313	-	143	26,393	-	-	127	26,976
	3,112,284	89,826	289,758	423,717	324,850	152,501	107,153	140,059	4,640,148
Documentary and commercial letters of credit	-	-	2,763	5,733	31,117	5,803	-	8,208	53,624
Guarantees and standby letters of credit	-	-	1,666	44,879	7,144	2,436	397	30,592	87,114

December 31, 2017

	Sovereign	Consumer Loans	Financial Service	Real Estate Development and Trading	Consumer Goods Trading and Services	Manufacturing Industries	Recreational and Health Services	Other	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Cash and balances with Central Bank of Lebanon	1,090,849	-	-	-	-	-	-	-	1,090,849
Due from banks and financial institutions	-	-	191,636	-	-	-	-	-	191,636
Loans and advances to customers	-	132,237	60,435	346,790	264,187	104,079	136,349	126,634	1,170,711
Financial assets at amortized cost	1,208,959	1,508	-	-	-	-	-	-	1,210,467
Debtors under acceptances	-	-	38	-	696	-	-	367	1,101
	2,299,808	133,745	252,109	346,790	264,883	104,079	136,349	127,001	3,664,764
Documentary and commercial letters of credit	-	-	1,510	531	10,852	733	75	-	13,701
Guarantees and standby letters of credit	-	1,050	1,542	42,682	6,781	3,272	491	30,021	85,839

Collateral and other credit enhancements

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

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

Below are the details of the Group's gross exposure to credit risk with respect to loans and advances to customers (excluding accrued interest receivable):

December 31, 2018

		Fair Value of Collateral Received		
	Gross Exposure	Cash Collateral	Mortgage of Property	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Corporate and SME	937,260	93,648	257,893	351,541
Factoring facilities	226,494	-	-	-
Retail and Personal	131,739	23,320	74,614	97,934
Credit impaired	139,451	330	19,661	19,991
	1,434,944	**117,298**	**352,168**	**469,466**

December 31, 2017

		Fair Value of Collateral Received		
	Gross Exposure	Cash Collateral	Mortgage of Property	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million
Corporate and SME	805,434	52,044	182,638	234,682
Factoring facilities	199,424	-	-	-
Retail and Personal	131,437	18,518	72,393	90,911
Credit impaired	133,709	12,376	21,597	33,973
	1,270,004	**82,938**	**276,628**	**359,566**

Credit quality

The table below shows the credit quality of the Group's loans and advances to customers based on internal credit ratings and stage classification. The amounts presented are gross of impairment allowances (excluding accrued interest receivable).
Credit quality descriptions can be summarized as follows:

- High: there is a very high likelihood of the asset being recovered in full.
- Standard: while there is a high likelihood that the asset will be recovered and therefore, of no cause for concern to the Group, the asset may not be collateralized, or may relate to unsecured retail facilities. At the lower end of this grade there are customers that are being more carefully monitored, for example, corporate customers which are indicating some evidence of deterioration, mortgages with a high loan to value, and unsecured retail loans operating outside normal product guidelines.
- Weak: there is concern over the obligor's ability to make payments when due. However, these have not yet converted to actual delinquency. There may also be doubts over the value of collateral or security provided. However, the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	December 31,2018				December 31, 2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	LBP'Million	**LBP'Million**	**LBP'Million**	**LBP'Million**	**LBP'Million**
Corporate and SME:	**784,955**	**152,305**	**124,238**	**1,061,498**	**917,404**
High	222,805	-	-	222,805	307,751
Standard	562,150	-	-	562,150	280,842
Weak	-	152,305	-	152,305	216,841
Credit impaired	-	-	124,238	124,238	111,970
Factoring	**226,494**	**-**	**-**	**226,494**	**199,424**
High	48,231	-	-	48,231	180,087
Standard	178,263	-	-	178,263	19,337
Retail And Personal:	**126,408**	**5,331**	**13,093**	**144,832**	**140,800**
High	94,923	-	-	94,923	65,981
Standard	31,485	-	-	31,485	60,836
Weak	-	5,331	-	5,331	4,620
Credit impaired	-	-	13,093	13,093	9,363
Total	**1,137,857**	**157,636**	**137,331**	**1,432,824**	**1,257,628**
Financial Guarantees and Other Commitments	**121,022**	**19,716**	**-**	**140,738**	**99,640**
High	44,785	-	-	44,785	50,340
Standard	76,237	-	-	76,237	21,877
Weak	-	19,716	-	19,716	27,423

B. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

The Group manages the liquidity risk through a well-defined policy and procedure set by the Assets and Liabilities Management Committee (ALCO). The objective is to monitor the maturity profile of the Group's financial assets and liabilities and enable management to ensure that the liquidity ratio is in compliance with the required limit set by the regulatory authorities. Management follows up on liquidity by reviewing, on weekly basis, the amount of obligatory reserve and the expected liquidity situation for the week. Moreover, on a monthly basis the liquidity ratio is calculated in accordance with circular No. 236 of the Banking Control Commission and No. 72 of Central Bank of Lebanon.

The table below shows the allocation of financial liabilities based on the earliest possible contractual maturity (undiscounted values). The expected maturities vary, significantly from the contractual maturities, namely with regard to customers' deposits:

	December 31, 2018				
	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
FINANCIAL LIABILITIES					
Due to Central Bank of Lebanon	26,562	255	139,894	843,733	1,010,444
Due to banks and financial institutions	48,663	-	-	-	48,663
Deposits from customers and related parties	1,884,246	1,098,268	310,442	-	3,292,956
Engagements by acceptances	-	-	582	26,394	26,976
	1,959,471	**1,098,523**	**450,918**	**870,127**	**4,379,039**

	December 31, 2017				
	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
FINANCIAL LIABILITIES					
Due to Central Bank of Lebanon	660	18,028	106,201	124,460	249,349
Due to banks and financial institutions	7,808	20,181	-	-	27,989
Deposits from customers and related parties	1,110,879	1,858,315	133,067	-	3,102,261
Engagements by acceptances	1,101	-	-	-	1,101
	1,120,448	**1,896,524**	**239,268**	**124,460**	**3,380,700**

C. MARKET RISK

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

The non-availability of assets for trading in the banking book renders the market risk limited to the foreign exchange risk and interest rate risk. The Group covers the exchange risk that might affect its financial position and its profitability. In this respect, the exchange position limits are set and authorized by the ALCO.

Currency risk:

Below is the carrying value of the major financial assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2018				
	LBP	USD	EUR	Other	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
ASSETS					
Cash and balances with Central Bank of Lebanon	1,060,902	1,217,303	58,188	599	2,336,992
Due to banks and financial institutions	2,826	132,697	15,673	8,687	160,557
Financial assets at fair value through profit or loss	-	2,958	-	-	2,958
Loans and advances to customers	212,617	1,052,366	57,276	15,818	1,338,077
Financial assets at amortized cost	471,144	306,402	-	-	777,546
Financial assets at fair value through other comprehensive income	5,307	48	-	-	5,355
Debtors by acceptances	-	26,476	500	-	26,976
Investment in an associate	-	12,191	-	-	12,191
Assets acquired in settlement of loans	900	43,026	-	-	43,926
Property and equipment	71,725	40	-	-	71,725
Goodwill and intangible assets	16,756	-	-	-	16,756
Other assets	12,989	3,007	-	-	15,946
	1,855,750	**2,796,514**	**131,637**	**25,104**	**4,809,005**
LIABILITIES					
Due to Central Bank of Lebanon	1,005,259	5,185	-	-	1,010,444
Due to banks and financial institutions	10,015	2,275	34,911	1,462	48,663
Deposits from customers and related parties	543,781	2,631,533	95,457	22,185	3,292,956
Engagement by acceptances	-	26,476	500	-	26,976
Other liabilities	43,258	29,353	-	1,201	73,812
	1,602,313	**2,694,822**	**130,868**	**24,848**	**4,452,851**
EQUITY	118,236	237,918	-	-	356,154
Net exchange position	**135,202**	**(136,226)**	**767**	**255**	**-**

	December 31, 2017				
	LBP	USD	EUR	Other	Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
ASSETS					
Cash and balances with Central Bank of Lebanon	305,141	759,187	25,883	640	1,090,849
Due to banks and financial institutions	3,999	166,416	12,563	8,658	191,636
Financial assets at fair value through profit or loss	-	2,764	-	-	2,764
Loans and advances to customers	310,764	776,617	65,342	17,988	1,170,711
Financial assets at amortized cost	436,466	774,001	-	-	1,210,467
Financial assets at fair value through other comprehensive income	6,384	-	-	-	6,384
Debtors by acceptances	-	934	38	129	1,101
Investment in an associate	-	10,863	-	-	10,863
Assets acquired in settlement of loans	919	40,033	-	-	40,952
Property and equipment	65,698	-	-	-	65,698
Goodwill and intangible assets	15,611	-	-	-	15,611
Other assets	10,483	2,763	52	1	13,299
	1,155,465	**2,533,576**	**103,878**	**27,416**	**3,820,335**
LIABILITIES					
Due to Central Bank of Lebanon	248,646	703	-	-	249,349
Due to banks and financial institutions	9,039	18,262	76	612	27,989
Deposits from customers and related parties	593,508	2,364,721	116,625	27,407	3,102,261
Engagement by acceptances	-	934	38	129	1,101
Other liabilities	42,502	26,624	157	-	69,283
	893,695	**2,411,244**	**116,896**	**28,148**	**3,449,983**
EQUITY	130,072	240,280	-	-	370,352
Net exchange position	**131,698**	**(117,948)**	**(13,018)**	**(732)**	**-**

Interest rate risk:

The Group is exposed to various risks associated with the effects of fluctuations in interest rates on its financial position and cash flows. Interest rate risk arises as a result of mismatches or gaps in the amounts of assets and liabilities that mature or are subject to interest rate change on a given date. The Group manages this risk by monitoring the effect of the changes in interest rates on interest earning assets and liabilities. As reflected in the maturity and interest sensitivity analysis, the structure of the financial statements in Lebanese Pounds and foreign currencies reflects a mismatch between short term deposits with floating interest rates against medium and long term investments with fixed interest rates (and floating for some loans).
Financial instruments with off-balance-sheet risk do not include accounts that carry interest rate risk.

Below is the distribution of major financial assets and liabilities by re-pricing time bands:

	December 31, 2018					
	Non-Interest Bearing	Up to 1 Year	1 to 5 Years	Over 5 Years	Total Interest Bearing	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
FINANCIAL ASSETS						
Cash and deposits with Central Bank of Lebanon	61,943	413,885	25,522	1,835,642	2,275,049	2,336,992
Due to banks and financial institutions	119,862	40,695	-	-	40,695	160,557
Financial assets at fair value through profit or loss	2,958	-	-	-	-	2,958
Loans and advances to customers	36,797	882,102	256,632	162,546	1,301,280	1,338,077
Financial assets at amortized cost	(5,328)	6,612	215,986	560,276	782,874	777,546
Financial assets at fair value through other comprehensive income	5,355	-	-	-	-	5,355
Debtors by acceptances	-	-	582	26,394	26,976	26,976
	221,587	**1,343,294**	**498,722**	**2,584,858**	**4,426,874**	**4,648,461**
FINANCIAL LIABILITIES						
Due to Central Bank of Lebanon	25,115	1,702	139,894	843,733	985,329	1,010,444
Due to banks and financial institutions	-	48,663	-	-	48,663	48,663
Deposits from customers and related parties	211,171	2,771,343	310,442	-	3,081,785	3,292,956
Engagement by acceptances	-	-	582	26,394	26,976	26,976
	236,286	2,821,708	450,918	870,127	4,142,753	4,379,039
Net gap position	**(14,699)**	**(1,478,414)**	**47,804**	**1,714,731**	**284,121**	**269,422**

	December 31, 2017					
	Non-Interest Bearing	Up to 1 Year	1 to 5 Years	Over 5 Years	Total Interest Bearing	Grand Total
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million
FINANCIAL ASSETS						
Cash and deposits with Central Bank of Lebanon	139,740	469,321	36,321	445,467	951,109	1,090,849
Due to banks and financial institutions	11,980	170,979	8,677	-	179,656	191,636
Financial assets at fair value through profit or loss	2,764	-	-	-	-	2,764
Loans and advances to customers	44,071	763,831	217,600	145,209	1,126,640	1,170,711
Financial assets at amortized cost	-	71,217	389,172	750,078	1,210,467	1,210,467
Financial assets at fair value through other comprehensive income	6,384	-	-	-	-	6,384
Debtors by acceptances	-	1,101	-	-	1,101	1,101
Total financial assets	**204,939**	**1,476,449**	**651,770**	**1,340,754**	**3,468,973**	**3,673,912**
FINANCIAL LIABILITIES						
Due to Central Bank of Lebanon	660	18,028	106,201	124,460	248,689	249,349
Due to banks and financial institutions	7,808	20,181	-	-	20,181	27,989
Customers' and related party deposits and credit balances	41,771	2,927,423	133,067	-	3,060,490	3,102,261
Engagements by acceptances	-	1,101	-	-	1,101	1,101
Total financial liabilities	51,239	2,966,733	239,268	124,460	3,330,461	3,380,700
Net gap position	**153,700**	**(1,490,284)**	**412,502**	**1,216,294**	**248,689**	**293,212**

44. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows the carrying amounts and fair values of financial assets and liabilities recognized in the financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are not measured at fair value and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

December 31, 2018

	Carrying Amount	Fair Value				Valuation Technique and Key Inputs
		Level 1	Level 2	Level 3	Total	
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	
Financial assets at fair value through profit or loss						
Funds	2,958	-	2,958	-	2,958	Unadjusted net asset value
	2,958	**-**	**2,958**	**-**	**2,958**	
Financial assets that are measured at fair value through other comprehensive income:						
Unquoted equity securities	5,355	-	-	5,355	5,355	Unadjusted net book value
	5,355	**-**	**-**	**5,355**	**5,355**	
Financial assets that are measured at amortized cost:						
Lebanese treasury bills	441,383	-	435,109	-	435,109	DCF using observable market inputs, comprising of interest rates and yield curves, implied volatilities and credit spreads
Lebanese government Eurobonds	291,303	231,930	-	-	231,930	Quoted market price
Certificates of deposit issued by Central Bank of Lebanon	42,702	-	42,735	-	42,735	DCF using observable market inputs, comprising of interest rates and yield curves, implied volatilities and credit spreads
Lebanese corporate bonds	2,158	-	1,519	754	2,273	DCF using observable market inputs, comprising of interest rates and yield curves, implied volatilities and credit spreads
	777,546	**231,930**	**479,363**	**754**	**712,047**	

	December 31, 2017					
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total	Valuation Technique and Key Inputs
	LBP'Million	LBP'Million	LBP'Million	LBP'Million	LBP'Million	
Financial assets at fair value through profit or loss						
Other Funds	2,764	-	2,764	-	2,764	Unadjusted net assets value
	2,764	**-**	**2,764**	**-**	**2,764**	
Financial assets that are measured at fair value through other comprehensive income:						
Unquoted equity securities	6,384	-	-	6,384	6,384	Unadjusted net book value
	6,384	**-**	**-**	**6,384**	**6,384**	
Financial assets that are measured at amortized cost:						
Lebanese treasury bills	409,493	-	403,852	-	403,852	DCF using observable market inputs, comprising of interest rates and yield curves, implied volatilities and credit spreads
Lebanese government Eurobonds	468,493	446,008	-	-	446,008	Quoted market price
Certificates of deposit issued by Central Bank of Lebanon	330,815	-	331,632	-	331,632	DCF using observable market inputs, comprising of interest rates and yield curves, implied volatilities and credit spreads
Lebanese corporate bonds	1,510	-	1,498	-	1,498	DCF using observable market inputs, comprising of interest rates and yield curves, implied volatilities and credit spreads
	1,210,467	**446,008**	**736,982**	**-**	**1,182,990**	

There have been no transfers between Level 1, Level 2 and Level 3 during the year.

Funds and Equity Shares and Non-listed Entities

Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-part information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93(d). The movement of major items categorized within Level 3 is disclosed in note 10.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on April 4, 2019.

4

DIRECTORY

4.1
CORRESPONDENT **BANKS 2018**

CURRENCY	CORRESPONDENT BANK	CITY	COUNTRY
AED	Standard Chartered Bank	Dubai	United Arab Emirates
AUD	Standard Chartered Bank	London	United Kingdom
CAD	Bank Of Montreal	Toronto	Canada
CHF	Standard Chartered Bank	London	United Kingdom
EUR	Al Khaliji France S.A.	Paris	France
EUR	Banco De Sabadell S.A.	Sabadell	Spain
EUR	Commerzbank Ag	Frankfurt	Germany
EUR	Intesa Sanpaolo Spa	Milano	Italy
EUR	J.P. Morgan Ag	Frankfurt	Germany
EUR	Standard Chartered Bank	Frankfurt	Germany
GBP	JPMorgan Chase Bank National Association	London	United Kingdom
GBP	Standard Chartered Bank	London	United Kingdom
JOD	Arab Bank Plc	Amman	Jordan
JPY	Standard Chartered Bank	Tokyo	Japan
QAR	International Bank Of Qatar	Doha	Qatar
USD	JPMorgan Chase Bank National Association	New York	United States
USD	Standard Chartered Bank	New York	United States

CUSTODIANS 2018

UBP
Credit Suisse
Midclear

4.2

ADDRESSES

HEAD OFFICE
Saradar Building, Charles Malek Avenue, Ashrafieh
Phone: +961 1 339 000
Fax: +961 1 339 000

1. ASHRAFIEH - CHARLES MALEK
Main Branch/Smart ATM
Senior Manager: Rania Tamraz
Saradar Building, Charles Malek Avenue
Phone & Fax: +961 1 339 000 - +961 1 214 600
Monday - Friday 8:30am - 3:30pm
Saturday 8:30am - 12:00pm

2. DORA Branch/Smart ATM
Manager: Gloria Saade
Cebaco Center, Block B, Dora Highway
Phone & Fax: +961 1 269 950
Monday - Friday 8:30am - 3:30pm
Saturday 8:30am - 12:00pm

3. VERDUN Branch/Smart ATM
Manager: Ghada Arabi
Verdun Heights, Rashid Karameh Street
Phone & Fax: +961 1 800 998
Monday - Friday 8:30am - 3:30pm
Saturday 8:30am - 12:00pm

4. DBAYEH Branch/Smart ATM
Manager: Gilbert Bou Nader
Zeidan 867 Center, Le Royal Hotel bridge
Phone & Fax: +961 4 541 930
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

5. RABIEH Branch/Smart ATM
Manager: Sherine Massoud
Square Center, Rabieh Main Road
Phone & Fax: +961 4 525 968
Phone 2: +961 81 725999
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

6. BEIT MERY Branch/Smart ATM
Manager: Michel Makdessi
Al Bustan Hotel, Beit Mery Main Road
Phone: +961 4 972 127
Fax: +961 4 972 127 ext. 1
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

7. GEFINOR Branch/Smart ATM
Acting Manager: Samer Issa
Gefinor Center, Bloc E, Clemenceau Street
Phone: +961 1 739 051/2/4
Fax: +961 1 739 067
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

8. FURN EL CHEBBAK Branch/ATM
Manager: Milad Mitri
Elias Wakim Building, Damascus Road
Phone: +961 1 283 672/3 - +961 1 285 120/1
Fax: +961 1 284 712
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

9. JAL EL-DIB Branch/ATM
Manager: Jocelyne Samaha
Abou Jaoudeh Building, Main Road
Phone: +961 4 712 539/41/42
Fax: +961 4 712 540
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

10. JOUNIEH Branch/Smart ATM
Manager: Carlos Jreissati
La Cité Center, Block A, Jounieh
Phone: +961 9 830 219 - +961 9 910 612
Fax: +961 9 830 218
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

11. OKAIBEH Branch/ATM
Manager: Ghassan Ghanem
Chalfoun Center, Nahr Ibrahim
Phone & Fax: +961 9 444 545
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

12. SAIDA Branch/ATM
Acting Manager: Omar El Nachef
Al Saiid Center, Housam Hariri Street
Phone: +961 7 734 437
Fax: +961 7 734 437 ext.111
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

13. SAIFI Branch/Smart ATM
Manager: Rita Abi Hatem
CAT Building, Al Arz Street
Phone: +961 1 445 210/1/2
Fax: +961 1 581 182
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

14. SIN EL FIL Branch/ATM
Manager: Rabih Zein
Sin El Fil Boulevard, Horsh Tabet
Phone: +961 1 482 950 - +961 1 481 277/593
Fax: +961 1 482 950
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

15. TRIPOLI Branch/Smart ATM
Manager: Nadine Khadij
Dam w Farez, Achier El Daya Street, Tripoli
Phone: +961 6 627 747
Fax: +961 6 441 456
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

16. ZOUK Branch/ATM
Manager: Lara Achkar
Town Center, Zouk Mosbeh Main Road
Phone: +961 9 222 856/857/859
Fax: +961 9 222 659
Monday - Friday 8:30am - 2:00pm
Saturday 8:30am - 12:00pm

S17 New Branch Format/Smart ATM
Sodeco 1 Building, Sodeco Street
Phone & Fax: +961 1 612 009/010/410 - +961 1 613 002
Monday - Friday 8:00am - 8:00pm

REGIONAL MANAGEMENT

Lubna El Masri
Senior Regional Manager
Beirut West & South Lebanon

Roula Abou Ghazaly
Regional Manager Metn & Kesrouan

Inas Sleiman
Regional Manager Beirut (Until May 2019)

Rania Tamraz
Senior Branch Manager Charles Malek
and Saifi (Since June 2019)

OFFSITE ATMs

Kaslik
ATCL, Jounieh
24/7

Port
Beirut Harbor, Beirut
24/7

Bsalim
Middle East Institute of Health, Bsalim Road
24/7

Ashrafieh
Saint Charbel Bldg, Saint Louis Street
24/7

Mar Elias
Sinno Bldg, Mar Elias Street
24/7

Jdeideh
Developers Tower Center, New Jdeideh Street
24/7

Kfardebian
Le Montagnou, Oyoun El Siman
24/7

Zaarour
Zaarour, Zaarour club, Near Mike Sport
24/7

Baabda
Total Station, Beirut
Damascus International Highway,
after the Military Academy, Baabda
24/7

Hamra
1866 Court & Suites, Bliss Street, Hamra
24/7

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