FNB

FIRST NATIONAL BANK S.A.L.

ANNUAL **REPORT 2018**

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ANNUAL REPORT 2018

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CHAIRMAN'S LETTER

The year 2018 was yet another challenging year for Lebanon in general, and the Lebanese banking sector in particular. In the middle of a geo-political chaos, accompanied by the refugee crisis and deteriorating economic environment, the country was gasping for air at every envisaged and unexpected obstacle, standing weak but yet still on its so unfortunately shaken base, within a political deadlock of government formation.

The economic activity of Lebanon in 2018 witnessed a year of a slowing, but still positive real GDP growth of around 1.0% as compared to 1.5% in 2017, despite the notably weakening economic situation, along with the internally and externally disruptive political forces. Consequently, almost all economic sectors in Lebanon witnessed weaknesses during this challenging year, with a financial sector facing contracting financial inflows, with a consequent declining, though still positive, deposit growth.

The Lebanese Banking Sector, showing its continuous resilience backed up by the strong confidence in the banking sector and surplus liquidity, reported a general increase in the total assets, with customer deposits being a major driver with a moderate growth of 3.3%, the equivalent of USD 5.6 billion.

In light of this challenging year, FNB has managed to complete the year with relatively good results despite the challenges at the economic, political, country and regional levels. Accordingly, the Bank's total consolidated assets increased by 6.15% to reach around USD 5.2 billion at the end of 2018, while the Net Profit, pertaining to owners of the Bank, amounted around USD 30.5 million, reflecting an increase of 2.26% from previous year, compared to a significant decline of 4.31% in the net profit Group share of the Alpha Group, representing the sector's largest commercial banks. It should be noted that the negative impact of the change in tax law was reflected in the net profit. Customers' Deposits reflected a slight decrease of 1.76% to reach USD 3.87 billion versus 1.66% increase in the domestic banking activity. Loans to Customers amounted around USD 947 million as a result of a decrease by 12.23%, reflecting a conservative policy of the Bank amid a persisting challenging environment in Lebanon.

The year 2018 highlighted the Bank's continuous emphasis on its long-term strategy, enhanced by creative and cost-efficient products and services, supported by state-of-the-art technology developments and effectively applied corporate governance practices through updated internal policies and procedures.

FNB expanded its presence during 2018 by inaugurating a new branch in Zahle, with additional two new branches in Fanar and Chiyah areas under development to be finalized during 2019.

At the Information Technology level, the Bank has upgraded its core banking system, and thus, enhanced the overall banking processes as well as the productivity and performance of its employees reflected in increased customer satisfaction. The compliance processes were also automated using international software solutions to a considerable extent, in addition to several new services and delivery channels that notably enhanced customer experiences through newly introduced innovative products and services.

In order to safeguard the interests of its stakeholders, the Bank is fully devoted to implementing best corporate governance practices through its recently updated Corporate Governance Manual and related policies and procedures.

As part of its Corporate Social Responsibility (CSR) initiative, the Bank has either participated or sponsored more than 45 various events in Lebanon related to culture/art, health, education, social, sports, environment and other business activities.

I would like to extend my outmost gratitude to all our stakeholders for their continued support during this challenging time our country and the region are going through. We will always remain at the disposal of our customers, employees and shareholders whose trust, commitment and dedication are highly valued and appreciated, and also needed to face the year ahead.

RAMI EL NIMER

CORPORATE GOVERNANCE

STATUTORY BODY
MANAGEMENT

STATUTORY BODY

The corporate governance guidelines, adopted by First National Bank, provide a framework to regulate the relationships between shareholders, supervisors and management.

A clear separation between the oversight, vision setting, supervision and execution is reflected in the corporate governance structure. The Board makes every effort to balance the interest of its shareholders, customers, employees and suppliers.

Furthermore, the Board ensures effective governance, supervises the management of the bank's business and affairs, and exercises reasonable business judgment on behalf of the bank. In all actions taken by the Board, the members act on a fully informed basis, in good faith and with due diligence, keeping in mind the best interests of the bank. In discharging their obligation, Board members rely, among other things, on the honesty and integrity of the bank's senior management and its outside advisors and external auditors.

CHAIRMAN

The Chairman and Vice-Chairman of the Board are appointed by the Board of Directors for a maximum period of three years. The Chairman may delegate some or all of his authority to another person who operates under his supervision, but remains responsible for the acts and performance of his delegates. The General Managers, Deputy General Managers and Assistant General Managers are endorsed by the Board upon the recommendation of the Chairman. They assist the Chairman in the daily operations of the bank. The Chairman has extensive powers to execute resolutions adopted by the shareholders at the Ordinary or Extraordinary General Assembly and to represent the bank in its different activities.

BOARD OF DIRECTORS

The Board of Directors consists of nine elected members and is chaired by Mr. Rami El Nimer. The election of the members takes place at the Annual General Assembly of Shareholders for a maximum period of three years and is renewable. Board members need General Assembly authorization to be elected members in other entities with similar business activities. The renewal of this authorization is mandatory at each Annual General Assembly of Shareholders.

The Board of Directors of First National Bank in 2018 is composed of the following 9 members:

Mr. Rami Refaat El Nimer is an experienced banker who has many notable achievements in the banking industry. He has served as director and Chairman of the bank since March 2001. Additionally, Mr. El Nimer is the Chairman of FNB Finance S.A.L. and holds other corporate responsibilities within the business community.

Mr. Fawzi Elias Farah is the Vice-Chairman of the bank. He has been a director of the bank since May 2014. He has more than 39 years of professional experience in international commercial and investment banking as the Managing Director and Regional Manager for Lehman Brothers Inc. in the Middle East in addition to various banking positions in New York, London, and the Middle East. Mr. Farah is the Chairman-CEO of FNB Holding Limited and a member of the Board of Directors in CSC Bank S.A.L..

Mr. Abdallah Saoud Al Humaidhi has been a director of the bank since June 1996. He is also a member of the Board of Directors of the Arab Banking Corporation in Bahrain. Mr. Al Humaidhi is the Chairman and Managing Director of Commercial Facilities Company K.S.C., and a Board member of the Chamber of Commerce and Industry in Kuwait, in addition to other Kuwaiti organizations.

Mr. Roland Elias Haraoui has been an executive member of the Board of Directors since 2001. In addition, Mr. Haraoui is the Chairman and General Manager of FNB Holding S.A.L. and FNB Development S.A.L., Vice Chairman of FNB Holding Limited, as well as a Board member of FNB Finance S.A.L. He is a Lebanese businessman with an exceptional leadership profile.

Mr. Arfan Khalil Ayass has been a director of the bank since August 2009. He is a Board member of FNB Finance S.A.L. since November 2016, a member of the American Institute of Certified Public Accountants and the Lebanese Society of Certified Public Accountants. Mr. Ayass is currently a faculty member of Rafic Hariri University.

Mr. Moustapha Hadi Bey M. Saoud El Assaad has been a director of the bank since September 2014. Between 2004 and 2008, Mr. El Assaad was the General Manager of Qatar National Bank – Paris, and was also associated with other international banks. He is an international expert and a member of the French Institute of Directors in Paris (IFA); he actually participates in advising and developing several banks.

Mr. Georges Nassib Awad has been a director of the bank since May 2017. He is a seasoned banker who has served as an Advisor to the Chairman since 2012. Between 2003 and 2012, Mr. Awad occupied the position of Deputy General Manager of the bank. Throughout his career, he held leadership positions at other banking institutions and currently serves as a member of the Board of Directors of FNB Capital S.A.L.

Promotion des Investissements S.A.L. (Holding) has been elected as a Board member since April 2000 and is currently represented by Mr. Omar Lababidi. It is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon.

Al Muttahida Lil Istithmar (Lebanon) S.A.L. (Holding) has been elected, through its representative Mr. Romen Mathieu, as a Board member since 2004. It is a Lebanese holding company that invests its financial and industrial concerns in Lebanon.

MANAGEMENT

FNB S.A.L. (FIRST NATIONAL BANK)

GENERAL MANAGEMENT

Mr. Rami R. El Nimer
Chairman - General Manager

Mr. Elias S. Baz
General Manager

Mr. Najib M. Semaan
General Manager

Mr. Ghaithan S. Tayara
Deputy General Manager

Mr. Mahmoud G. Francis
Assistant General Manager

Mr. Tony W. Dabbaghian
Assistant General Manager

Mr. Antoine C. Wakim
Assistant General Manager

Mr. John N. Chalouhi
Assistant General Manager

Mr. Salim L. Karroum
Group Chief Compliance Officer

Mr. Oussama F. Chedid
Group Chief Audit Executive

HEAD OFFICE - MANAGERS

Mr. Assaad K. Saliba
Foreign Exchange Department

Ms. Carine N. Jbeily
Retail Credit Department

Ms. Carole A. Abi Saad
Organization & Methods Department

Ms. Chantal R. Freiji
Financial Institutions & Correspondent Banking Department

Mr. Charles W. Skaff
Administration Department

Ms. Dima H. El Dairy
Marketing & Communication Department

Mr. Elie G. Abou Zeidan
Legal Department

Mr. Elie M. Rahal
Trade Finance Department

Mr. Gaby L. Tchennozian
Private Banking Department

Mr. George K. Boustany
Information Technology Security Department

Mr. Houssam Z. Khaywa
Operations Department

Mr. Jack C. Aoun
Legal Compliance Unit

Mr. Joseph E. Estephan
Recovery & Restructuring Department

Mr. Khalil K. Badran
Administrative Services Department

Ms. Liza G. Deryeghiayan
Management Information Systems Department

Ms. Marie-Rose E. Kallas
Corporate Credit Analysis Department

Ms. Marie-Therese E. Obeid
International Corporate Credit Banking Department

Mr. Marwan B. Khawand
Information Technology Department

Mr. Nabil H. Al Saliby (Acting)
Human Resources Department

Ms. Nada F. El Zein
Credit Appraisal Department

Ms. Nadia A. Khalifeh
Project Manager

Ms. Nadine R. Abou Zeid
Anti-Money Laundering Unit

Mr. Naji N. Maalouf
Corporate Banking Department

Ms. Nazira G. Khalaf
Corporate Secretary

Mr. Philippe A. Abou Azar
Small & Medium Enterprises Credit Department

Mr. Raymond N. Yazbeck
Credit Administration Department

Ms. Raymonda D. Abboud
Credit Inspection Department

Ms. Roula A. Islambouli
Customer Service – Chairman's Office

Ms. Soumaya Y. Haris
Head of Group Treasury

Mr. Walid B. Rizk
Electronic Banking Department & Consumer Protection Unit

Mr. Wassim M. Daouk
Chief Risk Officer

ADVISORS

Me. Jean Claude M. Chamoun
(Legal Advisor)

Me. Mansour A. Breidi
(Legal Advisor)

Mr. Nabil M. Soubra
(Consultant to Chairman – Foreign Affairs)

Me. Rawi B. Kanaan
(Legal Advisor)

Me. Sakhr C. El Hachem
(Legal Advisor)

Abou Sleiman and Partners
(Legal Advisor)

Debs and Associates Law Firm
(Legal Advisor)

AUDITORS

Deloitte & Touche

DFK Fiduciaire Du Moyen-Orient

FNB CAPITAL S.A.L.

GENERAL MANAGEMNENT

Mr. Najib M. Semaan
Chairman - General Manager

Mr. Antoine E. Kozma
Chief AML and Compliance Officer

Mr. Ihab W. Tabet
Head of Finance Department

FNB FINANCE S.A.L.

GENERAL MANAGEMENT

Mr. Tarek I. Kombarji
Chief Executive Officer

Mr. Rony M. Khoneisser
Assistant General Manager

CFH GROUP (CORPORATE FINANCE HOUSE GROUP)

GENERAL MANAGEMENT

Mr. Fawzi E. Farah
Chairman -Chief Executive Officer

Mr. Abdul Karim M.B. Chamseddine
Chief Operating Officer – Deputy CEO

MANAGEMENT
DISCUSSION & ANALYSIS

INTRODUCTION

First National Bank S.A.L. (FNB) is a joint-stock company founded in 1994 in Lebanon. The bank is one of the major Lebanese commercial banks with a full-fledged financial profile, aiming at providing the best diversified banking experience. FNB operates under the supervision and regulation of the central bank of Lebanon, and is registered on the list of banks under number 108. The bank undertakes all forms of commercial and investment banking activities, covering a wide array of financial services to its local clientele.

Over the years, FNB has managed to branch out into additional services through the acquisition of three financial institutions: FNB Holding Ltd. (formerly Middle East Capital Group Ltd.) in 2008, FNB Finance S.A.L. (formerly Capital Finance Company S.A.L.) in 2010, and Corporate Finance House Group (CFH) in 2014. Each of these institutions served as a key pillar in developing and expanding the sound and proficient body of financial and banking facilities. This diversified banking group offers financial support to the private sector through its retail and corporate loans and products, as well as advisory and asset managing services for its private and investment banking divisions. Also, the bank's customer base is spread over the Lebanese territory and is served by a network of 28 branches, 55 ATMs and a talented workforce of 661 employees.

The Management Discussion and Analysis section that follows covers the bank's consolidated performance and financial stance over the course of 2018. The following representation is based on the audited consolidated financial statements of the bank for the fiscal years ended December 31, 2017 and December 31, 2018. It is worth noting that terms such as "First National Bank", "the bank" or "the Group" refer to First National Bank S.A.L. and its consolidated subsidiaries.

In conformity with regulatory requirements, the bank discloses its accounts in Lebanese Pounds (LBP) and in compliance with the International Financial Reporting Standards (IFRS). The figures presented in the management discussion and analysis are also denominated in LBP, unless otherwise stated. The consolidated financial statements have been jointly audited by Deloitte & Touche and DFK Fiduciaire du Moyen-Orient. The economic and banking data about Lebanon and the region are sourced from the International Monetary Fund, the World Bank, the central bank of Lebanon, the Ministry of Finance and other statistical and renowned financial entities.

It is also worth noting that all references to the Lebanese banking sector denote the 50 Lebanese commercial banks, as designated by the Association of Banks in Lebanon (ABL). Furthermore, all references to peer groups represent the Alpha Group, which is classified by Bankdata Financial Services and composed of 15 Lebanese commercial banks with customers' deposits of over USD 2 billion.

The discussion and analysis sets out the strategy adopted by the bank and the current position in light of the economic and banking environment. Then come the bank's key financial highlights illustrated and followed by a comparative analysis of the Group's financial performance, reflecting the results between year-end 2018 and year-end 2017. This part is subsequently followed by departmental developments during 2018.

STRATEGY

The current economic slowdown coupled with tighter regulatory requirements and monetary policies have weighed heavily on the Lebanese banking sector's financial opportunities and growth prospects, by putting unprecedented pressure on the sector's profitability, due to the increased tax rates, additional provisioning required under IFRS 9, and the surging cost of funds in foreign and local currencies, needless to mention the critical capital buffers that need to be maintained at all times.

Therefore, any strategy today shall be hindered by the above factors, limiting our goals and objectives to those aiming at reducing cost, de-risking our balance sheet, and maintaining our capital adequacy and liquidity buffers at appropriate levels.

Based on the above, the bank is still pursuing its conservative strategy laid down in 2018, with no change in our "Strategic Objectives and Key Initiatives". It will aim at improving our customer service experience. Consequently, our goal is to improve the agility and collaboration across the Group, increase efficiency in operations and quality in assets, and develop internal processes and controls while making better use of the technological advancements, so as to stay abreast of the digitization of banking operations.

Our main short-term objectives shall concentrate on customer centricity and long-term brand strategy.

Efficiency and product development:

- Focus on customer-centric retail model supported by innovative delivery channels, and tailor-made products and services.
- Restructure and enhance current operating model of the business line to improve intergroup synergies and efficiencies.
- Move from being product-oriented to being more customer-centric to improve customer retention and attract new customers, by providing our customers outstanding expertise in financial products.

Development of a long-term brand strategy that shall:

- Build a predominance of the master brand, also known as the FNB Group, a single umbrella brand that engages all subsidiaries and enhance its current operating model, thus improving intergroup synergies and efficiencies.
- Define a clear positioning for each brand.
- Eliminate intercompany silos by moving into full brand integration.
- Bring the various brands' visual identities closer to each other to create a family feel.
- Present the marketplace with a consistent brand strategy, an alignment of messages, as well as a look and tone that will increase the efficiency of its communications.
- Define FNB Group's brand foundations and positioning strategy to set it apart from other financial groups in the market.

ECONOMIC ENVIRONMENT

The economic and geopolitical nuisances across the whole world and the region in particular had a pronounced effect on the outcome of the year 2018, which started on a financial upbeat but lost track at the end. The growth recorded in 2017 did not last in the year that followed, with industrial production and trade slowing down along with the investor confidence. The International Monetary Fund (IMF) lays out the possible reasons behind this halt in growth, such as trade tensions between large economies after the implementation of tariffs and the retaliatory measures taken by others in return. The IMF also lays out the fiscal and monetary tools adopted by the United States in the form of lower taxes, higher spending, and higher federal rate, which led to an economic expansion and a stronger U.S. dollar. Nevertheless, all of these global developments came at a cost for the emerging economies, which saw their foreign debt weighing down on their fiscal balances and GDP. The IMF points at the external borrowing cost of most of the emerging countries, which has become more pronounced as a result of the appreciation of the dollar.

The economies of the MENA region are estimated to have improved by 1.7% in 2018, according to the World Bank, due to the surge of oil exporters and importers. However, the geopolitical tensions, refugee crises, and escalating foreign currency debt are still a drag on the vulnerable oil importers. The World Bank estimates MENA growth at 1.7% and projects a 1.9% regional growth in 2019 and 2.7% in 2020 and 2021. Yet, such projections remain valid as long as the risks in the region remain contained with no delays in the implementation of structural reforms. Geopolitical tensions and spillovers from conflicting countries, the ongoing refugee crisis in host economies, lower remittances and foreign direct investment due to increased volatility and uncertainty, additional trade restrictions on importing as well as exporting countries from the MENA region are few of the issues that might undermine the efforts of development. On a local basis, Lebanon continues to face increasing challenges and economic vulnerabilities, despite the pledge to finance the country's structural reforms and appoint a nationally unified government. The country's political impasse delayed the creation of its unified government until the beginning of 2019, thus increasing investors' aversion and financial market anxiety. It is important not to forget the regional spillovers and the ongoing Syrian refugee crisis that are impeding Lebanon's growth and sustainability. The economic activity recorded a moderate improvement over the previous year, signaling another phase of economic slowdown. The commitment to socioeconomic developments and structural reforms projects a rather promising outlook for the troubled country.

MAJOR DEVELOPMENTS

The aftermath of the 2017 adjustment of salaries of public sector employees and pensions of retired civil servants, followed by the tax amendments and new taxes and duties during the second half of the year as per Law No. 64, is still weighing down on the Lebanese economy. Such revenue financing measures affected the profits of the domestic banks, which were mainly concerned with the increase of:

- corporate income tax from 15% to 17%;
- capital gain tax on disposal of fixed assets from 10% to 15%;
- dividends distribution tax on listed entities from 5% to 10%; and
- tax on credit interest from 5% to 7%.

On the other hand, the year 2018 witnessed the CEDRE conference held in Paris in support of Lebanon development and reforms, which was the result of the capital investment program launched by the Lebanese government in order to initiate the economic recovery and development of Lebanon. The participants in the CEDRE conference extended their commitment to protect the unity, stability and sovereignty of Lebanon. Major issues, such as increased unemployment, corruption, poverty and the ongoing Syrian refugee influx, were outlined in the conference since they are still a massive drag on the economy in general. The Lebanese Prime Minister Hariri assured that the government plans to increase the level of public and private investment, initiate fiscal adjustment, undertake sectoral reforms to fight corruption, better manage the public finance and increase accountability, improve tax collection mechanisms, along with a reduction of expenditures, and develop a strategy for the reinforcement of the productive sectors.

The most urgent reforms stressed by the participants and donors were the sectors of energy, water, and waste management, followed by health and education. Such measures should address the high fiscal deficit and mounting public debt, hopefully leading to macroeconomic stability and sustained GDP growth. This international support emphasized the need for follow-up to ensure effective implementation of reforms and abidance by the commitments for the ultimate benefit of the Lebanese society.

In addition, the central bank of Lebanon issued Circular No. 143 on November 7, 2017, requiring the banks and financial institutions to apply the International Financial Reporting Standard (IFRS) 9 on individual and consolidated financial statements as of January 1, 2018, as well as the required business models and committees for the effective application. Throughout 2018, the Group applied the IFRS 9, as revised in July 2014, and remeasured its financial assets and liabilities. The Group adopts the three-stage approach for measuring the Expected Credit Losses (ECL) on financial assets and debt instruments. The periodic assessment of these assets defines their corresponding credit risk reflected in the change in their credit quality:

- **Stage 1: 12-month ECL –** includes financial assets with low credit risk, or whose increase in credit risk since initial recognition is insignificant.
- **Stage 2: Lifetime ECL –** includes financial assets which had a significant increase in credit risk since initial recognition, but not to the significant extent of impairment.
- **Stage 3: Lifetime ECL –** includes financial assets with objective evidence of impairment at the reporting date, thus having lifetime ECL recognized.

The adoption of the IFRS 9 impairment model has had a substantial impact on the financial stance of the Group, thus increasing the impairment allowances by USD 67.5 million.

OIL AND GAS EXPLORATION

Another promising milestone is the exploration of gas in Lebanon. This is a tremendously important asset to the Lebanese government, which, if well managed, will endow Lebanon with rich resources, greater job opportunities, and enormous revenues. A sound and well framed fiscal policy along with an enhanced institutional framework, as advised by the IMF, need to be in place so as to encourage investors into this new arena, as well as to preserve a sustainable source of revenue for future generations. In addition, and according to the IMF, this sector will reap long-term benefits in power exports and production size, which is expected to last 35 years and reach full capacity by 2036. Lebanon's stake will be at least 55% and gas revenues will reach 4% of GDP by the end of the next decade as expected by the IMF.

Correspondingly, this new sector paves the way for a better economic future and improved public financial conditions, provided that the government shows commitment toward the effective use of the natural riches and financial resources. This is in no doubt a huge investment and a great potential for wealth and capital generation in conjunction with an anti-corruption framework and structural reforms to be set out by the government in the middle run. A member of the Lebanese Petroleum Administration recently announced that the drilling process will start before the end of 2019 in maritime Block 4, to be followed by Block 9 if everything goes according to plan. The contracts have been awarded to the French, Italian, and Russian companies Total, Eni, and Novatek, respectively, for both blocks. This new step into the oil and gas industry should be able to stimulate the Lebanese economy and alleviate some of the lingering financial pressures.

FINANCIAL AND ECONOMIC PERFORMANCE

In terms of overall performance and financial soundness, the BDL coincident indicator for December 2018 reached 300.7, down from 318.3 in December 2017, thus mirroring the country's flagging situation over the past year. Moreover, the real GDP growth was estimated by the World Bank at 0.2% in 2018, compared to 0.6% at the end of 2017, the latter growth revised down from 1.5%. This deceleration is linked to the liquidity tightening policy characterized by a halt in subsidized lending by the central bank of Lebanon to the real sector via the commercial banks. The World Bank sources stated that private consumption and gross fixed capital investment were the cause behind the slowdown in GDP, recording a combined decrease of 8.0% in growth despite the 8.4% increase in net exports. The outlook on real GDP is progressively positive and forecasted at 0.9%, 1.3%, and 1.5% for the period ranging between 2019 and 2021.

As for the balance of payments, a cumulative deficit of USD 4,823.2 million has been recorded at the end of 2018, against a cumulative deficit of USD 155.7 million in 2017. Such deficit was largely driven by a drop in the net foreign assets of the central bank amounting to USD 1,212.7 million, against an increase in net foreign assets of banks and financial institutions by USD 465.1 million. Furthermore, trade deficit reached USD 17,027.7 million at the end of 2018, a 1.7% increase as compared to USD 16,738.6 million at the end of 2017. The shrinkage in the deficit was mainly due to a surge in exports by 3.8%, against a 2.0% increase in imports on an annual basis.

According to the Ministry of Finance, the net public debt, which excludes public sector deposits at commercial banks and the central bank, reached LBP 114,152 billion at year-end 2018, registering an annual increase of 9.5% from LBP 104,239 billion at year-end 2017. In this context, gross public debt-to-GDP rose from 149% at year-end 2017 to 152% at year-end 2018, with both figures expected to persist amidst the rising debt service. As per the Central Administration of Statistics, the Consumer Price Index for Lebanon increased by 4.0% year-on-year (YOY), reflecting an escalating cost of living.

As for the financial sector, its major indicators show a sluggishness naturally expected due to the economic frailty shaking the country. With respect to the financial markets, the volume of traded shares decreased by 3.0% YOY, and the value of traded shares fell by 47.8% YOY between the end of 2018 and the end of 2017. Also, Lebanon's 5-year CDS spreads reached 750 basis points at the end of 2018, up by 230 basis points from 520 basis points at the end of 2017. The increased spread reflects the worsening market volatility and sovereign risk of the country.

At the real sector level, several indicators witnessed a yearly improvement, of which we mention a 1.4% increase in electricity production and a 3.4% rise in plane traffic paralleled by the 7.4% surge in passenger flow at the Beirut International Airport, in addition to a 0.5% surge in air freight. On the downside, however, some indicators regressed over the year as compared to 2017, with a 23.1% fall in construction permits, an 8.7% contraction in cement deliveries and a 3.3% drop in the volume of maritime freight defined by the quantity of goods at the Port of Beirut.

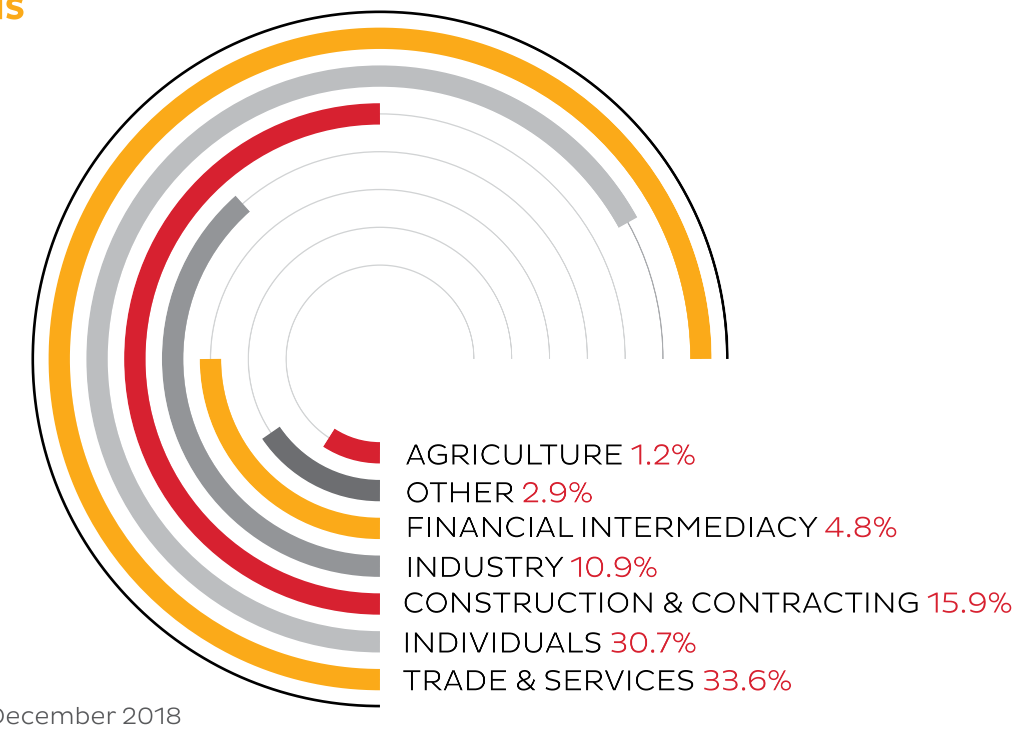
BANKING SECTOR

The Lebanese banking sector has always been the strongest sector of the economy and the financial backbone of the government and the economic cycle. Yet the frail entourage, due to political tensions and the delay in the formation of the government, rendered the year 2018 challenging and difficult for the banking sector. Nevertheless, this sector remains ever solvent and sufficiently liquid with all the necessary capital buffers to protect from any potential downturns. The increased volatility of the financial markets and the loss aversion attitude of the investors increased the cost of raising capital for the domestic banks. This has been reflected in the higher interest rates on overall customer deposits of the banking sector, which increased by 205 basis points during the last quarter of 2018, in comparison with the same period during 2017, to reach an average 8.00% on LBP denominated deposits. As for USD denominated deposits, the interest rates increased by 109 basis points to reach an average 4.89% during the last quarter of 2018. However, the unconventional policies adopted by the central bank of Lebanon since 2013 have been vital in fostering economic growth, preserving monetary and financial stability, and reinforcing the capital base of banks to meet the IFRS 9 provisioning requirements which have already become effective since the beginning of 2018.

The Lebanese banking sector has shown typical resilience and sound financial stance during the year 2018, with the consolidated assets of commercial banks at LBP 376,097 billion at the end of December 2018, recording a yearly growth of 13.48%. Loans to the private sector recorded an insignificant 0.50% yearly decline to reach LBP 89,524 billion at the end of December 2018. As provided by the accompanying graph, commercial bank loans have been mainly distributed during the year 2018 around trade and services, followed by individuals, and contracting and construction. Moreover, private sector deposits in commercial banks amounted to LBP 276,690 billion at the end of December 2018, equivalent to a yearly increase of 4.20%.

Furthermore, deposits denominated in LBP fell on a yearly basis by 2.04%, while deposits in foreign currency grew by 6.91%, hence causing an increase in the dollarization rate of the whole banking sector to 69.83% at the end of 2018, as compared to 68.00% at the end of 2017. Moreover, the loans-to-deposits ratio stood at 32.36%, recording a reduction from the December 2017 ratio of 33.88%. Shareholders' equity grew by 5.4% on a yearly basis, while the capital-to-asset ratio reached 8.08% at the end of 2018, down from last year's ratio of 8.70%.

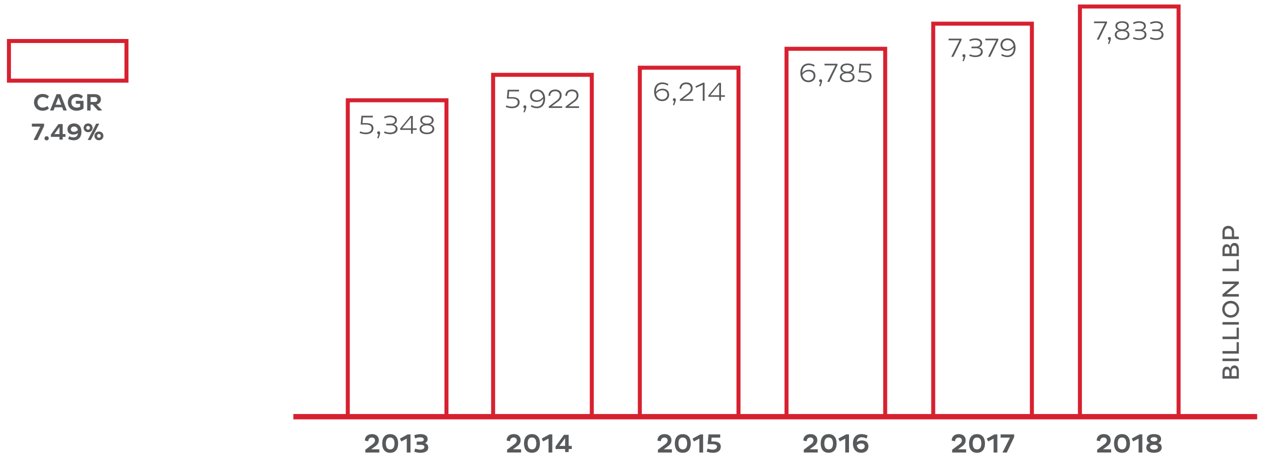
DISTRIBUTION OF LOANS BY SECTOR IN 2018



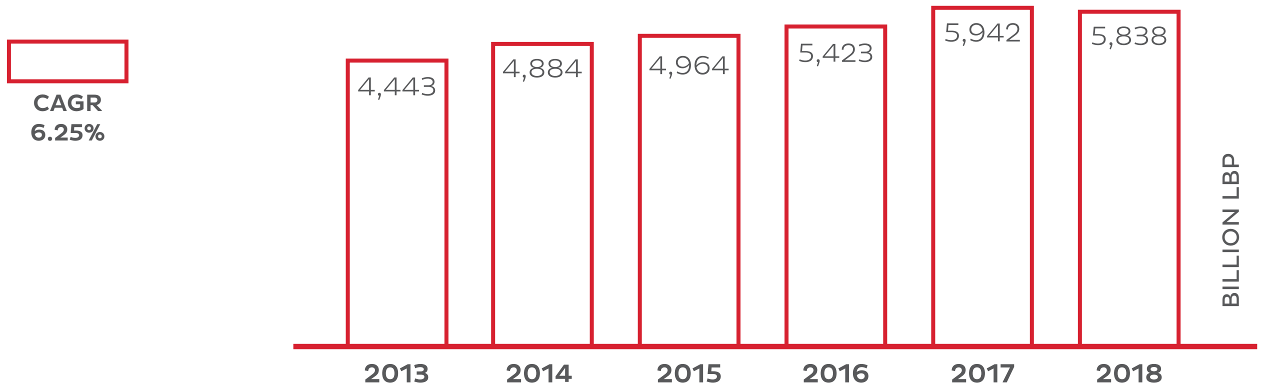
Source: BDL Monthly Bulletin, December 2018

FINANCIAL HIGHLIGHTS

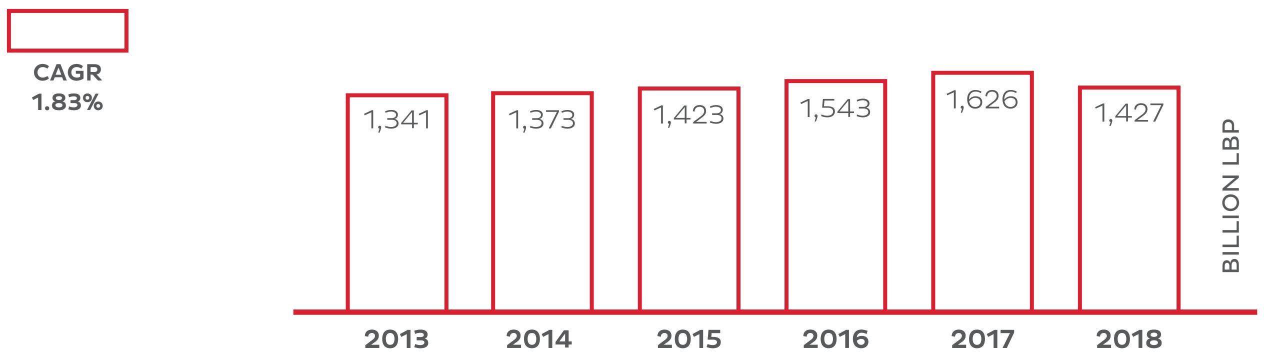
ASSETS



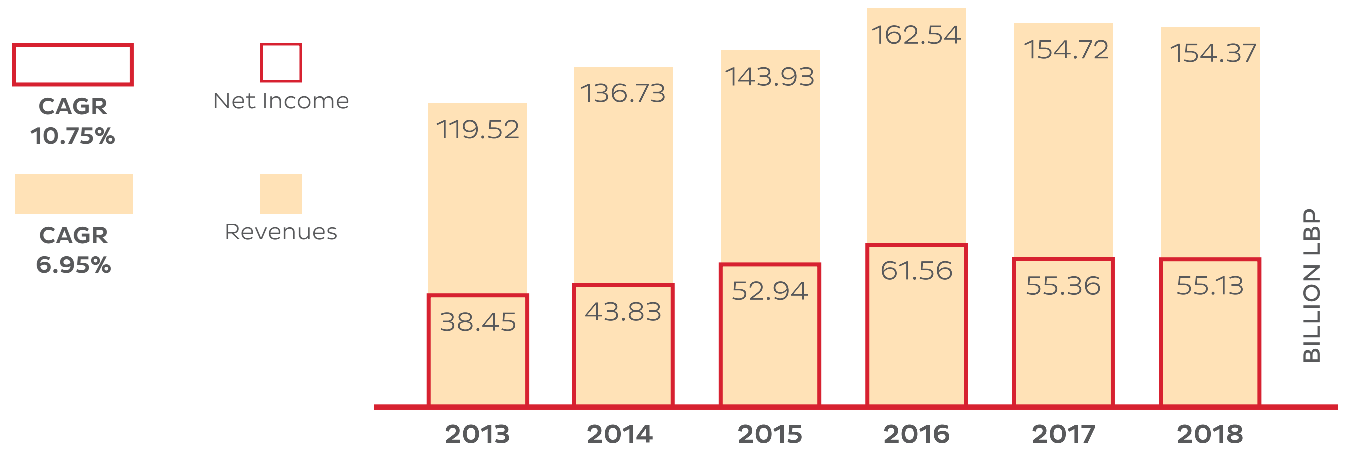
DOMESTIC DEPOSITS



LOANS AND ADVANCES TO CUSTOMERS



NET INCOME AND REVENUES



KEY PERFORMANCE INDICATORS

	2018	2017	2016	2015	2014	2013
			Million LBP			
Assets	7,833,157	7,379,204	6,785,239	6,214,284	5,921,670	5,348,427
Loans and advances to customers	1,427,104	1,625,906	1,543,131	1,423,360	1,372,706	1,341,289
Customers' deposits	5,837,643	5,942,482	5,422,813	4,964,010	4,883,507	4,442,654
Shareholders' equity	644,637	674,937	639,436	598,730	438,952	376,498
Net income	55,125	55,360	61,563	52,941	43,832	38,455
Asset Quality						
Loans to deposits	24.45%	27.36%	28.46%	28.67%	28.11%	30.19%
Net credit-impaired loans /Total loans	4.70%	4.82%	3.17%	2.51%	2.04%	1.61%
Net credit-impaired loans/Equity	10.40%	11.62%	7.64%	5.97%	6.37%	5.73%
Capital Adequacy						
Shareholders' equity to assets	8.23%	9.15%	9.42%	9.63%	7.41%	7.04%
Capital adequacy ratio	13.77%	13.56%	13.56%	12.47%	11.72%	11.22%
Profitability						
ROAA	0.72%	0.78%	0.95%	0.87%	0.78%	0.74%
ROACE	8.64%	8.72%	10.49%	10.90%	12.13%	11.39%
Earnings per share (LBP)	2,444	2,460	2,848	2,583	2,626	2,198

SUMMARY OF CONSOLIDATED FINANCIAL POSITION

	2018	2017	Growth (%)
		Million LBP	
Liquid assets	2,954,149	2,851,985	3.6%
Investment securities	2,404,542	2,381,370	1.0%
Loans to customers	1,427,104	1,625,906	-12.2%
Other assets	875,533	372,467	135.1%
Fixed assets	171,829	147,476	16.5%
Total Assets	**7,833,157**	**7,379,204**	**6.2%**
Bank deposits and borrowings	457,386	301,114	51.9%
Customers' deposits	5,837,643	5,942,482	-1.8%
Other liabilities	893,491	460,672	94.0%
Shareholders' equity	644,637	674,937	-4.5%
Total Liabilities and Shareholders' Equity	**7,833,157**	**7,379,204**	**6.2%**
Number of branches	28	27	
Number of staff	661	658	

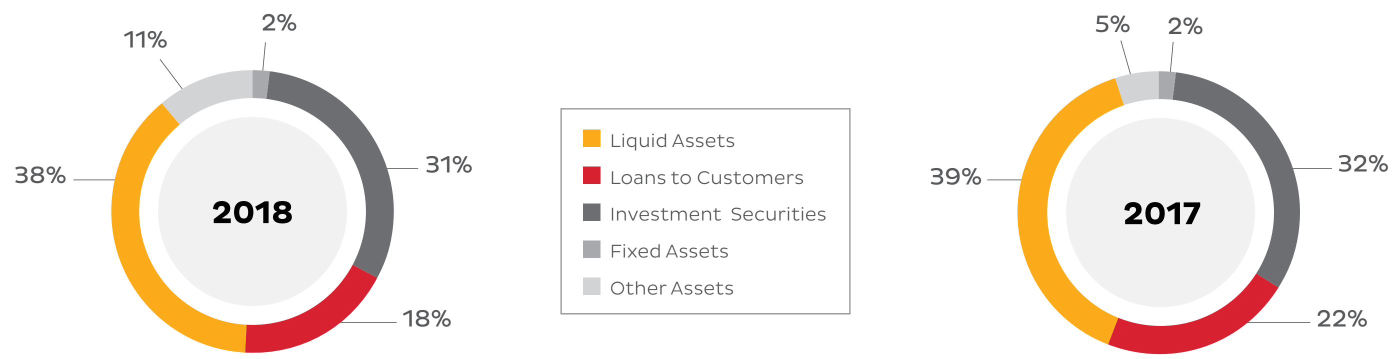
BREAKDOWN OF ASSETS

The charts below illustrate the breakdown of assets into four major classes as at the end of December 2018 compared to the end of December 2017.

Consolidated total assets increased significantly by 6.2% to LBP 7,833 billion as at the end of December 2018, from LBP 7,379 billion as at the end of December 2017. The predominant asset classes are liquid assets, investment securities, and loans and advances to customers.

Liquid assets represent the biggest asset category with 38% of the total consolidated assets at the end of 2018. Liquid assets include cash, accounts with the central bank of Lebanon, as well as banks and financial institutions. This category grew by 3.6% and reached LBP 2,954 billion at the end of 2018.

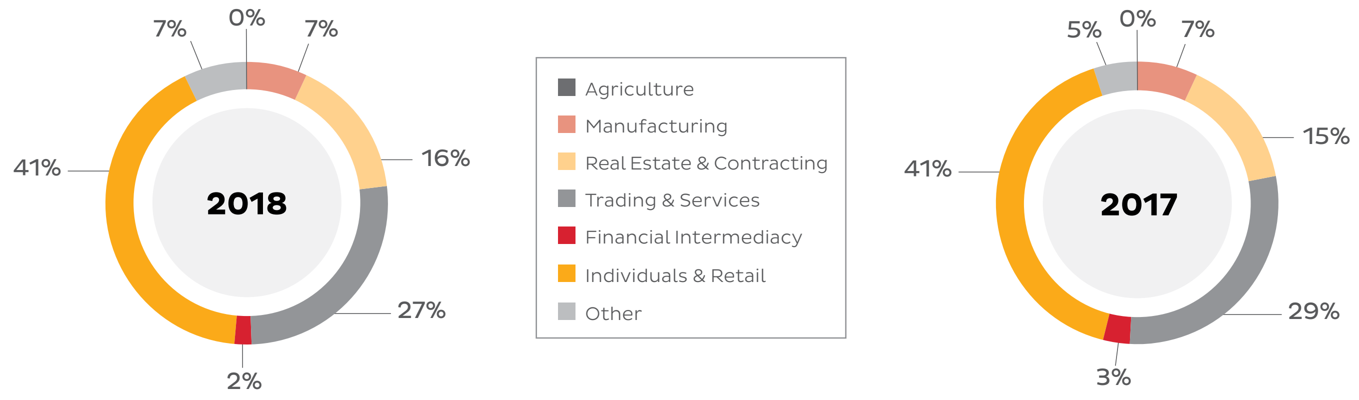
Investment securities account for 31% of total assets, and encompass Lebanese government bonds, Lebanese Treasury bills, certificates of deposit issued by the central bank of Lebanon, government bonds, and equity securities. This category slightly increased by 1.0% to LBP 2,405 billion at the end of December 2018, as compared to end of December 2017.



LOANS AND ADVANCES TO CUSTOMERS BY ECONOMIC SECTOR

The bank's loan portfolio caters to a diverse base of customers and targets their various financial needs by offering a wide range of industrial, commercial and individual loans. The charts below segregate the loan portfolio according to economic sectors as at the end of December 2018 and the end of December 2017. Consolidated loans and advances to customers reached LBP 1,427 billion at the end of December 2018, a decrease of 12.2% from last year's figure of LBP 1,626 billion.

The major concentration of loans at the end of 2018 is in the consumer sector and trade and services, with a combined share of 68%, followed by the real estate and contracting sectors which constitute 16% of the total portfolio. The loan concentration among these groups has been almost the same between the years 2018 and 2017 in general, excluding the 2% fall in the share of trade and services. These figures reflect the conservative lending strategy of the bank and the de-risking purpose of all uses of funds.



LOANS AND ADVANCES TO CUSTOMERS BY TYPE OF CUSTOMER

The charts that follow depict the distribution of loans and advances to customers by type of borrower as at the end of December 2018 as compared to the end of December 2017.

The distribution shows a major concentration of corporate loans and retail loans, which account for 47% and 38%, respectively, of the consolidated loan portfolio as at the end of December 2018.

CUSTOMERS' DEPOSITS BY TYPE

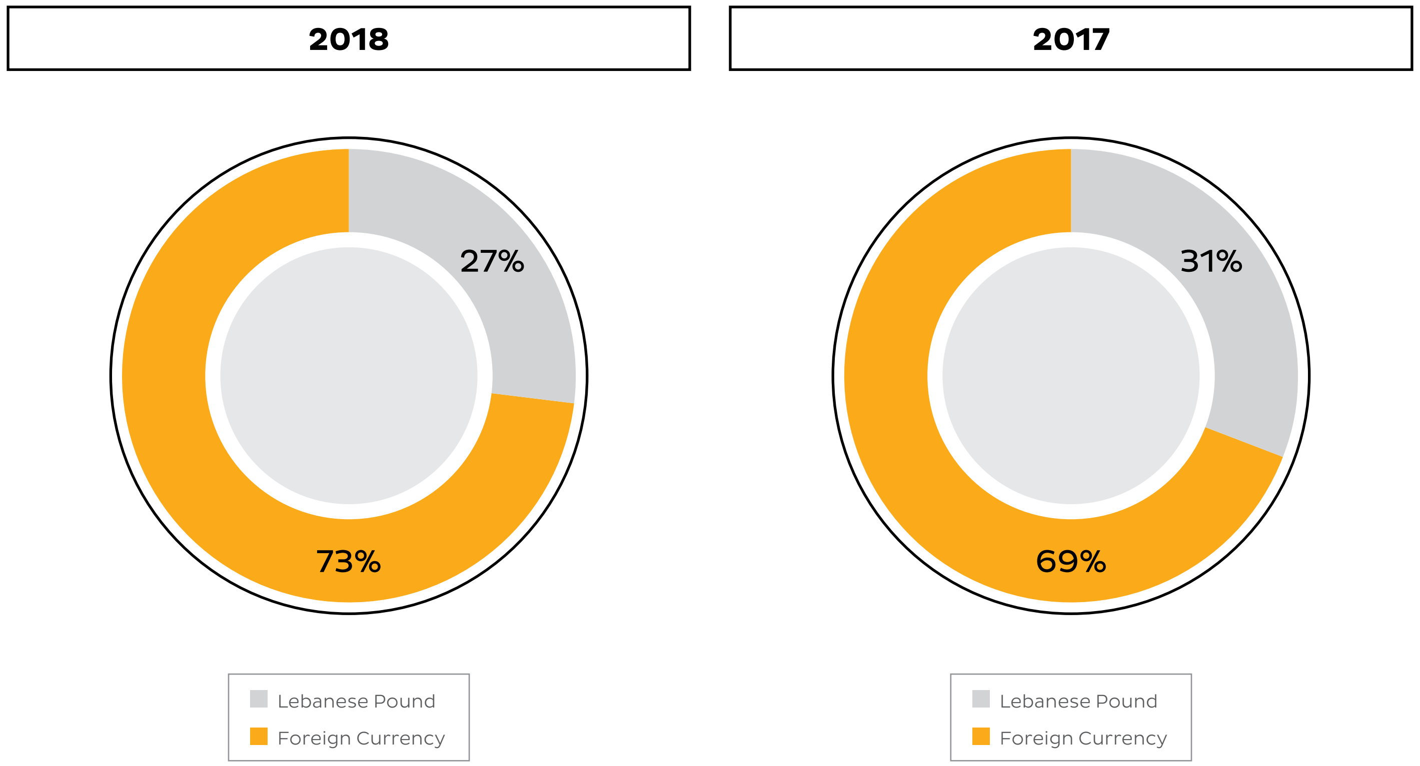
The bank's customers' deposits reached LBP 5,838 billion as at the end of December 2018, recording a deceleration of 1.8% as compared to LBP 5,942 billion at the end of December 2017. The table below classifies customers' deposits by type as at the end of 2018 and the end of 2017. Customers' deposits are mainly composed of term deposits, totaling LBP 4,604 billion as at the end of December 2018, with a mere increase of 2.4% as compared to the end of 2017, and accounting for 78.9% of the total deposits. Furthermore, current deposits, which is the second largest type with 8.8% of total deposits, totaled LBP 516 billion as at the end of December 2018, declining by 5.1% from LBP 544 billion as at the end of 2017.

	2018		2017	
	Volume (Million LBP)	% of Total	Volume (Million LBP)	% of Total
Current deposits	515,907	8.84%	543,581	9.15%
Term deposits	4,603,755	78.86%	4,495,062	75.64%
Fiduciary accounts	202,326	3.47%	289,002	4.86%
Margin deposits	43,503	0.75%	59,203	1.00%
Collateral accounts	272,858	4.67%	343,963	5.79%
Other deposits	199,293	3.41%	211,669	3.56%
	5,837,643	**100.00%**	**5,942.482**	**100.00%**

CUSTOMERS' DEPOSITS BY CURRENCY: DOLLARIZATION

The charts below illustrate the distribution of customers' deposits by currency as at the end of December 2018 and the end of December 2017.

The bank's deposits in Lebansese pounds declined substantially by 15.3%, from LBP 1,856 billion as at the end of December 2017 to LBP 1,571 billion as at the end of December 2018. Hence, this was reflected in a significant increase in the dollarization rate from 69% at the end of 2017 to 73% at the end of 2018, mirroring the hesitant market sentiment and weakened confidence in the local currency amidst the economic instability.



SHAREHOLDERS' EQUITY

The bank's shareholders' equity declined by 4.5% from LBP 675 billion as at the end of 2017 to LBP 645 billion as at the end of 2018. The main driver behind the decrease in shareholders' equity was the 32.9% decrease in the equity attributable to non-controlling interest, from LBP 155 billion as at the end of 2017 to LBP 104 billion as at the end of 2018. Furthermore, consolidated shareholders' equity accounted for 8.2% of consolidated total assets as at the end of December 2018 compared to 9.1% as at the end of December 2017.

CAPITAL ADEQUACY

The table below sets out the Group's capital adequacy ratio as at the end of December 2018 and the end of December 2017 as follows:

	2018	2017
Common equity ratio	10.54%	9.24%
Tier I ratio	12.39%	11.06%
Tier and Tier II capital adequacy ratio	13.77%	13.56%

In conformity with the Lebanese central bank's regulations and the minimum requirements regarding the capital adequacy ratio, the bank monitors and measures its capital base and risk-weighted assets on a periodic basis, in order to maintain solvency and underpin its business operations against all risks and challenges lying ahead.

SUMMARY OF CONSOLIDATED FINANCIAL RESULTS

	2018	2017	Growth (%)
	Million LBP		
Net interest income*	121,885	126,169	-3.4%
Non-interest income	32,483	28,555	13.8%
Total Income	**154,368**	**154,724**	**-0.2%**
Operating expenses	(90,368)	(89,721)	0.7%
Impairment charges	63	(2,098)	-103.0%
Income tax expense	(8,937)	(7,544)	18.5%
Total Expenses	**(99,242)**	**(99,364)**	**-0.1%**
Net Income	**55,125**	**55,360**	**-0.4%**

** Includes interest income on financial assets at fair value through profit or loss*

In reference to the table above, consolidated net income decreased by 0.4%, to LBP 55,125 million for the year ended December 2018 as compared to LBP 55,360 million for the year ended December 2017. The retraction in net income was mainly driven by an 18.5% increase in income tax expense, the equivalent of an increase of LBP 1,393 million during the year 2018, due to the tax amendments and new taxes that were issued as per Law No. 64 toward the end of 2017 and became completely effective in 2018. Also in line with the tax authorities' review of the bank's tax returns for the years 2013 through 2015, the bank fully paid the additional tax liability of LBP 1 billion in 2018. Moreover, non-interest income surged by 13.8% between the end of 2018 and the end of 2017, while operating expenses were almost even during the same period as a result of the cost efficiency that is being implemented by the bank.

NET INTEREST INCOME

Consolidated net interest income, including interest income on financial assets at FVTPL, decreased by LBP 4,284 million, a drop of 3.4%, to reach LBP 121,885 million as at the end of December 2018. This category represents about 79% of the total income for the year ended December 2018.

NON-INTEREST INCOME

The bank's non-interest income increased from LBP 28,555 million as at the end of December 2017 to LBP 32,483 million as at the end of December 2018, recording an annual growth of 13.8%. This is primarily due to a gain on sale of a subsidiary of LBP 3.8 billion as recorded in the consolidated statement of profit or loss. Yet net fee and commission income moved down by 3.7% from LBP 12,244 million as at the end of December 2017 to LBP 11,794 million as at the end of December 2018.

GENERAL OPERATING EXPENSES

The bank's general operating expenses almost remained unchanged between the end of years 2018 and 2017, and amounted to LBP 90,368 million for the year ended December 2018. Staff expenses accounted for 59.87% of general operating expenses at the end of 2018, up from 59.29% at the end of 2017.

KEY PERFORMANCE METRICS

As shown in the table below, some of the key performance metrics reflect the overall financial soundness and profitability of the bank as at the end of December 2018 and the end of December 2017. The bank's return on average assets (ROAA) fell by 6 basis points and stood at 0.72% as at the end of 2018. Moreover, the spread ratio also suffered a drawback between the years 2018 and 2017 to reach 1.60%, due to the greater increase in the cost of earning assets from 4.08% to 4.56%, as compared to the yield on earning assets which grew from 5.94% to 6.23% between the end of 2018 and 2017.

The return on average equity (ROAE) and return on average common equity (ROACE) retracted to 8.36% and 8.64%, respectively. In terms of structural ratios, the share of net fees and commissions out of non-interest income decreased during the same period and marked 36.31% as at the end of 2018.

	2018	2017
ROAA	0.72%	0.78%
Spread	1.60%	1.78%
ROAE	8.36%	8.42%
ROACE	8.64%	8.72%
Non-interest income / Total income	21.04%	18.46%
Net fees & commisions / Non-interest icome	36.31%	42.88%

FINANCIAL AND NON-FINANCIAL DEVELOPMENTS

AUDIT

The Internal Audit Department is constantly working on improving the effectiveness of FNB Group's operations, risk management, control, and governance processes by providing assurance and attestation services as well as carrying out professional audit assignments built on a systematic risk-based approach. While the internal audit function is guided by the central bank regulations, its coverage exceeded these requirements and rigorously complied with international auditing standards and those related to other professional organizations. The charter for the Internal Audit Department and the Internal Audit Committee have been updated, and clearly specify the reporting level, mission and scope of work.

The staff and management of the Internal Audit Department remain well informed of the constant changes in the audit and control fields through internal and external training sessions pertaining to different banking topics.

In 2018, all FNB branches were duly audited and risk-rated according to the level of internal control and inherent operational risks, with the aim of enhancing the branches' risk profiles. Furthermore, unplanned audit missions and exceptional audit tasks were performed in addition to the planned centralized departmental audits, in response to internal requirements and/or the enforcement of new regulations.

The Internal Audit Department is constantly working on strengthening its human capabilities as well as increasing the depth of its audits by updating all its audit programs and manuals to remain in line with new and changed banking regulations, with the objective of introducing improvements to the existing controls and audit methodology. Moreover, the software tools have been adopted to refine the audit methodology and better manage the activities of the department.

The Internal Audit Department will continue to do the necessary in order to safeguard the bank's assets and improve its operations.

BANCASSURANCE

In 2018, the Bancassurance Unit expanded its portfolio, maintaining the number one ranking in the sales of savings plans. It further improved the conditions of several insurance products and is working with various insurance companies in order to obtain competitive rates. In the same vein, the Bancassurance Unit is constantly enhancing the collection procedure of all insurance products offered by the bank.

Moreover, a special incentive scheme was put into effect to motivate our sales force. The unit also provided regular training sessions for all employees to increase product knowledge and enhance the sales approach. On-site visits were organized as well to promote sales support.

COMPLIANCE

The compliance program at FNB is continuously being updated by the Compliance Department based on changing local and international regulatory landscape to face the increasing compliance challenges and to strengthen the effectiveness of the bank in detecting and preventing the risks and threats imposed by money laundering, terrorism financing, corruption and bribery. Accordingly, the Compliance Department is continuously implementing effective measures and ensuring that it has robust automated systems in place to be able to efficiently monitor accounts, customers and transactions.

The Compliance Department renders its support to branches and departments at the bank and conducts, on a regular basis, due diligence on the bank's customers, accounts and transactions to detect and deter all forms of financial crimes, mainly money laundering, terrorism financing and other questionable sources.

The Compliance Department extended its AML/CFT and sanctions training scope to include new tailored compliance workshops and training sessions for all the concerned employees at the branches and the head office.

FNB strives to ensure full compliance with all the rules and regulations related to the Foreign Account Tax Compliance Act (FATCA), the Common Reporting Standard (CRS) and the General Data Protection Regulation (GDPR).

CORRESPONDENT BANKING

Our vision at FNB s.a.l. is to expand the correspondent bank network, wherever needed, in order to offer a better service to our clients as we strongly believe that the Bank's value lies in satisfying the needs and requirements of our customers.

FNB is always keen to boost its existing relationship with its correspondents and strive continuously to establish and further develop solid relationships.

We apply very strict measures to abide by local and international standards, rules and regulations to keep the highest levels of transparency in all our dealing.

ELECTRONIC BANKING

In 2018, we implemented the ATM check deposit service on six ATMs and expanded our ATM network, including the cash deposit service. While FNB credit and charge cards are still witnessing a substantial increase in usage, we also launched the mobile banking application. In addition to having deployed the new version of the mobile and Internet banking scheduled to be launched in 2019, we implemented a new CRM complaints management solution that handles all complaints received through all FNB channels.

Part of the future planned developments and projects in the pipeline are the expansion of the network of ATM check deposit service and the deployment of new ATM services, such as utility payment, bill presentment and payment, tuition fee payment, wedding account deposit through the ATMs and ATM cardless transaction.

Further services and products, such as the new Visa Platinum contactless debit card with enhanced features, the new version of the mobile and Internet banking application with a new design and more advanced features and benefits, a new business debit card for enterprises, and a new mobile payment service which allows clients to use their smartphones as payment devices in Lebanon or abroad, are being launched.

Other planned developments and projects include the implementation of a new credit and debit card automated flow solution to accelerate the approval cycle with more efficiency, as well as a new queuing management system in some of the branches.

HUMAN RESOURCES

The BDL 103 certification requirements were enforced for all subject staff, mitigating the risks of non-compliance with this regulatory mandate. The completion rate as of the end of 2018 exceeded 60% with all the new requirements imposed by BDL. The HR Department worked on the training budget and curriculum by department/branch and by function/job, which was finalized by the end of 2018. Additionally, the department almost finalized the migration to the new People 365 system.

As for the plans for 2019, the HR Department will pursue the initiatives worked on during 2018, in addition to finalizing the implementation process of the new People 365 payroll and HR system, training the management team and other critical groups to improve their supervisory and managerial performance and competencies.

INFORMATION TECHNOLOGY

We live in an age where information technology, with its increasing pace of change, has become much more fluid. Providing the banking industry with the means to deal with the challenges the new economy poses, it has been the cornerstone of recent financial sector reforms aimed at increasing the speed and reliability of financial operations, and initiatives to strengthen the banking sector.

To improve and enhance the bank processes, thus increasing the productivity and performance of the employees, the core banking system was upgraded to its latest version delivering significant business values for FNB, in particular:

- Increasing the operational efficiency by building our own services and business rules that can automate the necessary steps, thus reducing human errors;
- Opening the system to easily connect to other platforms (using SOA web services);
- Installing new modules and products such as Teller, enhanced fees & charges, Swift changes and maker-checker; and
- Providing a better graphical web-based user interface.

The upgrade process also embraced the "Fusion Banking Message Manager" (FBMM) to its latest release in order to be compatible with the 2018 Swift changes. As for the new "Fusion Banking Trade Innovation" (FBTI), it was installed to replace our current version of TI Plus.

The FICO TCR module, acquired last year, was implemented to cater for FATCA/CRS requirements. This adaptable software solution largely automates the bank's compliance process and efficiently implements the various identification, classification and reporting requirements in a future-proof way.

The majority of the bank's clients are already using smartphones, tablets and computers as their preferred mode of banking. To keep the organization abreast of the market changes and improve its stability in the marketplace, the following new services and efficient delivery channels were deployed:

- ATM check deposit feature: this service was released on FNB ATMs in 2018 to streamline the bank customers' operations anytime, anywhere;
- Traffic, Truck and Vehicle Management Authority (TTVMA) service: an online API interface for mechanic fee payment was set between the bank's branches and TTVMA. FNB was the first bank that went live with this function giving the bank a competitive advantage over others;
- Sigcap: deployment of the Sigcap system that handles the customers' signatures, proxies and mandates noting that this system supports biometrics and electronic signatures; and
- Initiation of the omni-channel platform upgrade project that provides an advanced open digital banking platform, enabling a seamless, integrated, and comprehensive customer and employee experience across touch points. The new platform is based on microservices technology.

Additional new and improved services, as well as related updates and developments, shall be implemented in 2019 in order to address the current challenges in line with the bank's strategic goals.

MARKETING

Marketing represents a huge business opportunity to capture the attention of customers while building exceptional brand image.

Through the course of 2018, the impact of social media was still growing at an astronomical rate. After the considerable efforts and hard work, FNB reached more than 180k likes on Facebook and ranked in the second place among all bank accounts on Instagram and in the third place on Facebook.

FNB website is registering continuous excellent results. The website is featured on Google 1st page on keywords pertaining to the banking sector (loans, cards, accounts, bancassurance, private banking, business banking, services...) For some words, we ranked among the top three banks on the first page.

Due to the continuous SEO (Search Engine Optimization) work, the organic traffic on our website has increased over the year. Thanks to SEO, Google placed its trust in FNB's website which is translated into more credibility and brand equity.

In our continuous effort to pursue the CSR strategy that we started in the past years, 2018 was the year of strengthening our partnership and ensuring a solid and constant cooperation with several NGOs, such as Arcanciel through the sponsorship of "La Brocante des Artistes" event, Kunhadi through the sponsorship of the "Taxi Night" event, Samir Kassir Foundation through the support of the Spring Festival, Open Minds, Sesobel, Roads for Life, Children Against Cancer, Alisep, Al Younbouh, Heartbeat and many others through the support of their annual activities and fundraising dinners or by advertising in their brochures and booklets.

FNB's belief in today's youth urges us to participate in major Lebanese universities job fairs (AUB, USEK, NDU, USJ, LAU, AUL, BAU, RHU), rally papers (AUB) and other educational activities such as the USJ Christmas festivities, "Daraj el Yassou3ieh", the NDU Hospitality Faculty annual dinner, the LU Faculty of Engineering Students' Talent Show.

We also reaffirmed our support for culture and arts by renewing our sponsorship for Liban Jazz 2018, Beirut Cultural Festivals, Beirut Art Fair 2018, Abbey Cultural Heritage Festival and by sponsoring new and important cultural events such as Al Bustan Musical Festival, Yolla Soufan Music Academy Concert in Tyre and supporting the production of Khabsa Film.

Our support was also extended to back up tourism in Lebanon by sponsoring several summer festivals, such as the Jounieh International Festival, the Dbayeh International Festival, the Tyre International Festival, the Akoura Apple Festival that sustains apple farmers, alongside winter festivities by participating in the decoration of several Lebanese towns and cities for Christmas in Mazraat Yachouh, Ghazir and Tripoli.

Within the same initiative, and in order to show commitment to FNB clients, we maintained our sponsorship of the International Zouk Mikhael Festival.

Furthermore, in 2018, we gave a part of our support to sports by sponsoring the Fair Game football match for soldiers against artists, the Palestinian football team, the Antoine Ghorayeb Youth Basketball Super League 2018, the Mount Sports Club for skiing, Al Riyadi Club Beirut, the Phoenicia Club Tyre, the Haramoun Race and the Tripoli Mini Marathon Association.

In the same direction, we sustained our support for the business and economic sector by sponsoring business-oriented forums and exhibitions such as Arabnet, the Arab Academy of Sciences Conference 2018, the Arab Economic Forum, the Lebanon Investment in Infrastructure Conference, the RDCL World Lunch-Debate with the Russian ambassador, the Arab Bank's Award of WUAB and the Social Economic Award.

The bank maintained a noticeable and continuous presence in the local media. Magazines and newspapers have been ensuring the coverage of the bank activities and the advertising of the new retail products.

During 2018, we pursued our strategy for increasing the bank's positioning and brand awareness as it was shown through several effective outdoor, digital and printed press campaigns in addition to SMS burst to promote the bank's existing and newly released products and services throughout the year. This gives FNB a strong image which allows us to develop and professionalize marketing and sales strategies that support the business lines, help increase our new-to-FNB customer base and accelerate growth in the years to come.

PRIVATE BANKING

FNB's Private Banking Department caters to high-net-worth individuals through the bank's network by offering a comprehensive and diversified range of services, with access to major markets worldwide along with global investment products, including investment advisory and trade execution services in all asset classes and structuring.

The main goal of the Private Banking Department is to offer high quality services, enhance relationships and offer a wide variety of products to high-net-worth clients using a 360-degree approach to assess all their banking and wealth management needs. The first step to a successful relationship is to learn more about the customer and understand his investment objectives.

In addition, the Private Banking Department implements and provides appropriate strategies to enhance returns as well as to anticipate and address the client's needs and to help achieve his immediate and long-term wealth goals.

A wide range of customized products and services are offered and others specifically tailored to suit the client's needs, including:

- Stocks
- Bonds
- F/X
- Structured Products
- Funds
- Deposits
- Hedging Strategies
- Private Equity

The main private banking customers are high-net-worth individuals in Lebanon, Europe and the Gulf region, along with the Lebanese diaspora in sub-Saharan Africa.

RISK MANAGEMENT

The Risk Management Department at FNB operates independently from the business lines and provides oversight and control on a group level where major duties include monitoring and updating the Group's risk policies in place, following up and reporting risk concerns across risk types and organizational units. The risk management function is headed by the Chief Risk Officer who reports directly to the Chairman of the Board, with access to the Board of Directors through the Board Risk Committee.

During 2018, FNB made major steps in managing risks in a more dynamic manner across the Group, with the main objective of strengthening the risk strategy, focusing on operational risk and governance. Risk Management continued to work in coordination with all units and departments, both on the business line as well as the control and support levels.

We further aimed at enhancing our risk management processes by optimizing capital and resources, improving risk management controls, enhancing enterprise-wide risk reporting for more effective risk oversight, and streamlining risk practices for more effectiveness and consistency across the Group.

The Risk Management Department applies different stress-testing techniques on different risk factors to properly assess its capital conservation buffer, as suggested by the Basel Committee and local regulators.

On the other hand, the risk and capital strategy is being monitored annually through the Internal Capital Adequacy Assessment Process (ICAAP) to identify and assess risks, maintain sufficient capital to face these risks and apply appropriate risk-management techniques to ensure adequate capitalization on an ongoing basis. As part of the capital budgeting process of the bank, a capital planning exercise was conducted to assess the capital required for the projected 3-year period considering risks under Pillars 1 and 2, further taking into consideration the sufficiency of the capital conservation buffer in light of the different stress tests results.

In 2018, the bank implemented the asset liability management (ALM) application, a powerful tool that could be utilized for the bank's interest rate risk management, liquidity risk management, multi-factor behavior modeling, and balance sheet management capabilities. The ALM solution includes capabilities that reduce the complexity of managing the most sophisticated requirements, providing deep insight into both ALM and balance sheet to support management decision-making.

During 2018, the Operational Risk Management Unit has progressed with the risk and control self-assessment (RCSA) process on the group level, identifying weaknesses and loose controls that required a list of immediate remediation and enhancement of the processes. We aimed at strengthening our operational risk management framework by aggregating all findings collected from the incidents reporting into the RCSA and key risk indicators (KRIs) tools, and ensuring an additional layer of mitigation against the growing trend of cybercrime activities to improve the handling of security incidents.

The operational risk management function was expanded to include control units that oversaw the credit and treasury operational activities and reported findings to concerned parties for remediation.

FNB Management demonstrated an ongoing commitment to the business continuity management by laying down a proper governance structure (committees, task force, teams).

Risk Management continues its coordination with the Organization & Methods Department, to evaluate in a timely manner, an impact analysis to identify the bank's critical processes that support its key products and services in time of disaster, their interdependencies and the resources required to operate the processes at a minimally acceptable level and in compliance with the applicable legal, regulatory and other requirements. FNB Management has relocated the bank disaster recovery site premises to newly acquired premises to be the main contingency site, complying with the following criteria: a location outside the Greater Beirut District, the availability of space, the accessibility to the majority of critical personnel and the availability of proper infrastructure.

TREASURY

"First National Bank has developed its Treasury and Capital Markets Division to offer its clients the best service while being competitive on the financial markets.

One of the primary roles of the Treasury Department is to resolve complex financial challenges such as liquidity risk management, interest rates and foreign exchange exposure thereby safeguarding the bank's commitments. The mission of the Treasury Department is to provide clients with tailored financial products and risk management solutions, granting access to local and international markets and delivering investment solutions.

We offer trading services to retail, corporate and private clients, providing them with the best services, quotes and tailor-made hedging instruments.

Being a team of highly motivated and self-driven individuals, our traders go above and beyond in making themselves reachable during and after bank hours.

Our dealers are members of the financial markets association in Lebanon (ACI). Their timely market information service guarantees clients the reception of the latest industry news and product updates. In addition, they play a key role in ensuring all new regulations are enforced and new standards are properly implemented.

FNB's Treasury Department uses a conservative investment approach while abiding by the central bank's circulars.

Our experienced team of specialists deal with world-class correspondents and is equipped with advanced platforms to assist clients in a safe and timely manner."

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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To the Shareholders
First National Bank S.A.L.
Beirut, Lebanon

OPINION

We have audited the accompanying consolidated financial statements of First National Bank S.A.L. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, 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).

BASIS FOR OPINION

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

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS?
Adoption of IFRS 9: *Financial Instruments* The Group adopted IFRS 9 Financial Instruments (as revised in July 2014) including impairment requirements on its mandatory effective date of implementation on January 1, 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of LBP97billion to the opening retained earnings in the statement of changes in equity as at January 1, 2018. The changes required to processes, systems and controls to comply with IFRS 9 were significant, as the standard requires a fundamental change to the way and when credit losses are recognised and how these are measured by changing the impairment model from an Incurred Loss model to an Expected Credit Loss (ECL) model.	We updated our understanding of the Group's adoption of IFRS 9 and identified the internal controls including entity level controls adopted by the Group for the accounting, processes and systems under the new accounting standard. In addition, our work performed includes the below procedures: • Evaluate the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements. • Evaluate the reasonableness of management's key judgements and estimates made in the ECL calculation, including but not limited to the selection of methods, models, assumptions and data sources.

KEY AUDIT MATTERS

There was a risk that:

- Judgements, assumptions and estimates, which includes adopting a 'default' definition and methodologies for developing PDs at origination, lifetime-PDs, loss given default (LGD); and (exposure at default EAD) and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays are inadequate;
- Inadequate data, as well as lack of uniformity in the data is used which makes it difficult to develop models which are sufficient for IFRS 9 impairment requirements.
- Inappropriate segmentation of portfolios is used to develop risk parameters.
- The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes.
- The methodology used to allocate a probability to each scenario is inappropriate or unsupported.
- Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis.
- Assumptions incorporated in the ECL model are not updated on a timely basis.

The Notes 2 and 46 to the financial statements include disclosures on the Group's judgments, assumptions, estimates and methodologies adopted as well as information about impairment of the Group's financial assets.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS?

- Evaluate post model adjustments and management overlays in order to assess the reasonableness of these adjustments.
- Assess the reasonableness of forward looking information incorporated into the impairment calculations.
- Assessment on whether significant increase in credit risk (SICR) indicators are present for the financial assets portfolio based on IFRS 9 and the possible implications on the ECL staging and expected provisioning.
- Credit file classification supports the staging of relevant exposures, on a sample basis.
- Assessment of the ECL methodology, macroeconomic scenarios weightage, on a sample basis.

OTHER INFORMATION INCLUDED IN THE GROUP'S 2018 ANNUAL REPORT

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs, 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 judgment 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.
- 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 uncertainly 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Beirut, Lebanon
May 24, 2019

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	December 31 2018	December 31 2017
ASSETS		(LBP' 000)	
Cash and deposits with Central Bank of Lebanon	5	2,582,071,512	2,398,500,155
Deposits with banks and financial institutions	6	364,513,505	450,722,018
Financial assets at fair value through profit or loss	7	107,358,379	218,677,037
Loans to banks and financial institutions	8	7,564,443	2,763,075
Loans and advances to customers	9	1,427,103,581	1,625,906,043
Due from related parties	10	14,401,623	11,855,468
Customers' liability under acceptances	11	26,958,532	41,222,024
Investment securities at fair value through other comprehensive income	7	123,262,545	21,947,204
Investment securities at amortized cost	7	2,173,921,510	2,140,745,513
Assets under leverage agreements with the Central Bank of Lebanon	12	747,053,194	197,037,371
Assets acquired in satisfaction of loans	13	10,988,803	7,631,044
Investment in associates	14	241,212	241,212
Property and equipment	15	171,475,197	147,153,564
Other assets	16	49,236,790	49,050,394
Goodwill	17	27,006,068	27,006,068
Current assets held for sale	42	-	38,745,910
Total Assets		**7,833,156,894**	**7,379,204,100**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK			
Guarantees and standby letters of credit	37	144,758,056	134,433,528
Documentary and commercial letters of credit	37	48,182,498	33,268,771
FORWARD EXCHANGE CONTRACTS	**37**	**193,437,599**	**124,574,828**
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	**38**	**385,842,862**	**373,624,130**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	Notes	December 31 2018	December 31 2017
LIABILITIES		(LBP' 000)	
Deposits from banks and financial institutions	18	267,191,317	138,530,106
Customer deposits at amortized cost	19	5,837,642,501	5,942,481,556
Due to related parties	10	5,533,053	708,459
Liability under acceptance	11	27,047,459	41,222,024
Borrowings	20	190,195,009	162,583,802
Leverage agreements with the Central Bank of Lebanon	12	747,053,194	197,037,371
Other liabilities	21	77,350,627	168,091,652
Provisions	22	12,833,530	11,331,763
Cumulative preferred shares	23	23,673,177	23,419,115
Current liabilities held for sale	42	-	18,861,686
Total Liabilities		**7,188,519,867**	**6,704,267,534**

	Notes	December 31 2018	December 31 2017
EQUITY		(LBP' 000)	
Share capital	24	166,000,000	162,300,000
Additional paid in capital	24	39,921,454	39,921,454
Preferred shares	25	75,379,139	75,379,139
Reserves	26	102,363,677	94,435,238
Cumulative change in fair value of investment securities		(3,258,142)	2,087,791
Retained earnings		114,397,881	100,997,299
Profit for the year		45,996,024	44,981,648
Equity attributable to owners of the Bank		540,800,033	520,102,569
Non-controlling interest	27	103,836,994	154,833,997
Total equity		**644,637,027**	**674,936,566**
Total Liabilities and Equity		**7,833,156,894**	**7,379,204,100**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31 2018	Year Ended December 31 2017
		(LBP' 000)	
Interest income		465,312,073	372,388,059
Less: Tax on interest income		(20,210,905)	(1,168,669)
Interest income, net of tax	28	445,101,168	371,219,390
Interest expense	29	(331,511,094)	(276,581,332)
Net interest income		**113,590,074**	**94,638,058**
Fee and commission income	30	17,910,498	18,821,422
Fee and commission expense	31	(6,116,132)	(6,577,777)
Net fee and commission income		**11,794,366**	**12,243,645**
Net interest and gain or loss on financial assets at fair value through profit or loss	32	6,804,336	34,128,039
Gain on sale of subsidiary	42	3,768,750	-
Other operating income, net	33	18,410,068	13,713,993
Net financial revenues		**154,367,594**	**154,723,735**
Allowance for impairment of financial assets	46,9	555,113	(2,098,377)
Allowance for impairment of assets acquired in satisfaction of loans	13	(491,663)	-
Net financial revenues after impairment charge		**154,431,044**	**152,625,358**
Staff costs	34	(54,104,318)	(53,196,827)
Administrative expenses	35	(30,562,196)	(31,125,104)
Depreciation and amortization	36	(5,701,882)	(5,398,934)
Profit before income tax		**64,062,648**	**62,904,493**
Income tax expense	21	(8,937,222)	(7,544,383)
Profit for the year		**55,125,426**	**55,360,110**
ATTRIBUTABLE TO:			
Owners of the Bank		45,996,024	44,981,648
Non-controlling interests		9,129,402	10,378,462
		55,125,426	**55,360,110**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year Ended December 31 2018	Year Ended December 31 2017
		(LBP' 000)	
Net profit for the year		**55,125,426**	**55,360,110**
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of debt securities at fair value through other comprehensive income	7	(8,151,596)	-
Deferred taxes	7	1,385,771	-
Items that will not be reclassified subsequently to profit or loss:			
Change in fair value of equity securities at fair value through other comprehensive income		-	2,110,500
Net other comprehensive income for the year		**(6,765,825)**	**2,110,500**
Total comprehensive income for the year		**48,359,601**	**57,470,610**
ATTRIBUTABLE TO:			
Owners of the Bank		39,230,199	47,069,439
Non-controlling interests		9,129,402	10,401,171
		48,359,601	**57,470,610**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(LBP' 000)

	Capital	Additional Paid-In-Capital	Prefered Shares	Legal Reserves	Reserves For General Banking Risks
Balances at January 1, 2017	**162,300,000**	**39,921,454**	**75,379,139**	**22,449,419**	**54,260,907**
Allocation of 2016 profit	-	-	-	4,009,774	12,184,261
Dividends paid on preferred and common shares (Note 41)	-	-	-	-	-
Transfer to retained earnings from regulatory reserves on liquidated assets (Note 13)	-	-	-	-	-
Dividends paid on non-controlling interest	-	-	-	-	-
Total comprehensive income 2017	-	-	-	-	-
Effect of a newly consolidated subsidiary	-	-	-	-	-
Net Additions in funds' subscriptions	-	-	-	-	-
Other movement	-	-	-	-	-
Balances at December 31, 2017	**162,300,000**	**39,921,454**	**75,379,139**	**26,459,193**	**66,445,168**
Allocation of 2017 profit	-	-	-	4,351,883	7,913,212
Effect of IFRS9 adoption (Note 2)	-	-	-	-	(4,591,188)
Effect of IFRS9 on fair value of re-measurement (Note 2)	-	-	-	-	-
Allocation from Regulatory deferred liability	-	-	-	-	-
Capital increase (Note 24)	3,700,000	-	-	-	-
Dividends paid on preferred and common shares (Note 41)	-	-	-	-	-
Dividends paid on non-controlling interest	-	-	-	-	-
Total comprehensive income 2018	-	-	-	-	-
Effect of sale of subsidiary	-	-	-	-	-
Net redemption in funds' subscription	-	-	-	-	-
Transfer to general reserve (Note 26)	-	-	-	-	(69,767,192)
Other movement	-	-	-	-	-
Balances at December 31, 2018	**166,000,000**	**39,921,454**	**75,379,139**	**30,811,076**	**-**

(LBP' 000)

	General Reserve	Reserve for Assets Acquired In Satisfaction Of Loans	Cumulative Change in Fair Value of Equity Securities	Retained Earnings	Profit for the Year	Equity Attributable to Owners of The Bank	Non-Controlling Interests	Total Equity
Balances at January 1, 2017	**-**	**1,317,078**	**-**	**89,035,067**	**51,274,816**	**495,937,880**	**143,498,472**	**639,436,352**
Allocation of 2016 profit	-	229,482	-	34,851,299	(51,274,816)	-	-	-
Dividends paid on preferred and common shares (Note 41)	-	-	-	(22,903,126)	-	(22,903,126)	-	(22,903,126)
Transfer to retained earnings from regulatory reserves on liquidated assets (Note 13)	-	(15,683)	-	15,683	-	-	-	-
Dividends paid on non-controlling interest	-	-	-	-	-	-	(10,667,198)	(10,667,198)
Total comprehensive income 2017	-	-	2,087,791	-	44,981,648	47,069,439	10,401,171	57,470,610
Effect of a newly consolidated subsidiary	-	-	-	-	-	-	7,726,162	7,726,162
Net Additions in funds' subscriptions	-	-	-	-	-	-	3,875,390	3,875,390
Other movement	-	-	-	(1,624)	-	(1,624)	-	(1,624)
Balances at December 31, 2017	**-**	**1,530,877**	**2,087,791**	**100,997,299**	**44,981,648**	**520,102,569**	**154,833,997**	**674,936,566**
Allocation of 2017 profit	-	254,532	-	32,462,021	(44,981,648)	-	-	-
Effect of IFRS9 adoption (Note 2)	-	-	-	(97,186,130)	-	(101,777,318)	-	(101,777,318)
Effect of IFRS9 on fair value of re-measurement (Note 2)		-	1,419,892	-	-	1,419,892	-	1,419,892
Allocation from Regulatory deferred liability	-	-	-	97,186,130	-	97,186,130	-	97,186,130
Capital increase (Note 24)	-	-	-	(3,700,000)	-	-	-	-
Dividends paid on preferred and common shares (Note 41)	-	-	-	(14,788,125)	-	(14,788,125)	-	(14,788,125)
Dividends paid on non-controlling interest	-	-	-	-	-	-	(8,326,874)	(8,326,874)
Total comprehensive income 2018	-	-	(6,765,825)	-	45,996,024	39,230,199	9,129,402	48,359,601
Effect of sale of subsidiary	-	-	-	(580,240)	-	(580,240)	(60,259)	(640,499)
Net redemption in funds' subscription	-	-	-	-	-	-	(51,733,037)	(51,733,037)
Transfer to general reserve (Note 26)	69,767,192	-	-	-	-	-	-	-
Other movement	-	-	-	6,926	-	6,926	(6,235)	691
Balances at December 31, 2018	**69,767,192**	**1,785,409**	**(3,258,142)**	**114,397,881**	**45,996,024**	**540,800,033**	**103,836,994**	**644,637,027**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31 2018	Year Ended December 31 2017
		(LBP' 000)	
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit for the year		**55,125,426**	**55,360,110**
Adjustments for:			
Interest income (including interest income on financial asset at fair value through profit or loss)	28, 32	(451,234,029)	(399,869,940)
Interest expense	29	331,257,032	276,639,751
Income tax expense	21	8,937,222	7,544,383
Depreciation and amortization	36	5,701,882	5,398,934
(Write-back)/Allowance for impairment of loans and advances to customers	9	(555,113)	2,098,377
Amortization of premiums and discounts		3,312,112	3,078,934
Difference of exchange on investments at amortized cost		852,830	(4,231,696)
Net change in fair value of financial asset at fair value through profit or loss	32	1,904,689	(2,162,173)
Loss on disposal of equipment		60,676	199,868
Loss on sale of assets acquired in satisfaction of loans	33	94,745	220,802
Allowance for impairment of assets acquired in satisfaction of debt	13	491,663	-
Gain on disposal of a subsidiary		(3,768,750)	-
Prior year adjustments		691	(1,624)
Provision for end-of-service indemnity and other provisions	22	646,153	981,442
		(47,172,771)	**(54,742,832)**
Net increase in term placements with banks and compulsory reserve		(214,623,994)	(942,757,795)
Net increase in loans to banks		(4,836,021)	(1,261,141)
Net decrease/(increase) in loans and advances to customers		143,700,554	(87,358,749)
Net increase in due from and due to related parties		2,519,437	14,263,442
Net (increase)/decrease in investment securities		(56,482,182)	483,626,972
Net decrease/(increase) in other assets		1,049,290	(27,882,919)
Net increase/(decrease) in deposits from banks and financial institutions		128,521,296	(250,450,179)
Net (decrease)/increase in customers' deposits and credit accounts		(116,729,766)	519,013,979
Net increase in other liabilities		24,450,544	4,842,886
Settlement of provisions	22	(607,029)	(479,108)
Net cash used in operations		**(140,210,642)**	**(343,185,444)**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	Notes	Year Ended December 31 2018	Year Ended December 31 2017
		(LBP' 000)	
Proceeds from disposal of assets acquired in satisfaction of loans	13	387,139	1,412,816
Tax paid		(22,467,425)	(26,121,269)
Interest received		437,784,869	387,638,985
Interest paid		(318,900,682)	(275,068,978)
Net cash used in operating activities		**(43,406,741)**	**(255,323,890)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	15	(30,510,531)	(19,667,273)
Proceeds from disposal of equipment		576,425	47,134
Cash outflow from acquisition of a subsidiary		-	(23,612,298)
Proceeds from sale of a subsidiary		20,057,977	-
Net cash used in investing activities		**(9,876,129)**	**(43,232,437)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in borrowings from banks and financial institutions		27,539,545	278,717,064
Dividends paid on preferred and common shares	41	(14,788,125)	(22,903,126)
Dividends paid on non-controlling interest		(8,326,874)	(10,667,198)
(Payment on redemption of shares)/proceeds from subscriptions of shares		(51,733,037)	-
Net cash (used in) / generated by financing activities		**(47,308,491)**	**245,146,740**
Net decrease in cash and cash equivalents		(100,591,361)	(53,409,587)
Effects of exchange rate changes on the balance of cash held in foreign currencies		-	(2,226,735)
Cash and cash equivalents - Beginning of year		**503,806,225**	**559,442,547**
Cash and cash equivalents - End of year	43	**403,214,864**	**503,806,225**

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED **DECEMBER 31, 2018**

1. GENERAL INFORMATION

First National Bank S.A.L. (the "Bank") is a Lebanese joint stock company established in 1991 and registered in the Commercial Register under the Number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of twenty six branches in various Lebanese regions. The consolidated financial statements of the Group as at December 31, 2018 comprise the Bank and its subsidiaries, FNB Holding Limited and its Subsidiaries (2018 and 2017: 98.92%.), FNB Finance S.A.L. (2018 and 2017: 100%), Corporate Finance House ("CFH") (2018 and 2017: 100% acquired by FNB Holding Limited), Immobilia Hamra S.A.L. (2018 and 2017: 50% acquired by FNB Holding Limited), and Colmarer Property Investment I Limited (2017: 100% acquired by Corporate Finance House BVI) are hereafter referred to as (the "Group").

The Bank's headquarters are located in Beirut, Lebanon.

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

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 consolidated 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. Transition provisions of IFRS 9 allow an entity not to restate comparatives. 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 early adopted IFRS 9 (2009) and IFRS 9 (2010) with respect to classification and measurement requirements of its financial assets and financial liabilities.

On January 1, 2018 the Group adopted IFRS 9 (July 2014) and therefore reassessed the classification and measurement of its financial assets and financial liabilities that have not been derecognised as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Refer to Note 3.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The impact on the classification of financial assets and their carrying amounts is disclosed under section (d) below.

b. Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an 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 recognised.

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

The Group applies three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVTOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL
Stage 1 includes financial assets that did not experience a significant increase in credit risk since the initial recognition or that have low credit risk. For these assets, ECL are recognised on the gross carrying amount of the asset based on the expected credit losses that result from default events that are possible within 12 months after the reporting date. Interest is computed on the gross carrying amount of the asset.

Stage 2: Lifetime ECL
Stage 2 includes financial assets that have had a significant increase in credit risk (SICR) since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised.

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.

The existing hedging relationships continue to qualify and be effective under the IFRS 9 hedge accounting provisions and did not have any transition impact on the Group's financial statements.

d. Transition

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

- As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  - The determination of the business model within which a financial asset is held

  - The designation of certain investments in equity instruments not held for trading as at FVTOCI.

  - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

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		Re-measurement			Classification under IFRS 9 (2014) January 1, 2018	
	Category	**Amount**	**Reclassification**	**ECL**	**Effect of Reclassification**	**Category**	**Amount**
FINANCIAL ASSETS	**(LBP' 000)**			**(LBP' 000)**			
Cash and deposits with central bank	Amortized cost	2,398,500	-	(24,733)	-	Amortized cost	2,373,767
Deposits with banks and financial institutions	Amortized cost	450,722	-	(947)	-	Amortized cost	449,775
Financial assets at fair value through profit or loss	FVTPL	218,677	(33,316)	-	-	FVTPL	185,361
Loans to banks and financial institutions	Amortized cost	2,763	-	(12)	-	Amortized cost	2,751
Loans and advances to customers and related parties	Amortized cost	1,637,762	-	(50,064)	-	Amortized cost	1,587,698
Customers' liability under acceptances	Amortized cost	41,222	-	(259)	-	Amortized cost	40,963
Financial assets at fair value through other comprehensive income	FVTOCI	21,947	109,913	(912)	1,420	FVTOCI	132,368
Financial assets at amortized cost	Amortized cost	2,140,746	(76,597)	(21,971)	-	Amortized cost	2,042,178
		6,912,339	**-**	**(98,898)**	**1,420**		**6,814,861**
Provisions (Note 23)		**7,507**	**-**	**(2,879)**	**-**	**Amortized cost**	**10,386**
				(101,777)			

The increase in impairment allowances when measured in accordance with IFRS 9 expected credit losses model compared to IAS 39 incurred loss model amounts to LBP102billion.

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 a number of 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 28 *Investments in Associates and Joint Ventures*: The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.
- In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.
- 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. Adoption of new and revised Standards

2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these 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
IFRS 17 *Insurance Contracts* IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.	January 1, 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Effective date deferred Investments in Associates and Joint Ventures (2011): indefinitely. Adoption is Relating to the treatment of the sale or contribution of assets from and still permitted investor to its associate or joint venture.	

The directors anticipate that these new standards, interpretations, and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendment, except for IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application. Management is still in the process of assessing the impact of IFRS 16 and therefore an estimate of any impact on the consolidated financial statements as of January 1, 2019 cannot be reasonably determined at present.

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 certain financial instruments measured at fair value as set out in the accounting policies below.

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 First National Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (Subsidiaries). Control is achieved when the Group:

- 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 Group 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 Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group 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 as at December 31, 2018 and 2017 comprise:

Company Name	Country of Incorporation	Date of Incorporation/ Acquisition	Percentage of Ownership		Business Activity
			2018	2017	
FNB Finance S.A.L.	Lebanon	January 8, 2010	100	100	Retail loans
FNB Holding Limited	Guernsey	December 8, 1995	98.92	98.92	Finance
SUBSIDIARIES OF FNB HOLDING LIMITED:					
FNB Holding S.A.L.	Lebanon	December 1, 1995	100	100	Holding company
FNB Capital S.A.L.	Lebanon	August 3, 1996	100	100	Finance
FNB Offshore S.A.L.	Lebanon	July 22, 1996	100	100	Finance
Middle East Capital Asset Management Limited	Guernsey	March 19, 1999	100	100	Dormant company
FNB Development S.A.L.	Lebanon	July 28, 2005	99	99	Management company
FNB Real Estate Management Company S.A.R.L.	Lebanon	May 24, 2004	100	100	Real estate management
Corporate Finance House S.A.L.	Lebanon	January 1, 2014	100	100	Investment banking
Corporate Finance House BVI	British Virgin Islands	January 1, 2014	100	100	Investment banking
National Fixed Income Fund SPC	Cayman Island	January 15, 2015	-	-	Mutual Fund
First National Dollar Fund SPC	Cayman Island	October 1, 2015	-	-	Mutual Fund
Immobilia Hamra S.A.L.	Lebanon	October 31, 2017	50	50	Real Estate
Colmarer Property Investment I Limited	British Virgin Islands	January 4, 2017	-	100	Real estate management

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 other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized 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.

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 s 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. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (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 in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

E. Financial Instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss)

- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

Central Bank of Lebanon Circular # 143 dated November 7, 2017 prohibits recognition of day one profits on designated non-conventional transactions concluded between the Central Bank of Lebanon and banks and whose purpose is to secure yield adjustment to maturity on certain designated financial assets as part of the Central Bank's monetary policy. The Group recognized the designated financial assets at amortized cost. These non-conventional transactions with the Central Bank of Lebanon consist of non-transferable non-negotiable agreements.

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

F. Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- 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 amortised 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 FVTOCI;

- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

- The Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised 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 recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period.

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

In the current and prior reporting period the Group has applied the fair value option and so has designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 47.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

Impairment

Policy applicable up to December 31, 2017:

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or

- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Policy applicable effective January 1, 2018:

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

- deposits at banks;
- loans and advances to banks;
- loans and advances to customers;
- customers' liability under acceptances
- debt investment securities;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated Credit Impaired (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 result 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 result 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.

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 EIR.

- for undrawn loan commitments, the ECL is the difference between 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; and

- for financial guarantee contracts, the ECL is 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.

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:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

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 recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred 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 recognises 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 recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/

loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). 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 amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised 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 loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

G. Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Equity instruments

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 recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain/loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination 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 IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Fair value is determined as described in Note 47.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

H. 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.

I. Derivative financial instruments

Derivatives, such as foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps, are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain/loss is recognised 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. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

J. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

K. Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Group does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition the Group does not use the exemption to continue using IAS 39 hedge accounting rules, i.e. the Group applies IFRS 9 hedge accounting rules in full.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Policy applicable up to December 31, 2017:

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in "Net results on financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of profit or loss.

Policy applicable effective January 1, 2018:

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships the Group designates only the intrinsic value of options. In this case the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item. The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

The hedged items designated by the Group are time-period related hedged items, which means that the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight-line) over the term of the hedging relationship.

In some hedge relationships the Group excludes from the designation the forward element of forward contracts or the currency basis spread of cross currency hedging instruments. In this case a similar treatment is applied to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional and the option is applied on a hedge by hedge basis, unlike the treatment for the time value of the options which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation the Group generally recognises the excluded element in OCI.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in OCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain/loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

L. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. 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, which 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.

M. Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

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 as follows:

	Rates %
Buildings	2
Office improvements and installations	15
Furniture, fixtures and equipment	8-25
Computer equipment	20
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.

The gain or loss arising on the disposal or retirement of an item of property 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.

N. Intangible Assets (Other than Goodwill)

Intangible assets are amortized on a straight-line basis over the period of 3 years. Intangible assets are subject to impairment testing.

O. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon basic 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 in the statement of profit or loss.

P. Operating Lease Agreements

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated statement of income on a straight line basis over the lease term.

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 fair value of the Group's owned properties and of properties acquired in satisfaction of loans debts, is the estimated market value as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment of an illiquidity factor and market constraints.

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 sum of the last basic salary and the monthly average of the last 12 months' remunerations, 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. Deferred Restricted Contributions

Restricted contributions derived from special and non-conventional deals arrangement concluded with the regulator are deferred until designated conditions for recognition are met. At the time income is received it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

U. Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement 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 consolidated income statement 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 Bank 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. Withholding tax on interest was increased from 5% to 7%.

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, and are accounted for using the balance sheet liability method. 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.

V. Fiduciary Accounts

Fiduciary accounts 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.

W. 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 of Lebanon and deposits with 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 directors are required to make judgments, estimates and assumptions about the carrying amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the financial statements.

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 a going concern. Therefore the consolidated financial statements continue to be prepared on the going concern basis.

Business model assessment:

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to the financial assets sections of note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk:

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to note 3 and note 46 for more details.

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used:

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 and note 46 for more details on ECL.

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.

The Group based their assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Allowances for Credit Losses (applicable up to December 31, 2017):

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 groups 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 groups.

Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and determining the forward looking information relevant to each scenario:

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default:

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default:

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

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 47. For financial instruments that are 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.

Impairment of goodwill:

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy under Note 3C. The recoverable amount is determined based on the fair value of the cash generating unit less cost of disposal, assessed using the market approach (Refer to Note 17 for details).

5. CASH AND DEPOSITS WITH CENTRAL BANK OF LEBANON

	December 31 2018	December 31 2017
	(LBP' 000)	
Cash on hand	41,520,836	35,520,719
Current accounts with Central Bank of Lebanon	98,999,005	137,554,483
Term placements with Central Bank of Lebanon	2,426,918,634	2,193,035,098
Accrued interest receivable	43,701,602	32,389,855
	2,611,140,077	**2,398,500,155**
Allowance for expected credit losses	(29,068,565)	-
	2,582,071,512	**2,398,500,155**

Current accounts with Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP67.1billion (LBP98.8billion as of December 31, 2017) computed on the basis of 25% and 15% of the weekly average of demand deposits and term deposits in Lebanese Pound respectively, in accordance with local banking regulations. This compulsory reserve is not available for use in the daily banking activities.

Term placements with Central Bank of Lebanon include as of December 31, 2018 and 2017 the equivalent in foreign currencies of LBP682billion and LBP657billion respectively, deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturity of less than one year.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31 2018	December 31 2017
	(LBP' 000)	
Checks in course of collection	3,559,674	2,977,292
Cash margin against facilities	44,292,734	16,345,392
Current accounts with banks and financial institutions	223,644,482	233,974,043
Term placements with banks and financial institutions	90,654,285	196,149,990
Accrued interest receivable	2,843,945	1,275,301
	364,995,120	**450,722,018**
Allowance for expected credit losses	(481,615)	-
	364,513,505	**450,722,018**

Cash margins against facilities represents cash margins against trade finance and foreign exchange transactions with non-resident banks.

7. INVESTMENT SECURITIES

	December 31, 2018			December 31, 2017		
	LBP	C/V of FCY	Total	LBP	C/V of FCY	Total
	(LBP' 000)					
Financial assets at fair value through profit or loss	-	106,274,115	106,274,115	69,726,914	145,720,378	215,447,292
Accrued interest receivable, net of tax (A)	-	1,084,264	1,084,264	1,537,814	1,691,931	3,229,745
	-	**107,358,379**	**107,358,379**	**71,264,728**	**147,412,309**	**218,677,037**
Investment securities at fair value through other comprehensive income	34,168	121,507,642	121,541,810	34,168	21,913,036	21,947,204
Accrued interest receivable, net of tax (B)	-	1,720,735	1,720,735	-	-	-
	34,168	**123,228,377**	**123,262,545**	**34,168**	**21,913,036**	**21,947,204**
Investment securities amortized cost	498,160,015	1,641,126,068	2,139,286,083	532,603,704	1,573,606,197	2,106,209,901
Accrued interest receivable, net of tax (C)	10,053,337	24,582,090	34,635,427	10,853,785	23,681,827	34,535,612
	508,213,352	**1,665,708,158**	**2,173,921,510**	**543,457,489**	**1,597,288,024**	**2,140,745,513**

(A) Financial assets at Fair Value through Profit or Loss:

	December 31, 2018			December 31, 2017		
	LBP	C/V of FCY	Total	LBP	C/V of FCY	Total
	(LBP' 000)					
Quoted equity securities	-	7,623,609	7,623,609	-	9,227,072	9,227,072
Unquoted equity securities	-	31,813,665	31,813,665	-	30,204,476	30,204,476
Lebanese government bonds	-	14,893,872	14,893,872	-	18,534,903	18,534,903
Lebanese treasury bills	-	2,899,019	2,899,019	37,626,157	-	37,626,157
Certificates of deposit issued by the Central Bank of Lebanon	-	46,028,950	46,028,950	32,100,757	84,738,927	116,839,684
Corporate bonds	-	3,015,000	3,015,000	-	3,015,000	3,015,000
	-	**106,274,115**	**106,274,115**	**69,726,914**	**145,720,378**	**215,447,292**
Accrued interest receivable, net of tax	-	1,084,264	1,084,264	1,537,814	1,691,931	3,229,745
	-	**107,358,379**	**107,358,379**	**71,264,728**	**147,412,309**	**218,677,037**

The change in fair value gain of the financial assets at fair value through profit or loss amounted to LBP1.9billion in 2018 (LBP2.2billion in 2017) and is reflected in the consolidated statement of profit or loss under "Net interest and gain or loss on financial assets at fair value through profit or loss" (Note 32).

(B) Financial assets at Fair Value through Other Comprehensive Income:

	December 31, 2018		
	LBP	C/V of FCY	Total
	(LBP' 000)		
Unquoted equities	34,168	19,244,900	19,279,068
Lebanese government bonds	-	102,262,742	102,262,742
	34,168	**121,507,642**	**121,541,810**
Accrued interest receivable, net of tax	-	1,720,735	1,720,735
	34,168	**123,228,377**	**123,262,545**

	December 31, 2017		
	LBP	C/V of FCY	Total
	(LBP' 000)		
Unquoted equities	34,168	21,913,036	21,947,204
	34,168	**21,913,036**	**21,947,204**

The change in fair value during 2018 was as follows:

	2018		
	Change in Fair Value	Deferred tax asset / (liability)	Total
	(LBP' 000)		
January 1,	1,710,713	(290,821)	1,419,892
Additions	(8,151,596)	1,385,771	(6,765,825)
December 31,	**(6,440,883)**	**1,094,950**	**(5,345,933)**

During 2018, the Group sold Lebanese Government bonds in the amount of LBP12.7billion which resulted in a profit of LBP29.5million recognized in the statement of profit or loss under "Other operating income, net" (Note 33).

During the year 2017, the Group transferred financial assets at fair value through other comprehensive income in the amount of USD2.9million (C/V LBP4.3billion) to a related party generating a premium of USD169 thousands (C/V LBP255million) recognized under "Other operating income (net)" in the statement of profit or loss (Note 33).

(C) Investment securities at amortized cost:

	December 31, 2018				
	LBP Base Accounts				
	Amortized Cost	Allowance for Expected Credit Loss (ECL)	Net Carrying Amount	Fair Value	Accrued Interest Receivable, Net of tax
	(LBP' 000)				
Lebanese treasury bills	262,132,000	(1,611,553)	260,520,447	236,032,894	3,887,278
Lebanese government bonds	-	-	-	-	-
Certificates of deposit issued by Central Bank of Lebanon	240,311,960	(2,672,392)	237,639,568	193,764,819	6,166,059
Notes issued by Securitization Funds	-	-	-	-	-
Corporate bonds	-	-	-	-	-
	502,443,960	**(4,283,945)**	**498,160,015**	**429,797,713**	**10,053,337**

	December 31, 2018					
	F/Cy Base Accounts					
	Amortized Cost	Allowance for Expected Credit Loss (ECL)	Net Carrying Amount	Fair Value	Accrued Interest Receivable, Net of tax	Total Amortized Cost
	(LBP' 000)					
Lebanese treasury bills	-	-	-	-	-	264,407,725
Lebanese government bonds	975,640,938	(10,411,026)	965,229,912	805,298,584	13,493,104	978,723,016
Certificates of deposit issued by Central Bank of Lebanon	668,469,896	(7,069,263)	661,400,633	681,955,434	11,026,195	916,232,455
Notes issued by Securitization Funds	6,030,000	-	6,030,000	6,030,000	-	6,030,000
Corporate bonds	8,582,680	(117,157)	8,465,523	8,582,680	62,791	8,528,314
	1,658,723,514	**(17,597,446)**	**1,641,126,068**	**1,501,866,698**	**24,582,090**	**2,173,921,510**

	December 31, 2017		
	LBP Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable, Net of tax
	(LBP' 000)		
Lebanese treasury bills	322,071,480	321,319,329	6,516,179
Lebanese government bonds	-	-	-
Certificates of deposit issued by Central Bank of Lebanon	210,532,224	217,977,527	4,337,606
Corporate bonds	-	-	-
Notes issued by Securitization Funds	-	-	-
	532,603,704	**539,296,856**	**10,853,785**

	December 31, 2017			
	F/Cy Base Accounts			
	Amortized Cost	Fair Value	Accrued Interest Receivable, Net of tax	Total Amortized Cost
	(LBP' 000)			
Lebanese treasury bills	-	-	-	328,587,659
Lebanese government bonds	904,261,324	876,040,105	12,978,568	917,239,892
Certificates of deposit issued by Central Bank of Lebanon	652,385,498	666,889,554	10,522,853	877,778,181
Corporate bonds	10,929,375	10,929,375	180,406	11,109,781
Notes issued by Securitization Funds	6,030,000	-	-	6,030,000
	1,573,606,197	**1,553,859,034**	**23,681,827**	**2,140,745,513**

As of December 31, 2018, the Group had Lebanese government bonds in the amount of LBP179billion (LBP243billion in 2017) classified as investment securities at amortized cost and pledged against repurchase agreements with a non-resident bank (Note 39).

As of December 31, 2017, the Group had Lebanese Treasury bills in the amount of LBP2.7billion pledged against a soft loan granted by the Central Bank of Lebanon (Note 39).

During 2018, the Group exchanged Lebanese treasury bills and certificates of deposit issued by the Central Bank of Lebanon with near maturities in the amount of LBP60billion and LBP23billion respectively against certificates of deposit issued by the Central Bank of Lebanon denominated in Lebanese Pounds in the amount of LBP81billion with longer maturities. This operation resulted in a loss of LBP2.2billion that is amortized over the life of the newly acquired securities.

During 2018, the Group sold Lebanese Government bonds with near maturities in the amount of LBP87billion. These operations resulted in a gain of LBP21million recorded in the statement of profit or loss under "Other operating income, net" (Note 33).

During 2017, the Group sold investment securities classified at amortized cost near maturity in the amount of LBP34.5billion which resulted in a gain in the amount of LBP325million recognized under "Other operating income (net)" (Note 33).

During 2017, the Group exchanged Lebanese treasury bills classified at amortized cost near maturity in the amount of LBP10billion against Lebanese government bonds with longer maturities and classified at amortized cost. This operation resulted in a net gain of LBP1.6million recognized under "Other operating income (net)" (Note 33).

During 2017, the Group exchanged treasury bills with near maturities in the amount of LBP17.9billion against Lebanese Government bonds with longer maturities and classified at amortized cost. This operation resulted in a net gain of LBP20million which will be amortized over maturity.

During 2017, the Group exchanged certificate of deposits issued by the Central Bank of Lebanon in the amount of LBP182billion against Lebanese Government bonds with longer maturities and classified at amortized cost. This operation did not result in any gain or loss.

8. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	December 31 2018	December 31 2017
	(LBP' 000)	
Loans to a resident bank (a)	650,000	1,050,000
Loans to non-resident banks (b)	6,937,240	-
Discounted documentary letters of credit	-	1,701,219
Accrued interest receivable	7,570	11,856
	7,594,810	**2,763,075**
Less: Allowance of expected credit losses	(30,367)	-
	7,564,443	**2,763,075**

(a) Loans to a resident housing bank represent 12 year LBP loans. Interest is paid semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged, in favor of the Bank, bills related to housing loans granted to its customers.

b) Loans to non-resident banks as of December 31, 2018 represent short-term trade financing denominated in U.S. Dollars provided by the Bank to a bank in Africa.

9. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2018			December 31, 2017		
	Gross Amount	Allowance for Credit Losses	Carrying Amount	Gross Amount	Allowance for Credit Losses	Carrying Amount
	(LBP' 000)					
PERFORMING CORPORATE LOANS:						
Commercial loans	286,651,897	(24,926,085)	261,725,812	323,527,777	-	323,527,777
Overdrafts	431,140,975	(4,855,552)	426,285,423	498,885,026	-	498,885,026
Other corporate loans	149,103,037	(2,651,610)	146,451,427	171,199,401	-	171,199,401
PERFORMING RETAIL LOANS:						
Car loans	64,734,317	(1,121,793)	63,612,524	89,213,272	-	89,213,272
Credit cards	17,230,056	(570,313)	16,659,743	16,586,487	-	16,586,487
Housing loans	269,526,349	(7,620,880)	261,905,469	251,459,151	-	251,459,151
Overdrafts	45,526,004	(629,770)	44,896,234	56,444,215	-	56,444,215
Personal loans and other loans	137,130,126	(3,354,323)	133,775,803	148,374,991	-	148,374,991
Allowance for collectively Assessed loans	-	-	-	-	(12,096,630)	(12,096,630)
Non-performing loans	110,832,912	(43,806,054)	67,026,858	115,027,989	(36,581,946)	78,446,043
Accrued interest receivable	4,833,693	-	4,833,693	3,935,707	-	3,935,707
	1,516,709,366	**(89,536,380)**	**1,427,172,986**	**1,674,654,016**	**(48,678,576)**	**1,625,975,440**
Less: Pledged guarantee funds to cover shortage in provision	-	(69,405)	(69,405)	-	(69,397)	(69,397)
	1,516,709,366	**(89,605,785)**	**1,427,103,581**	**1,674,654,016**	**(48,747,973)**	**1,625,906,043**

The movement of the allowances for impairment of individually assessed performing retail loans and doubtful debts is summarized as follows:

	2017
	(LBP' 000)
Balance January 1	**29,414,702**
Additions	4,705,470
Transfer to allowance for impairment of collectively assessed loans	(601,142)
Recoveries	(3,090,114)
Transfer from regulatory deferred liability (Note 21)	6,005,043
Transfer to off-balance sheet	(56,948)
Other	204,935
Balance December 31	**36,581,946**

	2017
	(LBP' 000)
Balance January 1	11,006,424
Additions	483,021
Transfer from allowance of individually assessed loans	601,142
Other	6,043
	12,096,630

Information regarding allowance for credit losses for the year 2018 is included under Note 46.

10. DUE FROM RELATED PARTIES

	December 31, 2018		December 31, 2017	
	Due from	Due to	Due from	Due to
	(LBP' 000)			
RELATED PARTIES:				
Middle East Real Estate Opportunities Fund (MEREO I) LP	233,905	-	221,521	-
Middle East Real Estate Opportunities Fund (MEREO II) LP	3,901,454	-	3,809,118	-
Gustav Immobilien 1 Limited (BVI)	6,978	-	-	708,459
Philadelphia Investment Group	2,162,952	-	2,158,921	-
Inkchip Holding S.A.L.	715,919	-	529,562	-
Trio 1 Limited	3,510,030	-	1,686,841	-
Broadwater BVI	182	-	150,932	-
Corniche 550	755,169	-	149,598	-
Kolner	249,149	-	-	-
CFH Tech	1,273,085	-	-	-
CFH Luxembourg	-	4,153,006	2,969,428	-
Meridyan Parkway	-	1,380,047	-	-
CFH Prague	-	-	40,137	-
Project Treehouse	953,592	-	94,199	-
Others	640,786	-	45,211	-
	14,403,201	**5,533,053**	**11,855,468**	**708,459**
Less: Allowance for expected Credit losses	(1,578)	-	-	-
	14,401,623	**5,533,053**	**11,855,468**	**708,459**

11. CUSTOMERS' LIABILITY UNDER 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 statement of financial position for the same amount. The allowances for expected credit losses amounted to LBP89million as of December 31, 2018 and is recorded as a contra asset.

12. LEVERAGE AGREEMENTS WITH THE CENTRAL BANK OF LEBANON

	December 31 2018	December 31 2017
	(LBP' 000)	
Lebanese treasury bills	274,187,055	132,135,240
Placements with Central Bank of Lebanon	472,866,139	64,902,131
	747,053,194	**197,037,371**

Assets under leverage arrangement consisting of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP (earning interest at a rate ranging between 6.75% and 10.92%) originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing a 2% interest rate), purpose of which is to provide yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities in foreign currency. The leverage and related pledged assets mechanism resulted in a yield adjustment on the following financial assets:

	December 31 2018	December 31 2017
	(LBP' 000)	
Term placements with Central Bank of Lebanon	424,280,055	157,629,897
Eurobonds at amortized cost	173,362,500	-
	597,642,555	**157,629,897**

13. ASSETS ACQUIRED IN SATISFACTION OF LOANS

	December 31 2018	December 31 2017
	(LBP' 000)	
Assets acquired in satisfaction of loans	11,480,466	7,631,044
Provision for impairment of assets acquired in satisfaction of loans	(491,663)	-
	10,988,803	**7,631,044**

Assets acquired in satisfaction of loans represent real estate properties and vehicles that have been acquired through enforcement of security over loans and advances to customers.

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

	(LBP' 000)
Balance January 1, 2017	**6,801,143**
Additions	2,494,871
Reversals	(31,352)
Disposals	(1,633,618)
Balance December 31, 2017	**7,631,044**
Additions	4,371,412
Reversals	(40,106)
Disposals	(481,884)
Balance December 31, 2018	**11,480,466**

The acquisition of assets in settlement of loans 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 after deduction of legal reserves and reserves for general banking risk over a period of 5 years and accumulated under equity. This reserve was reduced to 5% when certain conditions linked to the restructuring of non performing loan's portfolio were met as per local banking regulations. During 2018 and 2017, the Group appropriated a reserve of LBP255million and LBP214million respectively from 2018 and 2017 profits.

The fair value of the assets acquired in satisfaction of loans as at December 31, 2018 amounts to LBP11.7billion (LBP8.3billion as at December 31, 2017).

During 2018, the Bank's subsidiary sold assets acquired in satisfaction of loans for a consideration of LBP387million resulting in a net loss of LBP95million recorded in the consolidated statement of profit or loss under "Other operating income" (Note 33).

During 2017, the Group sold assets acquired in satisfaction of loans for an aggregate consideration of LBP1,412million resulting in a net loss of LBP221million recorded in the consolidated statement of profit or loss under "Other operating income" (Note 33). An amount of LBP16million was transferred from the regulatory reserve to retained earnings as a result of the sale of the Bank's foreclosed assets.

14. INVESTMENT IN AND LOAN TO AN ASSOCIATE

This caption represents a 12.77% equity stake in Park View Realty Company S.A.L., currently under liquidation, as at December 31, 2018 and 2017:

	December 31 2018	December 31 2017
	(LBP' 000)	
Value of the investment	241,212	241,212
	241,212	**241,212**

15. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture, Office and Computer Equipment	Vehicles	Improvements and Installations	Advance Payment	Total
	(LBP' 000)						
COST:							
Balance January 1, 2017	**26,337,960**	**36,515,295**	**36,144,024**	**932,966**	**23,651,938**	**31,632,099**	**155,214,282**
Additions	-	23,771,399	2,718,999	40,442	3,933,714	5,283,899	35,748,453
Additions through business combination	-	-	84,388	-	-	-	84,388
Disposals	-	-	(1,271,784)	(71,291)	(31,840)	-	(1,374,915)
Balance December 31, 2017	**26,337,960**	**60,286,694**	**37,675,627**	**902,117**	**27,553,812**	**36,915,998**	**189,672,208**
Additions	-	1,591,839	4,926,044	1,960	5,394,175	18,596,513	30,510,531
Disposal	-	(1,006,502)	(269,400)	-	-	-	(1,275,902)
Balance December 31, 2018	**26,337,960**	**60,872,031**	**42,332,271**	**904,077**	**32,947,987**	**55,512,511**	**218,906,837**
ACCUMULATED DEPRECIATION:							
Balance January 1, 2017	**-**	**(5,095,866)**	**(22,945,522)**	**(404,633)**	**(9,865,265)**	**-**	**(38,311,286)**
Depreciation expense	-	(1,022,013)	(2,769,123)	(84,812)	(1,374,934)	-	(5,250,882)
Additions through business combination	-	-	(83,258)	-	-	-	(83,258)
Eliminated on disposals	-	-	1,057,341	41,202	28,239	-	1,126,782
Balance December 31, 2017	**-**	**(6,117,879)**	**(24,740,562)**	**(448,243)**	**(11,211,960)**	**-**	**(42,518,644)**
Additions	-	(1,040,171)	(3,054,172)	(83,331)	(1,374,123)	-	(5,551,797)
Write-off on disposal	-	452,904	185,897	-	-	-	638,801
Balance December 31, 2018	**-**	**(6,705,146)**	**(27,608,837)**	**(531,574)**	**(12,586,083)**	**-**	**(47,431,640)**
NET CARRYING VALUE:							
Balance December 31, 2018	**26,337,960**	**54,166,885**	**14,723,434**	**372,503**	**20,361,904**	**55,512,511**	**171,475,197**
Balance December 31, 2017	**26,337,960**	**54,168,815**	**12,935,065**	**453,874**	**16,341,852**	**36,915,998**	**147,153,564**

Additions to buildings in 2017 include the acquisition cost of a real estate plot acquired by the Group in Hamra area for a consideration of USD10million (LBP15billion).

Furthermore, the additions to buildings in 2017 include transfers from advance payments representing the value of Plots 61 and 1756 in the amount of LBP3.3billion and LBP3.9billion situated in Jal El Dib and Hazmieh respectively.

Advance payment represent the cost of the renovation and construction of the Group's branches and new headquarters. The movement of these payments on account during the years 2018 and 2017 are as follows:

	Hazmieh Branch	Jal El Dib Branch	Zahlé Branch	Fanar Branch	Mathaf New Head Office	Sour Branch	Others	Total
	(LBP' 000)							
Balance, January 1, 2017	**3,936,806**	**2,670,015**	**-**	**-**	**17,443,484**	**2,087,583**	**5,494,211**	**31,632,099**
Additions	2,424	642,716	2,016,577	1,513,311	7,243,844	1,016,031	6,047,837	18,482,740
Transfers	(3,939,230)	(3,312,731)	-	-	-	(3,064,867)	(2,882,013)	(13,198,841)
Balance, December 31, 2017	**-**	**-**	**2,016,577**	**1,513,311**	**24,687,328**	**38,747**	**8,660,035**	**36,915,998**
Additions	-	-	474,931	745,445	20,667,588	25,989	3,829,907	25,743,860
Transfers	-	-	(2,437,577)	-	(3,274)	(64,736)	(4,641,760)	(7,147,347)
Balance, December 31, 2018	**-**	**-**	**53,931**	**2,258,756**	**45,351,642**	**-**	**7,848,182**	**55,512,511**

16. OTHER ASSETS

	December 31 2018	December 31 2017
	(LBP' 000)	
Prepaid expenses	6,872,912	7,399,441
Deferred charges	707,021	796,709
Deferred tax assets on change in fair value (Note 7)	1,094,950	-
Regulatory guarantee deposits	170,541	170,061
Stamps	123,221	101,377
Intangible assets (a)	353,658	322,557
Receivables from financial services contracts	1,595,113	5,661,790
Due from Social Security Fund	6,936,201	6,216,980
Regulatory blocked fund (b)	1,500,000	1,500,000
Other debit balances (c)	12,207,006	14,106,693
Investment property, net (d)	18,090,000	13,567,500
Provision for credit losses	(413,833)	(792,714)
	49,236,790	**49,050,394**

(a) The movement of intangible assets during 2018 and 2017 was as follows:

	(LBP' 000)
COST:	
Balance January 1, 2017	**2,388,374**
Additions	151,288
Disposals	(761,155)
Balance December 31, 2017	**1,778,507**
Additions	181,185
Balance December 31, 2018	**1,959,692**
ACCUMULATED AMORTIZATION:	
Balance January 1, 2017	**(2,069,053)**
Charge for the year	(148,052)
Disposals	761,155
Balance December 31, 2017	**(1,455,950)**
Charge for the year	(150,084)
Balance December 31, 2018	**(1,606,034)**
NET CARRYING VALUE:	
Balance December 31, 2018	**353,658**
Balance December 31, 2017	**322,557**

(b) Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon establishment of "First National Bank S.A.L.". This deposit is refundable in case of cease of operations, according to article 132 of the Money and Credit Law.

(c) Other debit balances include an amount of LBP3.6billion as at December 31, 2018 (LBP6.2billion as at December 31, 2017) representing the value of several checks issued in order to participate in auctions on plots which will be acquired in satisfaction of debts.

(d) Investment property, net includes real estate acquired in satisfaction of debt outside Lebanon net of impairment of LBP1.5billion in 2018 (nil in 2017). In addition, this caption includes a real estate property acquired by the Group in Baabda area for a consideration of USD9million (LBP13.6billion). The amount of LBP2.2billion is still unpaid as at December 31, 2018 (LBP2.7billion as at December 31, 2017) recorded under "accounts payable" under "other liabilities" in the consolidated statement of financial position. The property in Baabda was acquired by the Group from a debtor with a buy back option plot within four years at a price equivalent to the consideration paid plus variable interest per annum.

17. GOODWILL

	December 31 2018	December 31 2017
	(LBP' 000)	
Goodwill on acquisition of Société Bancaire du Liban ("SBL") in 2002	2,400,000	2,400,000
Goodwill on acquisition of FNB Finance S.A.L. in 2009	17,979,656	17,979,656
Goodwill on acquisition of Corporate Finance House Limited in 2014	6,626,412	6,626,412
	27,006,068	**27,006,068**

The recoverable amounts of the assets acquired in the business combination described above (Cash-generating units) are determined based on the fair value less cost of disposal, which are higher than the assets carrying value using the market comparability approach.

18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2018		
	LBP	**F/Cy**	**Total**
	(LBP' 000)		
Current and demand deposits	1,165,812	39,887,066	41,052,878
Money market deposits	90,689,445	135,307,763	225,997,208
	91,855,257	**175,194,829**	**267,050,086**
Accrued interest payable	124,050	17,181	141,231
	91,979,307	**175,212,010**	**267,191,317**

	December 31, 2017		
	LBP	**F/Cy**	**Total**
	(LBP' 000)		
Current and demand deposits	3,807,823	45,105,426	48,913,249
Money market deposits	21,340,268	68,275,273	89,615,541
	25,148,091	**113,380,699**	**138,528,790**
Accrued interest payable	1,316	-	1,316
	25,149,407	**113,380,699**	**138,530,106**

19. CUSTOMERS' DEPOSITS AT AMORTIZED COST

	December 31, 2018		
	LBP Base	F/Cy	Total
	(LBP' 000)		
Current and demand deposits	208,467,344	307,439,550	515,906,894
Term deposits	1,180,003,414	3,423,751,552	4,603,754,966
Related party deposits	62,746,661	93,213,842	155,960,503
Collateral against loans and advances to related parties	204,898	76,210,552	76,415,450
Collateral against loans and advances to customers	70,221,682	126,221,090	196,442,772
Fiduciary term deposits	53,350,490	148,976,007	202,326,497
Margins for irrevocable letters of credit	3,088,244	25,228,346	28,316,590
Margins on letters of guarantee	4,427,021	10,759,065	15,186,086
	1,582,509,754	**4,211,800,004**	**5,794,309,758**
Accrued interest payable	16,444,636	26,888,107	43,332,743
	1,598,954,390	**4,238,688,111**	**5,837,642,501**

	December 31, 2017		
	LBP Base	F/Cy	Total
	(LBP' 000)		
Current and demand deposits	207,352,496	336,228,647	543,581,143
Term deposits	1,343,002,406	3,152,060,073	4,495,062,479
Related party deposits	14,472,595	165,754,850	180,227,445
Collateral against loans and advances to related parties	-	72,866,986	72,866,986
Collateral against loans and advances to customers	155,638,310	115,458,143	271,096,453
Fiduciary term deposits	44,573,341	244,428,983	289,002,324
Margins for irrevocable letters of credit	3,278,663	40,539,889	43,818,552
Margins on letters of guarantee	5,417,651	9,966,491	15,384,142
	1,773,735,448	**4,137,304,076**	**5,911,039,524**
Accrued interest payable	11,655,656	19,786,376	31,442,032
	1,785,391,104	**4,157,090,452**	**5,942,481,556**

Customers' and related parties' deposits are segregated by brackets and customers as follows:

	2018		
	Total Deposits	% to total deposits	No. of Customers
	(LBP' 000)	%	
Less than LBP500million	1,474,748,352	25	57569
From LBP500million to LBP1.5billion	1,017,442,882	18	1218
From LBP1.5billion to LBP5billion	1,169,377,521	20	460
From LBP5billion to LBP10billion	560,471,837	10	82
From LBP10billion to LBP15billion	256,460,337	4	21
Above LBP15billion	1,316,932,744	23	39
	5,795,433,673	**100**	**59,389**

	2017		
	Total Deposits	% to total deposits	No. of Customers
	(LBP' 000)	%	
Less than LBP500million	1,436,099,937	24	57313
From LBP500million to LBP1.5billion	1,003,190,019	17	1194
From LBP1.5billion to LBP5billion	1,133,188,827	19	452
From LBP5billion to LBP10billion	587,348,914	10	86
From LBP10billion to LBP15billion	332,277,031	6	28
Above LBP15billion	1,418,934,796	24	41
	5,911,039,524	**100**	**59,114**

Average balance of customers' deposits and related cost of funds during the last 3 years are as follows:

Year	Balance of Deposits	LBP	F/Cy	Cost of Funds	Average Cost of Funds
	(LBP' 000)	%	%	(LBP' 000)	%
2018	5,973,841,082	28	72	313,321,924	5.24
2017	5,721,231,113	32	68	264,806,859	4.63
2016	5,224,689,651	37	63	235,138,540	4.50

Customers' deposits include coded accounts as at December 31, 2018 and 2017 amounting to LBP27.6billion and 13.9billion respectively. These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Group's management cannot reveal the identities of the depositors to third parties, including its independent auditors.

20. BORROWINGS

	December 31 2018	December 31 2017
	(LBP' 000)	
Borrowings under sale and repurchase agreement (a)	122,858,292	122,858,292
Central Bank of Lebanon - Circular 313 (b)	50,824,874	35,511,831
European Investment Bank (c)	216,096	319,614
Soft loan from Central Bank of Lebanon (d)	-	2,745,000
Other borrowings (e)	15,075,020	-
	188,974,282	**161,434,737**
Accrued interest payable	1,220,727	1,149,065
	190,195,009	**162,583,802**

(a) Sale and repurchase agreements as of December 31, 2018 and 2017 consist of repurchase agreement contracts with non-resident banks in the amount of USD81.5million (C/V LBP123billion) against pledged Lebanese government bonds with a nominal value of USD120.5million (C/V LBP181.6billion) and USD161.2million (C/V LBP243billion) as of December 31, 2018 and 2017 respectively, classified under "Investment Securities at amortized cost" (Note 39).

(b) The Central Bank of Lebanon granted the Group facilities in the amount of LBP50.8billion as at December 31, 2018 (LBP35.5billion as at December 31, 2017) in accordance with Basic Decision No. 6116 of March 7, 1996 and its amendment in Basic Circular No. 313. The loan proceeds were lent to the Group's customers, pursuant to certain conditions, rules and mechanism. These facilities are subject to an annual interest rate of 1% paid on a monthly basis.

(c) Borrowings from the European Investment Bank are managed by the Central Bank of Lebanon and financed by the European Investment Bank upon the agreement signed between the Lebanese Republic and the European Investment Bank on December 14, 1999. The purpose of these loans is to finance projects in the industrial sector. These borrowings mature during 2020.

(d) During 2011, the Central Bank of Lebanon ("BDL") granted the Group a soft loan in the amount of LBP2.7billion in accordance with Decision number 6116 dated March 7, 1996 subject to an annual interest rate of 2.2%. The loan proceeds are invested in Lebanese treasury bills for the same amount classified at amortized cost and maturing in January 2018 (Note 7). The treasury bills are pledged in favor of BDL until full repayment of the loan. The present value of the net investment proceeds were used to finance the write-off of a debtor's exposure under credit facilities used to refinance the construction of property and acquisition of equipment damaged during the July 2006 war.

(e) Other borrowings represent a short term borrowing granted in 2018 by a foreign resident bank, denominated in US Dollars and matures in one year against a pledged term placement in the same amount (Note 39).

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

	2018	2017
	(LBP' 000)	
Balance, January 1	**161,434,737**	**67,356,869**
Financing cash flows - additions	33,191,079	94,912,875
Financing cash flows - settlements	(5,651,534)	(835,007)
Balance, December 31	**188,974,282**	**161,434,737**

The accrued interest payable during 2018 and 2017 was as follows;

	2018	2017
	(LBP' 000)	
Borrowings under sales & repurchase agreement	1,031,396	713,684
Borrowings from Central Bank of Lebanon	1,262	432,269
European Investment Bank	2,083	3,112
Other borrowings	185,986	-
	1,220,727	**1,149,065**

21. OTHER LIABILITIES

	December 31 2018	December 31 2017
	(LBP' 000)	
Regulatory deferred liability (a)	-	97,186,130
Due to insurance companies and collectors of bills (b)	4,688,922	5,665,725
Current tax liability (c)	8,937,222	2,256,520
Withheld taxes and other taxes payable	4,163,559	5,864,212
Due to the National Social Security Fund	700,823	763,618
Checks and incoming payment orders in course of settlement	18,990,512	17,651,056
Accrued expenses	19,223,462	11,365,561
Deferred income (d)	6,662,401	9,134,084
Sundry accounts payable (e)	12,657,854	16,980,662
Accrued interest on preferred share (Note 23)	1,325,872	1,224,084
	77,350,627	**168,091,652**

(a) In accordance with the Central Bank of Lebanon Intermediary Circular number 446 dated December 30, 2016, banks should record the surplus derived from sale of treasury bills in Lebanese pounds against investment in medium term certificates of deposits in foreign currency issued by the Central Bank of Lebanon under deferred liability which is regulated in nature, and shall be appropriated, among other things, after deducting the relevant tax liability, to collective provision for credit risks associated with the loan book at a minimum of 2% of the weighted Credit risks, and that in anticipation of implementation of IFRS 9 for Impairment, as and when quantified effective on January 1, 2018. By virtue of this Circular, 70% of the remaining residual surplus once recognized over time shall be treated as non-distributable income designated and restricted only for appropriation to capital increase.

During the year 2016, as a result of several transactions derived from the special and non-conventional deals arrangement with the Central Bank of Lebanon, the Group received a surplus of LBP106billion, net of tax in the amount of LBP19billion paid during May 2017, which was credited to "Regulatory deferred liability" and deferred as restricted contribution in anticipation of expected loss provisions that will be deemed to be necessary along with the application of IFRS 9 in accordance with the Central Bank of Lebanon requirements as indicated above.

During 2017, an amount of LBP6billion was transferred to provision for credit losses against loans and advances to customers (Note 9).

During 2018, the Group allocated the balance of the Regulatory deferred liability to retained earnings to offset the expected credit losses resulting from IFRS 9 implementation in accordance with the Central Bank of Lebanon designation referred to above.

(b) The maturity of the dues to insurance companies and collectors of bills related to retail loans are allocated based on the maturity of the related outstanding loans.

(c) Income tax expense is reconciled as follows:

	2018	2017
	(LBP' 000)	
Income before income tax	64,062,648	62,904,493
Income from subsidiaries (net of eliminations)	(29,578,541)	(27,020,901)
	34,484,107	**35,883,592**
Add: Non-deductible expenses	4,419,291	6,855,198
Less: Non-taxable revenues	(1,708,441)	(10,845,288)
Taxable income	37,194,957	31,893,502
Income tax (17% for 2018; 15.36% for 2017)	6,323,143	5,163,124
Add: Income tax expense on subsidiaries including taxes on holdings and offshores	2,614,079	2,381,259
Tax expense for the year	8,937,222	7,544,383
Less: Tax paid during the year in the form of withholding tax including subsidiaries	-	(5,287,863)
Current tax liability as at December 31	**8,937,222**	**2,256,520**

During the year 2017, 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 corporate income tax from 15% to 17% as well as an increase in the withholding tax on interest earned on bank deposits from 5% to 7% to be applied effective on October 27, 2017 onwards. The average prorated corporate income tax rate during 2017 was computed at 15.36%.

The withholding tax on interest which was considered up to October 26, 2017 as a prepayment deducted from the corporate tax liability is now considered as a deductible expense for the purpose of calculating the corporate taxable income.

During 2018, the Bank's tax returns for the years 2013 to 2015 were reviewed by the tax authorities and resulted in additions tax liability of LBP1billion fully provided under "accrued Expenses" and paid during 2018.

The tax returns of the Bank for 2018 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

Subsequent to the date of the financial statements the Bank's tax returns for the years 2016 and 2017 are being reviewed and the result of the review is not finalized yet.

The accounts and income tax returns of the Bank's subsidiaries for the years since 2014 (2015 for one subsidiary) are still subject to the review by the tax authorities.

During 2018, the Bank's social security returns for the years 2013 to 2017 were reviewed by the National Social Security Fund authorities. This review did not result in any additional liability or penalties. The Bank's social security returns for 2018 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

The Group's management does not anticipate significant additional tax and social security liabilities with regard to years that are still subject to examination with respect to the Bank and its subsidiaries.

(d) Deferred income includes unearned commission on insurance policies related to outstanding retail loans maturing after year end. These unearned commissions are recognized to income over the term of the related loans. Furthermore, it includes file fees and difference on collection charges that are recognized as yield adjustment over the loan repayment period.

(e) Sundry accounts payable as at December 31, 2018 and 2017 include housing loans granted by the Bank and not yet withdrawn by customers in the amount of LBP5.2billion (LBP11.2billion in 2017) of which LBP2.2billion were subsequently withdrawn.

22. PROVISIONS

Provisions consist of the following:

	December 31 2018	December 31 2017
	(LBP' 000)	
Provision for staff end-of-service indemnities	11,166,639	11,083,525
Provision for foreign currency fluctuations	178,288	25,226
Expected credit losses on off-balance sheet commitments	1,462,643	-
Provision for contingencies	25,960	223,012
	12,833,530	**11,331,763**

	(LBP' 000)
Balance January 1, 2017	**10,492,389**
Additions (Note 34)	1,070,244
Settlements	(479,108)
Balance December 31, 2017	**11,083,525**
Additions (Note 34)	690,143
Settlements	(607,029)
Balance December 31, 2018	**11,166,639**

The provision for contingencies is set up to cover possible claims and charges in connection with the Group's activities and includes amounts to cover the likelihood of additional levies due to uncertainties.

23. CUMULATIVE PREFERRED SHARES

The Extraordinary General Assembly approved in its meeting held on June 6, 2014 the issuance of 150,000 cumulative Series "A" preferred shares with fixed maturity at a nominal value of LBP10,000 per share in the aggregate amount of LBP1.5billion and an aggregate premium of LBP22.2billion (LBP21.9billion in 2017) on the entire issued shares to the sole subscriber the "European Investment Bank". The preferred shares earn dividends on a cumulative basis of USD4.5 per share and mature in seven years. Interest expense in the amount of LBP1.3billion for the year 2018 and 2017 is recorded under "Interest expense" (Note 29) and accrued interest payable in the amount of LBP1.3billion is recorded under "Other liabilities" (Note 21) as at December 31, 2018 (LBP1.2billion as at December 31, 2017).

24. SHARE CAPITAL

The Extraordinary General Assembly approved in its meeting held on May 11, 2018 the increase of capital from LBP162.3billion to LBP166billion through the issuance of 370,000 nominative shares of LBP10,000 each. The capital of the Bank as at December 31, 2018 became composed of 16,600,000 shares of par value of LBP10,000 each fully paid (16,230,000 shares of par value of LBP10,000 each as at December 31, 2017) with an additional paid-in capital of LBP39.92billion as at December 31, 2018 and 2017.

25. PREFERRED SHARES

	December 31 2018	December 31 2017
	(LBP' 000)	
Preferred shares Series "2"	37,687,500	37,687,500
Preferred shares Series "3"	37,691,639	37,691,639
	75,379,139	**75,379,139**

The Group's issued preferred shares carry the following terms:

Non-cumulative perpetual redeemable preferred shares	Number of Shares	Share's issue price	Yield	Listed on Beirut Stock Exchange
Series 2 – Issued in 2012	250,000	USD 100	6.75-7.25% per year	No
Series 3 – Issued in 2014	250,000	USD 100	6.5% per year	No

The Group has the right, at its sole discretion, to redeem on each redemption date all or part of the Series 2 and 3 preferred shares (but not less than 20%). Redemption date means for the first time the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Group's shareholders which ascertains the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; and every year thereafter.

In the event of liquidation of the Group, holders of preferred shares series 2 and 3 rank senior to the holders of common shares.

26. RESERVES

	December 31 2018	December 31 2017
	(LBP' 000)	
Legal reserves (a)	30,811,076	26,459,193
Reserves for general banking risks (b)	-	61,853,980
General reserve for performing loans (c)	-	4,591,188
General reserve (d)	69,767,192	-
Reserves for assets acquired in satisfaction of loans - Note 13	1,785,409	1,530,877
	102,363,677	**94,435,238**

(a) The legal reserves are 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. Accordingly, an amount of LBP4.4billion was appropriated to legal reserve during the year 2018 (LBP4billion in 2017).

(b) The reserve for general banking risks was constituted according to Lebanese banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve was constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve was not available for distribution. During 2018, an additional amount of LBP7.9billion was appropriated from 2017 profits and the outstanding balance of this reserve of LBP69.77billion was transferred to general reserves (Refer to (d) below).

(c) In compliance with the basic circular no. 81 issued by the Central Bank of Lebanon, the Bank is required to transfer from net profit to general reserve for performing loans the equivalent of:

- 0.5% of retail loans that are less than 30 days past due (subject to deductions of some guarantees received) to general reserve for the year 2014 in addition to a percentage of 0.5% yearly over a six year period starting 2015.
- 0.25% of performing corporate loans to general reserve as of end of 2014. This reserve should increase to 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017. The Bank is exempted from this general reserve if the balance of collective provision exceeds 0.25% of the performing corporate loans portfolio as of end of 2014, 0.5% as of end of 2015, 1% as of end of 2016 and 1.5% as of end of 2017.

During 2018, the balance of the reserve of LBP4.59billion was transferred to retained earnings to partially offset the allowance for expected credit losses upon adoption of IFRS9 (July 2014) on January 1, 2018.

(d) In compliance with article 16 of the basic circular no. 143 issued by the Central Bank of Lebanon, the Bank is required to transfer reserve for general banking risks and the general reserve for performing loans to a non-distributable general reserve. As at January 1, 2018, balances under "Reserve for general banking risks" amounting to LBP69.77billion, were transferred to "General reserve" (Refer to (b) above).

27. NON-CONTROLLING INTERESTS

	December 31 2018	December 31 2017
	(LBP' 000)	
Capital	476,211	485,425
Reserves	165,417	272,116
Accumulated profits	488,322	181,531
Cumulative Change in fair value of investment securities	22,709	22,709
Revaluation Surplus	7,515,642	7,515,642
Funds' Net Asset Value (Note 44)	95,168,693	146,356,574
	103,836,994	**154,833,997**

28. INTEREST INCOME

	2018		
	Interest Income	Withheld Tax	Net Interest Income
	(LBP' 000)		
INTEREST INCOME FROM:			
Term deposits with central banks	184,472,381	(13,161,781)	171,310,600
Deposits with banks and financial institutions	7,368,786	(411,896)	6,956,890
Financial assets at amortized cost	153,244,361	(6,637,228)	146,607,133
Financial assets at OCI	6,265,923	-	6,265,923
Loans to banks	900,815	-	900,815
Loans and advances to customers	111,003,720	-	111,003,720
Loans and advances to related parties	2,056,087	-	2,056,087
	465,312,073	**(20,210,905)**	**445,101,168**

	2017		
	Interest Income	Withheld Tax	Net Interest Income
	(LBP' 000)		
INTEREST INCOME FROM:			
Term deposits with Central Bank	90,971,544	(394,812)	90,576,732
Deposits with banks and financial institutions	8,644,238	(61,249)	8,582,989
Financial assets at amortized cost	154,380,207	(712,608)	153,667,599
Loans to banks	658,999	-	658,999
Loans and advances to customers	116,766,630	-	116,766,630
Loans and advances to related parties	966,441	-	966,441
	372,388,059	**(1,168,669)**	**371,219,390**

29. INTEREST EXPENSE

	2018	2017
	(LBP' 000)	
INTEREST EXPENSE ON:		
Deposits and borrowings from banks and financial institutions	16,917,301	10,502,604
Customers' deposits	302,274,674	255,208,300
Related parties' deposits	11,047,250	9,598,559
Interest expense on cumulative preferred shares (Note 23)	1,271,869	1,271,869
	331,511,094	**276,581,332**

30. FEE AND COMMISSION INCOME

	2018	2017
	(LBP' 000)	
Commission on documentary credits	1,667,749	1,597,228
Commission on letters of guarantee	2,115,665	2,221,395
Commission on certificates of deposit	28,921	35,704
Service fees on customers' transactions	12,790,495	12,706,642
Brokerage fees	1,000,536	2,082,564
Commission on transactions with banks	307,132	177,889
	17,910,498	**18,821,422**

31. FEE AND COMMISSION EXPENSE

	2018	2017
	(LBP' 000)	
Commission on transactions with other banks	3,411,500	2,256,616
Commission on private banking transactions	2,704,632	4,321,161
	6,116,132	**6,577,777**

32. NET RESULTS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	(LBP' 000)	
Interest income, net of tax	6,132,861	28,650,550
Dividend income	2,162,002	2,880,144
Unrealized loss/gain (Note 7)	(1,904,689)	2,162,173
Net realized gain on sold securities	414,162	435,172
	6,804,336	**34,128,039**

33. OTHER OPERATING INCOME (NET)

	2018	2017
	(LBP' 000)	
Revenue from services provided (a)	10,432,786	8,742,139
Gain from disposal of investments at amortized cost (Note 7)	20,628	326,745
Net loss on disposal of assets acquired in satisfaction of loans (Note 13)	(94,745)	(220,802)
Net loss on disposal of property and equipment	(60,676)	(199,868)
Direct write-off of doubtful other assets	-	(384,969)
Net foreign exchange gains	4,457,727	3,915,661
Dividend income	224,994	215,995
Net realized gain on sale of securities at FVTOCI (Note 7)	29,510	-
Rental income	990,275	677,496
Other (b)	2,409,569	641,596
	18,410,068	**13,713,993**

(a) Revenues from financial services provided are broken down as follows:

	2018	2017
	(LBP' 000)	
Placement and structuring	6,622,580	3,637,598
Management	2,928,319	742,444
Advisory	-	188,437
Brokerage fees	881,887	4,173,660
	10,432,786	**8,742,139**

(b) This caption includes write-back of accruals no longer required in the amount of LBP2.3billion for the year ended December 31, 2018 (Nil in 2017).

34. STAFF COSTS

	2018	2017
	(LBP' 000)	
Salaries	32,273,328	31,943,119
Other benefits	16,497,592	15,588,871
Social Security contributions	4,643,255	4,594,593
Provision for employees' end-of-service indemnities (Net) (Note 22)	690,143	1,070,244
	54,104,318	**53,196,827**

35. GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated	
	2018	2017
	(LBP' 000)	
Board of Directors' remuneration	661,625	695,125
Telephone, mail and other communication expenses	1,153,205	1,148,433
Office supplies	1,240,766	1,137,971
Advertising and marketing expenses	2,612,835	2,800,833
Electricity and fuel	1,070,956	1,014,474
Maintenance and repair fees	4,312,839	4,047,154
Professional fees	4,180,939	3,958,974
Rent expense under operating leases	3,725,146	4,023,199
Insurance expenses	273,893	242,624
Travel and entertainment	1,326,618	1,610,227
Miscellaneous expenses	10,003,374	10,446,090
	30,562,196	**31,125,104**

36. DEPRECIATION AND AMORTIZATION

	2018	2017
	(LBP' 000)	
Depreciation of property and equipment (Note 15)	5,551,797	5,250,882
Amortization of intangible assets (Note 16)	150,085	148,052
	5,701,882	**5,398,934**

37. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS AND FORWARD EXCHANGE CONTRACTS

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 balance sheet. 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.

Forward exchange contracts outstanding as of December 31, 2018 and 2017 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

38. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

	Year Ended December 31, 2018		
	Resident	Non-Resident	Total
	(LBP' 000)		
Assets under management – Customers' marketable securities	339,749,951	39,737,202	379,487,153
Fiduciary assets - Equity securities	4,576,675	-	4,576,675
Fiduciary assets - Deposits	169,054	1,609,980	1,779,034
	344,495,680	**41,347,182**	**385,842,862**

	Year Ended December 31, 2017		
	Resident	Non-Resident	Total
	(LBP' 000)		
Assets under management – Customers' marketable securities	314,506,383	48,418,792	362,925,175
Fiduciary assets - Equity securities	7,840,787	6,568	7,847,355
Fiduciary assets - Deposits	2,423,082	428,518	2,851,600
	324,770,252	**48,853,878**	**373,624,130**

39. COLLATERAL GIVEN

	December 31, 2018				
	Pledged Amount			Corresponding Facilities	
	Amortized Cost	Fair Value Through Other Comprehensive Income	Total	Nature of Facility	Facility
	(LBP' 000)				(LBP' 000)
Term placement (Note 20)	15,075,020	-	15,075,020	Borrowing	15,075,020
Lebanese Government Bonds (Note 20)	178,589,003	3,015,000	181,604,003	Borrowing - Repurchase Agreement	122,858,292
	193,664,023	**3,015,000**	**196,679,023**		**137,933,312**

	December 31, 2017		
	Pledged Amount	Corresponding Facilities	
	Amortized Cost	Nature of Facility	Facility
	(LBP' 000)		(LBP' 000)
Lebanese Treasury bills (Note 20)	2,745,000	Soft Loan BDL	2,745,000
Lebanese Government bonds (Note 20)	242,959,253	Borrowing - Repurchase Agreement	122,858,292
	245,704,253		**125,603,292**

40. BALANCES / TRANSACTIONS WITH RELATED PARTIES

This caption consists of the following:

	December 31 2018	December 31 2017
	(LBP' 000)	
SHAREHOLDERS, DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL AND CLOSE FAMILY MEMBERS AND RELATED COMPANIES:		
Direct facilities and credit balances:		
Secured loans and advances	77,286,972	76,621,897
Unsecured loans and advances	8,032,677	7,349,353
Deposits	232,375,853	253,094,431
Indirect facilities	1,577,680	2,099,457

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP73.7billion (LBP72.87billion as of December 31, 2017). In addition, loans and advances as at December 31, 2018 were covered by real estate mortgages to the extent of LBP3.47billion (LBP4.74billion as of December 31, 2017).

Directors' and senior staff remuneration of the Bank and its subsidiaries amounted to LBP11.3billion during 2018 (LBP9.3billion during 2017).

41. DIVIDENDS PAID

	December 31 2018	December 31 2017
	(LBP' 000)	
LBP600 per common share (LBP1,100 per common share in 2017)	9,738,000	17,853,000
USD6.9 per preferred share Series (2) (USD6.9 per preferred share Series (2) in 2017)	2,600,438	2,600,439
USD6.5 per preferred share Series (3) (USD6.5 per preferred share Series (3) in 2017)	2,449,687	2,449,687
	14,788,125	**22,903,126**

42. ACQUISITION AND DISPOSALS OF SUBSIDIARIES

During 2017, Immobilia Hamra S.A.L. was included in the scope of the consolidated financial statements effective October 31, 2017 as a result of the acquisition of 50% of its shares by the Group.

During 2017, Colmarer Property Investment I Limited was included in the scope of the consolidated financial statements effective January 4, 2017 as a result of the acquisition of the totality of its shares by the Group. As of December 31, 2017 the Group was committed to a sale plan which includes the loss of control of this subsidiary in the subsequent period to the financial statements, accordingly the assets and liabilities of Colmarer Property Investment I Limited were classified as held for sale in the consolidated financial statements of the Group. During 2018, the subsidiary was sold for a consideration of LBP20billion (USD13.3million) which resulted in a gain of LBP3.8billion (USD2.5million) recorded in the consolidated statement of profit or loss.

43. CASH AND CASH EQUIVALENTS

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

	December 31 2018	December 31 2017
	(LBP' 000)	
Cash	41,520,836	35,520,719
Current accounts with Central Bank of Lebanon	31,906,404	37,481,687
Time deposits with Central Bank of Lebanon	53,427,300	72,561,250
Current accounts with banks and financial institutions and purchased checks	200,142,564	236,998,223
Time deposits with banks and financial institutions	76,217,760	121,244,346
	403,214,864	**503,806,225**

Time deposits with and from Central Bank of Lebanon and banks and financial institutions included above represent inter-bank placements and borrowings with an original term of 90 days or less.

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows in 2018 and 2017 as follows:

2018:

(a) Transfer of LBP4.3billion from "Loans and advances to customers" to "Assets acquired in satisfaction of debts".

(b) Transfer of LBP3.7billion from "Retained earnings" to "Share capital" as a result of increase in capital (Note 24).

(c) Allocation of regulatory deferred liability in the amount of LBP97billion to net retained earnings.

(d) Offset of retained earnings and general reserve for performing loans in the amount of LBP97billion and LBP4.59billion to provision for expected credit losses.

(e) The change in fair value of investment securities at fair value through other comprehensive income in the amount of LBP5.35billion net of deferred tax in OCI against investment Securities at FVTOCI in the amount of LBP6.44billion and deferred tax liability in the amount of LBP1.09billion.

(f) Transfer of allowance for collectively assessed loans to other liabilities in the amount of LBP4.75billion.

2017:

(a) Transfer of LBP2.5billion from "Loans and advances to customers" to "Assets acquired in satisfaction of debts".

(b) The change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP2.1billion against financial assets at fair value through other comprehensive income.

(c) The effect of acquisitions through business combination are detailed below:

	(LBP' 000)
ASSETS:	
Due from related parties, net	730,150
Property and equipment	16,081,180
Financial assets at fair value through other comprehensive income	(2,713,500)
Current assets held for sale	38,745,910
	52,843,740
LIABILITIES:	
Other liabilities	416,859
Current liabilities held for sale	18,861,686
	19,278,545
EQUITY:	
Effect of exchange rate changes	2,226,735
Non-controlling interests	7,726,162
	9,952,897
Cash paid through business combinations	**23,612,298**

44. MATERIAL PARTLY – OWNED SUBSIDIARIES

The table below shows details of partly owned subsidiaries and mutual fund of the Group that have material non-controlling interests:

Name of Subsidiary	Place of Incorporation and Principal Place of Business	% of Ownership	Profit Allocated to Non-Controlling Interests		Accumulated Non-Controlling Interests	
			Year Ended December 31			
			2018	2017	2018	2017
		%	(LBP' 000)			
First National Dollar Fund SPC and National Fixed Income Fund SPC	Cayman Islands	-	8,872,031	10,303,987	95,168,693	146,356,574

Summarized financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarized financial information below represent amounts before intragroup eliminations:

STATEMENT OF FINANCIAL POSITION:

	FNB Holding Limited		First National Dollar Fund and National Fixed Income Fund	
	December 31			
	2018	2017	2018	2017
	(LBP' 000)			
Assets	320,194,078	399,766,574	139,638,357	156,894,083
Liabilities	(142,018,356)	(177,696,571)	(44,469,664)	(10,537,509)
Equity	178,175,722	222,070,003	95,168,693	146,356,574

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME:

	FNB Holding Limited		First National Dollar Fund and National Fixed Income Fund	
	December 31			
	2018	2017	2018	2017
	(LBP' 000)			
Net interest income/(expense)	5,904,443	(355,784)	5,029,524	105,848
Advisory fees	-	-	(1,037,487)	(1,578,591)
Operating and other income / (expenses), net	6,572,750	2,793,679	(230,627)	(272,045)
Net interest and gain or (loss) on trading assets at fair value through profit or loss	4,623,858	13,555,233	5,110,621	12,048,775
Income tax expense	(295,613)	(599,753)	-	-
Profit for the period	**16,805,438**	**15,393,375**	**8,872,031**	**10,303,987**

45. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon, the Group's main regulator, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad. In addition, the bank is required to observe the minimum capital adequacy ratio set by the regulator.

The Group monitors the adequacy of its capital using the methodology and ratios established by Central Bank of Lebanon. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

The Bank's capital is split as follows:

Tier I Capital: Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings. Goodwill and cumulative unfavorable change in fair value of financial assets classified through other comprehensive income.

Tier II Capital: Comprises qualifying subordinated liabilities, cumulative favorable change in fair value of financial assets classified through other comprehensive income.

Investments in associates are deducted from Tier I and Tier II capital.

Furthermore, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

The Bank's capital adequacy according to Central Bank of Lebanon directives and Basel III as of December 31,2018 and 2017 is as follows determined at consolidation basis:

	December 31 2018	December 31 2017
	LBP Million	
Common Equity Tier I	429,549	365,661
Additional Tier I Capital	75,379	71,774
Net Tier I Capital	504,928	437,435
Tier II Capital	56,282	98,980
Total regulatory capital (Tier I + Tier II)	**561,210**	**536,415**
Credit risk	3,699,068	3,577,521
Market risk	149,511	180,034
Operational risk	226,588	199,051
Risk-weighted assets and risk-weighted off-B.S. items	**4,075,167**	**3,956,606**
Common equity ratio	10.54%	9.24%
Tier I ratio	12.39%	11.06%
Risk based capital adequacy ratio - Tier I and Tier II capital	13.77%	13.56%

46. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

I. CREDIT RISK
II. LIQUIDITY RISK
III. MARKET RISK

I. CREDIT RISK

A. Board Risk Committee

In order to ensure sound corporate governance practices and comply with BDL basic circular No. 118, the Group has broadened the role of the Board Credit Risk Committee.

The Board Risk Committee is headed by a non-Executive independent Board Member and has three members (Including the Head of Committee)

This Committee assists the Board in discharging its risk related responsibilities; where particularly it authorizes and submits to the Board the Group risk policies, reviews the Internal Capital Adequacy Assessment Process and its results, monitors the Group's risk profile for all types of risks, oversees the risk management framework and assesses its effectiveness at the Group level (mainly for banking and financial institution subsidiaries).

B. Credit risk management

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are: exposure to sovereign at amortized cost, deposits with banks, loans and advances to customers and other banks and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of customers' credit risk arises from uneven distribution of Group loans to individual borrowers or connected group of borrowers (directly or indirectly per facilities granted or per guarantee provided), concentration of loans in industry sectors and geographical regions.

The Group operates within a clear risk appetite statement set by the executive management and approved by the Board Risk Committee and the Board. It is periodically reviewed in line with the Group's strategy, the new regulations as well as the market outlook and the economic environment.

The risk appetite is interpreted into risk tolerances and risk limits formulated in the various risk policies.

The Group's credit risk policy defines the framework for the Group's lending activity, and it mainly covers:

- An adequate credit administration, measurement, monitoring and control of credit risk;
- A proper diversification of the lending portfolio by setting internal limits at the level of individual borrower, group of connected borrowers, region and industry;
- An appropriate governance and clear process for approving and renewing commercial and retail credits by establishing different credit committees according to the nature and the amount of the loan.
- A sound and compliant IFRS 9 methodology that comprises assets staging based on the Group's internal risk grading models, data and tools accessibilities, business units permanent awareness and support.

The internal audit performs regular audit missions making sure that the controls and procedures adopted are adequately designed and implemented.

Credit Risk Classification

Sovereign and Banks exposure

For sovereign and banks' exposure, the Group relies on the external rating provided by the three main rating agencies. A mapping to BDL regulatory rating and IFRS9 stages is then applied.

Moody's or equivalent rating	Credit Quality Description	IFRS 9 Stages
Aaa	Low risk	Stage 1
Aa1 to Aa2	Low risk	Stage 1
A1 to A2	Low to fair risk	Stage 1
Baa1 to Baa3	Low to fair risk	Stage 1
Ba1 to Ba2	Monitoring	Stage 2
B1 to B2	Monitoring	Stage 2
Caa1 to Ca	Weak	Stage 2
C	Substandard/ Doubtful/Loss	Stage 3

Commercial lending

The Bank has acquired since 2016 Moody's Risk Analyst software for internal rating models, implemented in all its subsidiaries. The models include two customized rating models for Corporate and SMEs and four scorecards for SMEs without financials, Project Finance, Commercial Real Estate and High Net Worth Individuals. The rating models generate a borrower rating based on financial criteria as well as qualitative and subjective assessment (qualitative data and specific transactions data).

To ensure an object risk rating measurement, the respective relationship departments (SME & Corporate) risk rates each obligor on annual basis. The risk rating is then reviewed by the appraisal department. Any amendment of the data input is discussed and agreed upon by both credit relationship and credit appraisal officers and is subsequently archived. Any disagreement is raised to The Risk Management Department for final decision. The archived rating is used to compute the expected loss for each obligor, based on which IFRS9 provisions are accounted for. The Risk Management Department is the sole entity holding the authority to execute any override on the measured risk rating if authorized by the Credit Committee.

The internal rating scale comprises 7 performing grades and 3 non-performing grades that are designed and calibrated to reflect the risk of default of the borrower. Those grades are mapped to the regulatory classification as set by the Central Bank circulars, as well as IFRS9 stages.

Internal rating	Credit quality Description	IFRS 9 Stages
Performing		
1	Excellent	Stage 1
2	Strong	Stage 1
3	Good	Stage 1
4	Acceptable	Stage 1
5	Adequate	Stage 1
6	Marginal	Stage 1
7	Vulnerable	Stage 2
Non-performing		
8	Substandard	Stage 3
9	Doubtful	Stage 3
10	Loss	Stage 3

Retail lending

The Group has implemented a system for scoring of consumer loans and has customized for each product type a scoring application with the relevant eligible criteria, parameters and workflow. Each credit application is assigned a score that is taken into consideration in the decision making.

Significant increase in credit risk definition

The Group has clearly formulated within its credit risk policy the definition of the significant increase in credit risk, thus the move to stage 2 as per IFRS9 standards. The checklist comprises a combination of quantitative and qualitative criteria that may affect the borrower's capacity to meet its obligation, such as but not limited to:

- Occurrence of a backstop criteria such as industry deterioration or the respective obligor being subject to legal or bankruptcy case;

- Deterioration of the initial risk rating of the respective borrower to under-performing status;

- Deterioration in the financial status of the respective borrower in terms of increasing bank borrowings, incurring losses and deterioration in cash flows;

- Deterioration in the respective account's activity and conduct with occurrence of past dues, excesses and core development;

- Recurring rescheduling of debt;

- Downgrading by other banks;

- Significant change in the quality or value of the collateral;

- Serious discords among shareholders

The assessment is performed based on reasonable and supportable information available without undue cost and effort, taking into consideration expert credit judgment and forward looking information.

Loan portfolio is assessed on quarterly basis. Downgrading to stage 2 is triggered by the occurrence of a combination of a minimum of 4 quantitative &/or qualitative increasing risk criteria Or one backstop indicator, and is approved by IFRS9 Staging committee.

Default definition

The Group considers a default to have occurred with regard to a particular obligor when one or more of the following events has taken place:

1. It is determined that the obligor is **unlikely to pay** its debt obligations (principal, interest, or fees) in full; or

2. The obligor is past due more than 90 days on any credit obligation"

3. Persistent regression in current and future cash flows that become insufficient to settle customer commitments, so that the refund will be linked to the liquidation of the guarantee.

4. Possible bankruptcy.

5. Contractual "Events of default".

6. Severe financial difficulties and client non performing with other banks

Credit Risk Parameters for Expected Credit Loss

a. Probability of default

PD is an estimate of the likelihood of default over a given time horizon.

Sovereign and Banks exposure

The ECL calculation on sovereign and banks' exposure is based on the Probability of default (PD) allocated by rating as displayed by the external rating agencies.

Commercial lending

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. This through the Cycle PD is updated at least annually or upon occurrence of a triggering event.

Then, this TTC PD is converted to a point in time and lifetime PD using Moody's ImpairmentCalc for the purpose of ECL calculation.

For assets in stage 3, the ECL is based on an individual assessment performed by the Recovery and Restructuring Department, taking into consideration the expected cash flow to recover from the client - whether from the client's capacity or through the sale of a collateral. The future cash flow is discounted based on the appropriate Annual Percentage rate. The shortage between the discounted cash flow and the actual account balance due from the client is booked as a specific provision.

Retail lending

The ECL is measured on a collective basis: the loans are grouped on the basis of homogenous risk characteristics, such as the nature of the product (Housing, car loans and consumers' loans).

A loss rate approach is used, derived from historical observation and allocated by product and by number of days past due. A further forward looking adjustment is to be introduced based on experts' judgments and views of future economic conditions.

The number of days past due is the determinant criteria for Retail product, in compliance with regulatory guidelines and the IFRS9 standards.

b. Exposure at default (EAD)

EAD includes both on balance sheet exposure and off balance sheet items:

- The on balance sheet exposure is determined as the outstanding balance at reporting date.

- The exposure on off balance sheet items – including undrawn committed contracts – takes into consideration the conversion factor set by Basel rules if the guarantee becomes payable.

c. Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral.

The Group has calculated its LGD based on Basel Rules and allocated by type of collateral.

d. Lifetime

The Group is exposed to credit risk on the entire contractual life on an asset.

For revolving facilities that do not have a fixed term or repayment structure the Bank has considered an average lifetime of 1 year.

e. Forward looking Information

The Group uses forward-looking information in its assessment of significant increase of credit risk as well as in its measurement of ECL.

The Group has adopted the real GDP growth as main macro-economic indicator that impact the PD term structure as well as Lebanese stocks, as published and forecasted by Moody's Analytics DataBuffet.

The Group has chosen three globally consistent scenarios for Lebanon constructed by Moody's Analytics using Monte Carlo simulations. These include a baseline scenario that encompasses most likely outcomes of the economy-wide variables, an upside and a downside scenario. A weight is allocated to each scenario with more likelihood for the baseline.

The severity of the scenarios as well as their respective weights are reviewed every year upon update of Moody's Analytics estimation and forecasts.

Credit Risk monitoring and review

The Group has put in place a sound monitoring and review process as well as robust Management Information Systems in order to early detect any sign of increase in credit risk triggering a downgrading in BDL classification and subsequently stage movement. The necessary measures are taken accordingly to reduce or mitigate the risks, such as a decrease in exposure or the call for additional collaterals. Therefore, periodic reports are generated and examined covering but not limited to :

- Past due report with ageing analysis;

- breach on limits and development of core element;

- Annual reviews (Changes in business, financial and economic conditions; updated financial status, CDR, credit inspection report)

- Dormant account report...

Credit appraisal department undergoes an ongoing review of the loan portfolio book based on the afore stated reports and daily accounts activities.

The Recovery department manages the non-performing loans in coordination with the Legal Department ensuring a continuous follow-up of substandard, doubtful and non-recoverable loans, proposing loans' rescheduling or other settlement arrangements with the ultimate objective to recover the whole debt.

Monitoring reports are then submitted to specialized committees on monthly, quarterly and semi-annual basis.

1. FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE AND RELATED CONCENTRATIONS

1.a) Concentration of financial assets and liabilities by geographical area:

	December 31, 2018					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	(LBP' 000)					
FINANCIAL ASSETS						
Cash and deposits with Central Bank of Lebanon	2,582,071,512	-	-	-	-	2,582,071,512
Deposits with banks and financial institutions	62,318,948	12,657,849	83,018,695	203,438,051	3,079,962	364,513,505
Investment securities at fair value through profit and loss	104,613,497	2,674,416	70,466	-	-	107,358,379
Loans to banks	655,769	6,908,674	-	-	-	7,564,443
Loans and advances to customers	1,378,606,452	31,140,328	8,997,277	7,659,149	700,375	1,427,103,581
Due from related parties	4,929,295	6,298,311	-	2,220,425	953,592	14,401,623
Customers' liability under acceptances	26,948,076	10,456	-	-	-	26,958,532
Investment securities at fair value through other comprehensive income	115,142,043	3,636,268	-	4,484,234	-	123,262,545
Investment securities at amortized cost	2,173,921,510	-	-	-	-	2,173,921,510
Other financial assets	22,071,727	-	-	-	-	22,071,727
	6,471,278,829	**63,326,302**	**92,086,438**	**217,801,859**	**4,733,929**	**6,849,227,357**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	158,579,578	104,747,010	-	26,534	3,838,195	267,191,317
Customer's deposits at amortized cost	4,552,057,396	864,326,285	95,340,398	260,409,862	65,508,560	5,837,642,501
Due to related parties	-	-	-	4,513,006	1,380,047	5,533,053
Liability under acceptance	2,216,478	6,052,803	149,761	8,121,037	10,507,380	27,047,459
Borrowings	67,120,629	-	-	123,074,380	-	190,195,009
Other financial liabilities	38,363,983	-	-	-	-	38,363,983
Cumulative preferred shares	-	-	-	23,673,177	-	23,673,177
	4,818,338,064	**975,126,098**	**95,490,159**	**419,457,996**	**81,234,182**	**6,389,646,499**

	December 31, 2017					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	(LBP' 000)					
FINANCIAL ASSETS						
Cash and deposits with Central Bank of Lebanon	2,398,500,155	-	-	-	-	2,398,500,155
Deposits with banks and financial institutions	138,483,676	14,674,623	45,862,522	250,104,091	1,597,106	450,722,018
Investment securities at fair value through profit and loss	215,613,839	2,681,500	381,698	-	-	218,677,037
Loans to banks	1,028,352	-	-	1,358,107	376,616	2,763,075
Loans and advances to customers	1,577,286,465	24,856,146	8,638,856	8,728,442	6,396,134	1,625,906,043
Due from related parties	2,271,660	5,783,172	-	3,706,444	94,192	11,855,468
Customers' liability under acceptances	38,415,126	1,353,730	95,060	1,358,108	-	41,222,024
Investment securities at fair value through other comprehensive income	11,237,099	3,636,268	1,130,625	5,943,212	-	21,947,204
Investment securities at amortized cost	2,140,745,513	-	-	-	-	2,140,745,513
Other financial assets	27,485,463	-	-	-	-	27,485,463
	6,551,067,348	**52,985,439**	**56,108,761**	**271,198,404**	**8,464,048**	**6,939,824,000**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	90,781,066	47,667,499	-	81,541	-	138,530,106
Customer's deposits at amortized cost	4,680,795,874	879,068,877	99,094,901	232,226,590	51,295,314	5,942,481,556
Due to related parties	-	-	-	708,459	-	708,459
Liability under acceptance	13,482,512	1,678,487	-	14,612,797	11,448,228	41,222,024
Borrowings	39,405,897	-	-	123,177,905	-	162,583,802
Other financial liabilities	42,285,145	-	-	-	-	42,285,145
Cumulative preferred shares	-	-	-	23,419,115	-	23,419,115
	4,866,750,494	**928,414,863**	**99,094,901**	**394,226,407**	**62,743,542**	**6,351,230,207**

1.b) Concentration by Sector

	December 31, 2018			
	Loans and Advances to Customers	Debt Investment Securities at Amortized Cost	Debt Investment Securities at FVTOCI	Debt Investment Securities at FVTPL
	(LBP' 000)			
Sovereign	**-**	**2,159,308,830**	**103,983,477**	**61,919,690**
CORPORATE & SME				
Agriculture	5,628,934	-	-	-
Manufacturing	100,596,931	-	-	-
Real Estate	23,825,984	-	-	-
Contracting	194,628,748	-	-	-
Trading	231,792,980	-	-	-
Services	126,993,924	-	-	-
Financial intermediaries	22,398,826	-	-	-
Funds	-	14,612,680	-	3,015,000
Others	63,257,217	-	-	-
Individual	65,339,117	-	-	-
RETAIL				
Mortgages	261,905,469	-	-	-
Personal and cars loans	216,617,689	-	-	-
Credit cards	16,659,743	-	-	-
Others	25,666,873	-	-	-
Total	**1,355,312,435**	**2,173,921,510**	**103,983,477**	**64,934,690**

	December 31, 2017			
	Loans and Advances to Customers	Debt Investment Securities at Amortized Cost	Debt Investment Securities at FVTOCI	Debt Investment Securities at FVTPL
	(LBP' 000)			
Sovereign	-	2,123,786,138	-	173,215,489
CORPORATE & SME				
Agriculture	6,655,996	-	-	-
Manufacturing	113,859,854	-	-	-
Real Estate	32,504,456	-	-	-
Contracting	195,429,749	-	-	-
Trading	311,620,672	-	-	-
Services	131,080,960	-	-	-
Financial intermediaries	53,530,265	-	-	-
Funds	-	16,959,375	-	3,015,000
Others	41,930,983	-	-	-
Individual	106,999,277	-	-	-
RETAIL				
Mortgages	251,459,151	-	-	-
Personal and cars loans	258,028,008	-	-	-
Credit cards	16,586,496	-	-	-
Others	36,004,453	-	-	-
Total	**1,555,690,320**	**2,140,745,513**	**-**	**176,230,489**

2. CREDIT RISK EXPOSURE PER CLASS OF FINANCIAL ASSETS, INTERNAL RATING AND STAGE

	December 31, 2018		
	Balances with Central Banks	Balances with Banks and Financial Institutions	Loans to Banks
	Stage 1 12-month ECL	Stage 1 12-month ECL	Stage 1 12-month ECL
	(LBP' 000)		
Grades 1-6: low to fair risk	2,611,140,077	364,995,120	7,594,810
Grade 7: Monitoring	-	-	-
Grade 8: Substandard	-	-	-
Grade 9: Doubtful	-	-	-
Grade 10: Impaired	-	-	-
Retail	-	-	-
Total gross carrying amount	**2,611,140,077**	**364,995,120**	**7,594,810**
Loss allowance	(29,068,565)	(481,615)	(30,367)
Carrying amount	**2,582,071,512**	**364,513,505**	**7,564,443**

	December 31, 2018				
	Loans and Advances to Customers at amortized Cost Including Customers' Acceptance Liability			Debt securities at Amortized Cost	Debt securities at FVTOCI
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 1 12-month ECL	Stage 1 12-month ECL
	(LBP' 000)				
Grades 1-6: low to fair risk	1,115,245,890	172,474,548	-	2,195,802,901	104,998,822
Grade 7: Monitoring	52,015,879	94,736,984	-	-	-
Grade 8: Substandard	-	-	48,443,761	-	-
Grade 9: Doubtful	-	-	49,429,771	-	-
Grade 10: Impaired	-	-	11,251,660	-	-
Retail	-	-	-	-	-
Total gross carrying amount	**1,167,261,769**	**267,211,532**	**109,125,192**	**2,195,802,901**	**104,998,822**
Loss allowance	(35,622,198)	(9,997,056)	(44,006,054)	(21,881,391)	(1,015,345)
Carrying amount	**1,131,639,571**	**257,214,476**	**65,119,138**	**2,173,921,510**	**103,983,477**

Off balance sheet items:

	December 31, 2018	
	Financial Guarantees Contracts	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL
	(LBP' 000)	
Grades 1-6: low to fair risk	118,106,677	-
Grade 7: Monitoring	6,199,044	6,917,325
Grade 8: Substandard	-	-
Grade 9: Doubtful	-	-
Grade 10: Impaired	-	-
Retail	3,320,432	1,508
Total gross carrying amount	**127,626,153**	**6,918,833**
Loss allowance	(545,139)	(274,917)
Carrying amount	**127,081,014**	**6,643,916**

	December 31, 2018		
	Loan Commitments		
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
	(LBP' 000)		
Grades 1-6: low to fair risk	131,927,844	7,892,334	-
Grade 7: Monitoring	5,253,104	2,452,208	-
Grade 8: Substandard	-	-	7,593
Grade 9: Doubtful	-	-	-
Grade 10: Impaired	-	-	-
Retail	19,594,917	636	-
Total gross carrying amount	**156,775,865**	**10,345,178**	**7,593**
Loss allowance	(562,413)	(80,085)	(76)
Carrying amount	**156,213,452**	**10,265,093**	**7,517**

3. MOVEMENT OF LOSS ALLOWANCE

3.a) Balances with Central Banks:

	Stage 1 12-month ECL
	(LBP' 000)
Loss allowance as at January 1, 2018	24,436,000
Net change in loss allowance	4,632,565
Loss allowance as at December 31, 2018	**29,068,565**

3.b) Balances with banks and financial institutions:

	Stage 1 12-month ECL
	(LBP' 000)
Loss allowance as at January 1, 2018	1,098,658
Net change in loss allowance	(559,350)
Transfer	(57,693)
Loss allowance as at December 31, 2018	**481,615**

3.c) Loans to banks:

	Stage 1 12-month ECL
	(LBP' 000)
Loss allowance as at January 1, 2018	12,000
Net change in loss allowance	18,367
Loss allowance as at December 31, 2018	**30,367**

3.d) Loans and advances to customers including customers' acceptance liability:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
	(LBP' 000)		
Loss allowance as at January 1, 2018	37,615,739	13,550,638	47,611,803
Net change in loss allowance	2,575,682	(3,553,582)	(2,265,980)
Transfer to "other liabilities" (Note 21)	(4,475,236)	-	-
Transfer to off balance sheet	-	-	(1,339,769)
Other transfers	(93,987)	-	-
Loss allowance as at December 31, 2018	**35,622,198**	**9,997,056**	**44,006,054**

3.e) Investment securities:

	Stage 1 12-month ECL	
	At amortized Cost	At fair value through other comprehensive income
	(LBP' 000)	
Loss allowance as at January 1, 2018	21,971,000	912,000
Net change in loss allowance	(89,609)	103,345
Loss allowance as at December 31, 2018	**21,881,391**	**1,015,345**

3.f) Loan Commitments:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
	(LBP' 000)		
Loss allowance as at January 1, 2018	141,006	221,119	76
Net change in loss allowance	421,407	(141,034)	-
Loss allowance as at December 31, 2018	**562,413**	**80,085**	**76**

3.g) Financial guarantees contracts:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL
	(LBP' 000)	
Loss allowance as at January 1, 2018	1,653,410	863,570
Net change in loss allowance	(1,108,271)	(588,653)
Loss allowance as at December 31, 2018	**545,139**	**274,917**

II. 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.

1. MANAGEMENT OF LIQUIDITY RISK

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels. Through ALCO, the Board of Directors is responsible for establishing the liquidity policy which includes:

Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;

- Maintenance of a portfolio of liquid and marketable assets;
- Diversification of funding; and
- Maintenance of adequate contingency plans.

2. EXPOSURE TO LIQUIDITY RISK

The Group ensures that its local entities are in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

The tables below show the Group's financial liabilities segregated by maturity:

	December 31, 2018							
	Not Subject to Maturity	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	5 to10 Years	Over 10 Years	Total
	(LBP' 000)							
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	35,581,062	176,894,243	54,716,012	-	-	-	-	267,191,317
Customers' deposits at amortized cost	896,174,682	3,134,832,847	1,273,789,509	509,594,072	23,251,391	-	-	5,837,642,501
Due to related parties	5,533,053	-	-	-	-	-	-	5,553,053
Liability under acceptances	-	23,089,890	2,577,641	1,379,928	-	-	-	27,047,459
Borrowings	1,034,743	15,261,005	-	124,617,258	2,528,947	5,585,814	41,167,242	190,195,009
Other financial liabilities	38,363,983	-	-	-	-	-	-	38,363,983
Cumulative preferred shares	-	-	-	23,673,177	-	-	-	23,673,177
	976,687,593	**3,350,077,985**	**1,331,083,162**	**659,264,435**	**25,780,338**	**5,585,814**	**41,167,242**	**6,389,646,499**

	December 31, 2017							
	Not Subject to Maturity	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	5 to10 Years	Over 10 Years	Total
	(LBP' 000)							
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	40,981,043	92,062,865	5,486,198	-	-	-	-	138,530,106
Customers' deposits at amortized cost	1,001,286,724	3,097,143,751	1,430,231,757	386,405,479	27,413,845	-	-	5,942,481,556
Due to related parties	708,459	-	-	-	-	-	-	708,459
Liability under acceptances	-	27,252,548	13,969,476	-	-	-	-	41,222,024
Borrowings	1,149,066	2,745,000	-	123,997,137	1,513,644	8,487,336	24,691,619	162,583,802
Other financial liabilities	42,285,145	-	-	-	-	-	-	42,285,145
Cumulative preferred shares	-	-	-	-	23,419,115	-	-	23,419,115
	1,086,410,437	**3,219,204,164**	**1,449,687,431**	**510,402,616**	**52,346,604**	**8,487,336**	**24,691,619**	**6,351,230,207**

III. MARKET RISKS

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.

1. CURRENCY RISK

The Group carries on exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

The Group takes preventive measures against this risk on setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities.

Below is the carrying of 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	Euro	Other	Total
	(LBP' 000)				
ASSETS					
Cash and deposits with Central Bank of Lebanon	1,156,640,022	1,063,247,779	360,149,587	2,034,124	2,582,071,512
Deposits with banks and financial institutions	7,325,526	233,713,733	25,506,954	97,967,292	364,513,505
Investment securities at fair value through profit or loss	-	105,131,833	-	2,226,546	107,358,379
Loans to banks and financial institutions	655,769	6,908,674	-	-	7,564,443
Loans and advances to customers	382,956,489	996,985,091	44,364,944	2,797,057	1,427,103,581
Due from related parties	472,942	8,248,202	3,517,344	2,163,135	14,401,623
Customers' liability under acceptances	-	23,255,372	3,703,160	-	26,958,532
Investment securities at fair value through other comprehensive income	34,168	119,040,454	4,187,923	-	123,262,545
Investment securities at amortized cost	508,213,351	1,665,708,159	-	-	2,173,921,510
Assets acquired in satisfaction of loans	6,545	10,982,258	-	-	10,988,803
Investment in associates	-	241,212	-	-	241,212
Property and equipment	163,892,755	7,582,442	-	-	171,475,197
Other assets	25,684,296	33,805,950	(19,090,680)	8,168,785	48,568,351
Goodwill	27,006,068	-	-	-	27,006,068
	2,272,887,931	**4,274,851,159**	**422,339,232**	**115,356,939**	**7,085,435,261**
LIABILITIES					
Deposits from banks and financial institutions	91,979,308	164,226,030	10,430,550	555,429	267,191,317
Customer deposits at amortized cost	1,571,017,872	3,748,357,395	429,303,689	88,963,545	5,837,642,501
Due to related party	126,968	5,406,085	-	-	5,533,053
Liability under acceptance	-	23,326,681	3,720,778	-	27,047,459
Borrowings	51,389,453	138,787,957	17,599	-	190,195,009
Other liabilities	54,312,128	17,118,749	5,855,947	63,803	77,350,627
Provisions	11,643,692	1,068,460	121,378	-	12,883,530
Cumulative preferred shares	1,500,000	22,173,177	-	-	23,673,177
	1,781,969,421	**4,120,464,534**	**449,449,941**	**89,582,777**	**6,441,466,673**
Currencies to be delivered	(6,056,000)	(99,597,328)	(78,775,973)	(8,339,859)	(192,769,160)
Currencies to be received	-	93,724,883	98,978,069	734,647	193,437,599
	(6,056,000)	**(5,872,445)**	**20,202,096**	**(7,605,212)**	**668,439**
Net exchange position	**484,862,510**	**148,514,180**	**(6,908,613)**	**18,168,950**	**644,637,027**

	December 31, 2017				
	LBP	USD	Euro	Other	Total
	(LBP' 000)				
ASSETS					
Cash and deposits with Central Bank of Lebanon	1,237,974,602	985,523,454	172,390,734	2,611,365	2,398,500,155
Deposits with banks and financial institutions	69,970,641	152,377,824	146,145,789	82,227,764	450,722,018
Investment securities at fair value through profit or loss	71,264,729	145,178,676	-	2,233,632	218,677,037
Loans to banks and financial institutions	1,061,636	1,701,439	-	-	2,763,075
Loans and advances to customers	418,748,486	1,135,842,585	67,515,647	3,799,325	1,625,906,043
Due from related parties	983,737	4,875,023	3,948,132	2,048,576	11,855,468
Customers' liability under acceptances	-	37,368,051	3,853,973	-	41,222,024
Investment securities at fair value through other comprehensive income	34,168	16,600,404	5,312,632	-	21,947,204
Investment securities at amortized cost	543,457,492	1,560,855,327	36,432,694	-	2,140,745,513
Assets acquired in satisfaction of loans	7,631,044	-	-	-	7,631,044
Investment in associates	-	241,212	-	-	241,212
Property and equipment	144,607,627	2,545,937	-	-	147,153,564
Other assets	15,399,510	78,807,586	(48,245,656)	2,354,705	48,316,145
Goodwill	27,006,068	-	-	-	27,006,068
Current assets held for sale	-	-	38,745,910	-	38,745,910
	2,538,139,740	**4,121,917,518**	**426,099,855**	**95,275,367**	**7,181,432,480**
LIABILITIES					
Deposits from banks and financial institutions	25,149,406	101,178,113	11,709,488	493,099	138,530,106
Customer deposits at amortized cost	1,855,816,349	3,526,933,226	474,961,496	84,770,485	5,942,481,556
Due to related party	-	-	708,459	-	708,459
Liability under acceptance	-	37,368,051	3,853,973	-	41,222,024
Borrowings	38,966,178	123,602,801	14,823	-	162,583,802
Other liabilities	140,537,884	27,347,016	492,101	448,900	168,825,901
Provisions	11,331,763	-	-	-	11,331,763
Cumulative preferred shares	1,500,000	21,919,115	-	-	23,419,115
Current liabilities held for sale	-	-	18,861,686	-	18,861,686
	2,073,301,580	**3,838,348,322**	**510,602,026**	**85,712,484**	**6,507,964,412**
Currencies to be delivered	-	(119,400,056)	(2,800,215)	(1,640,308)	(123,840,579)
Currencies to be received	1,301,805	69,660,999	54,100,094	(488,070)	124,574,828
	1,301,805	**(49,739,057)**	**51,299,879**	**(2,128,378)**	**734,249**
Net exchange position	**466,139,965**	**233,830,139**	**(33,202,292)**	**7,434,505**	**674,202,317**

2. EXPOSURE TO INTEREST RATE RISK

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the asset and liability committee.

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

	December 31, 2018						
	Not Subject to Interest	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	(LBP' 000)						
FINANCIAL ASSETS							
Cash and deposits with Central Banks of Lebanon	141,515,501	1,462,894,632	881,877,921	-	3,449,460	92,333,998	2,582,071,512
Deposits with banks and financial institutions	93,663,911	250,677,070	20,172,524	-	-	-	364,513,505
Investment securities at fair value through profit or loss	40,005,217	-	15,067,463	-	2,946,778	49,338,921	107,358,379
Loans to banks and financial institutions	6,914,443	500,000	150,000	-	-	-	7,564,443
Loans and advances to customers	61,612,348	1,049,189,942	177,891,682	94,524,755	35,039,900	8,844,954	1,427,103,581
Due from related parties	14,401,623	-	-	-	-	-	14,401,623
Customers' liability under acceptances	26,958,532	-	-	-	-	-	26,958,532
Investment securities at fair value through other comprehensive income	15,927,037	6,030,000	101,305,508	-	-	-	123,262,545
Investment securities at amortized cost	12,382,104	1,052,135,417	1,109,403,989	-	-	-	2,173,921,510
Other financial assets	22,071,727	-	-	-	-	-	22,071,727
	435,452,443	**3,821,427,061**	**2,305,869,087**	**94,524,755**	**41,436,138**	**150,517,873**	**6,849,227,357**
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	2,082,695	249,067,383	16,041,239	-	-	-	267,191,317
Customers' deposits at amortized cost	186,784,192	5,259,072,978	378,071,303	13,563,278	150,750	-	5,837,642,501
Due to related parties	5,533,053	-	-	-	-	-	5,533,053
Liability under acceptances	27,047,459	-	-	-	-	-	27,047,459
Borrowings	1,034,742	216,096	138,141,797	50,802,374	-	-	190,195,009
Other financial liabilities	38,326,086	37,897	-	-	-	-	38,363,983
Cumulative preferred shares	1,055,224	-	22,617,953	-	-	-	23,673,177
	261,863,451	**5,508,394,354**	**554,872,292**	**64,365,652**	**150,750**	**-**	**6,389,646,499**
Interest rate gap	**173,588,992**	**(1,686,967,293)**	**1,750,996,795**	**30,159,103**	**41,285,388**	**150,517,873**	**459,580,858**

	December 31, 2017						
	Not Subject to Interest	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	(LBP' 000)						
FINANCIAL ASSETS							
Cash and deposits with Central Banks	176,637,585	1,299,669,605	813,677,065	15,075,000	45,225,000	48,215,900	2,398,500,155
Deposits with banks and financial institutions	121,544,847	246,149,411	60,527,760	-	22,500,000	-	450,722,018
Investment securities at fair value through profit or loss	42,661,293	-	-	33,612,963	8,234,003	134,168,778	218,677,037
Loans to banks and financial institutions	-	1,126,616	1,636,459	-	-	-	2,763,075
Loans and advances to customers	53,105,341	1,016,842,830	300,846,708	128,651,378	49,102,799	77,356,987	1,625,906,043
Due from related party	9,607,774	2,247,694	-	-	-	-	11,855,468
Customers' liability under acceptances	41,222,024	-	-	-	-	-	41,222,024
Investment securities at fair value through other comprehensive income	21,947,204	-	-	-	-	-	21,947,204
Investment securities at amortized cost	50,894,245	1,018,382,222	1,071,469,046	-	-		2,140,745,513
Other financial assets	27,485,463	-	-	-	-	-	27,485,463
	545,105,776	**3,584,418,378**	**2,248,157,038**	**177,339,341**	**125,061,802**	**259,741,665**	**6,939,824,000**
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,861,838	131,182,070	5,486,198	-	-	-	138,530,106
Customers' deposits at amortized cost	98,071,202	3,988,786,252	1,375,934,361	449,867,541	29,822,200	-	5,942,481,556
Due to related parties	708,459	-	-	-	-	-	708,459
Liability under acceptances	41,222,024	-	-	-	-	-	41,222,024
Borrowings	1,149,065	3,064,614	122,858,292	35,511,831	-	-	162,583,802
Other financial liabilities	42,285,145	-	-	-	-	-	42,285,145
Cumulative preferred shares	801,163	-	-	22,617,952	-	-	23,419,115
	186,098,896	**4,123,032,936**	**1,504,278,851**	**507,997,324**	**29,822,200**	**-**	**6,351,230,207**
Interest rate gap	**359,006,880**	**(538,614,558)**	**743,878,187**	**(330,657,983)**	**95,239,602**	**259,741,665**	**588,593,793**

47. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

The principal or the most advantageous market must be accessible by the Group. 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.

The following table shows the fair values of financial assets and financial 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 due to the short-term maturities of these instruments:

	December 31, 2018		December 31, 2018			
			Fair Value			
	Notes	Carrying Amount	Level 1	Level 2	Level 3	Total
		(LBP' 000)	(LBP' 000)			
FINANCIAL ASSETS						
Fair value through profit or loss:						
Quoted equity securities	7	7,623,609	7,623,609	-	-	7,623,609
Unquoted equity securities	7	31,785,080	-	-	31,785,080	31,785,080
Lebanese treasury bills	7	2,899,019	-	2,899,019	-	2,899,019
Lebanese government bonds	7	14,922,457	-	14,922,457	-	14,922,457
Certificates of deposit issued by the Central Bank of Lebanon	7	46,028,950	-	46,028,950	-	46,028,950
Corporate bonds	7	3,015,000	-	-	3,015,000	3,015,000
		106,274,115	**7,623,609**	**63,850,426**	**34,800,080**	**106,274,115**
Fair Value through other comprehensive income:						
Unquoted equity securities	7	19,279,068	-	-	19,279,068	19,279,068
Lebanese government bonds	7	102,262,742	-	102,262,742	-	102,262,742
		121,541,810	**-**	**102,262,742**	**19,279,068**	**121,541,810**
Amortized Cost:						
Cash and deposits with Central Bank of Lebanon	5	2,582,071,512	-	2,815,290,801	-	2,815,290,801
Loans and advances to customers	9	1,427,103,581	-	1,351,814,759	-	1,351,814,759
Lebanese treasury bills	7	262,132,000	-	236,032,894	-	236,032,894
Lebanese government bonds	7	975,640,938	-	805,298,584	-	805,298,584
Certificates of deposit issued by the Central Bank of Lebanon	7	908,781,856	-	875,720,253	-	875,720,253
Corporate bonds	7	8,582,680	-	-	8,582,680	8,582,680
Notes issued by Securitization Funds	7	6,030,000	-	-	6,030,000	6,030,000
		6,170,342,567	**-**	**6,084,157,291**	**14,612,680**	**6,098,769,971**
FINANCIAL LIABILITIES						
Amortized Cost:						
Customers' and related parties' deposits and credit accounts	19	5,837,642,501	-	5,499,316,270	-	5,499,316,270
Borrowings	20	190,195,009	-	166,216,108	-	166,216,108
Cumulative preferred shares	23	23,673,177	-	20,764,118	-	20,764,118
Due to insurance companies and collectors of bills	21	4,688,922	-	4,393,150	-	4,393,150
		6,056,199,609	**-**	**5,690,689,646**	**-**	**5,690,689,646**

	December 31, 2017		December 31, 2017			
			Fair Value			
	Notes	Carrying Amount	Level 1	Level 2	Level 3	Total
		(LBP' 000)	(LBP' 000)			
FINANCIAL ASSETS						
Fair value through profit or loss:						
Quoted equity securities	7	9,227,072	9,227,072	-	-	9,227,072
Unquoted equity securities	7	30,204,476	-	-	30,204,476	30,204,476
Lebanese treasury bills	7	18,534,903	-	18,534,903	-	18,534,903
Lebanese government bonds	7	37,626,157	-	37,626,157	-	37,626,157
Certificates of deposit issued by the Central Bank of Lebanon	7	116,839,684	-	116,839,684	-	116,839,684
Corporate bonds	7	3,015,000	-	-	3,015,000	3,015,000
		215,447,292	**9,227,072**	**173,000,744**	**33,219,476**	**215,447,292**
Fair Value through other comprehensive income:						
Unquoted equity securities	7	21,947,204	-	-	21,947,204	21,947,204
		21,947,204	**-**	**-**	**21,947,204**	**21,947,204**
Amortized Cost:						
Cash and deposits with Central Bank of Lebanon	5	2,398,500,155	-	2,623,556,395	-	2,623,556,395
Loans and advances to customers	9	1,625,906,043	-	1,615,976,601	-	1,615,976,601
Lebanese treasury bills	7	322,071,480	-	321,319,329	-	321,319,329
Lebanese government bonds	7	904,261,324	-	876,040,105	-	876,040,105
Certificates of deposit issued by the Central Bank of Lebanon	7	862,917,722	-	884,867,081	-	884,867,081
Corporate bonds	7	10,929,375	-	-	10,929,375	10,929,375
Notes issued by Securitization Funds	7	6,030,000	-	-	6,030,000	6,030,000
		6,130,616,099	**-**	**6,321,759,511**	**16,959,375**	**6,338,718,886**
FINANCIAL LIABILITIES						
Amortized Cost:						
Customers' and related parties' deposits and credit accounts	19	5,942,481,556	-	5,618,051,625	-	5,618,051,625
Borrowings	20	162,583,802	-	150,955,103	-	150,955,103
Cumulative preferred shares	23	23,419,115	-	22,517,690	-	22,517,690
Due to insurance companies and collectors of bills	21	5,665,725	-	5,223,097	-	5,223,097
		6,134,150,198	**-**	**5,796,747,515**	**-**	**5,796,747,515**

Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value

The following table gives information about how the fair values of financial assets and financial liabilities, are determined and significant unobservable inputs used:

December 31, 2018 and 2017		
Financial Assets	**Date of Valuation**	**Valuation Technique and key Inputs**
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2018 and 2017	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Foreign Currency	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve
Quoted equity securities	December 31, 2018 and 2017	Quoted prices in an active market
At amortized cost:		
Cash and deposits with the Central Bank of Lebanon	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans and advances to customers	December 31, 2018 and 2017	DCF at a discount rate extrapolated across the maturity spectrum and in line with market rates
Lebanese treasury bills	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2018 and 2017	DCF at a discount rate determined based on the yield curve
Lebanese Government bonds	December 31, 2018 and 2017	Average market price in an inactive market

December 31, 2018 and 2017		
Financial Liabilities	**Date of Valuation**	**Valuation Technique and key Inputs**
At amortized cost:		
Customers' and related parties' deposits and credit accounts	December 31, 2018 and 2017	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with average market rates.
Cumulative preferred shares	December 31, 2018 and 2017	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with average market rates.
Borrowings	December 31, 2018 and 2017	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with average market rates.

There have been no transfers between levels during the years 2018 and 2017.

48. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2018 were approved by the Board of Directors in its meeting held on April 5, 2019.

ADDRESSES

HEAD OFFICE
BRANCHES
LIST OF CORRESPONDENT BANKS
LIST OF FREE-STANDING ATMS

HEAD OFFICE

FIRST NATIONAL BANK S.A.L.

**Beirut Central District, Allenby Street,
Marfaa 147 Bldg.
Postal Code 2012 6004
P.O.Box: 11 - 435, Riad El Solh / 113-5453 Beirut
P.O.Box: 16-5192 Achrafieh, Beirut - Lebanon
Tel: (961-1) 963000 - 977040
Call Center: 1244
Fax: (961-1) 973090
Swift: FINKLBBE
Telex no. 48627 FNBB
Website: www.fnb.com.lb
E-mail: fnb@fnb.com.lb**

BRANCHES

ALLENBY - MAIN BRANCH
Beirut Central District, Allenby Street,
Marfaa 147 Bldg.
Tel: (01) 963000 - (01) 977040
Fax: (01) 973036
Branch Manager: Ms. Nadine A. Zaher

ACHRAFIEH
Sassine Square, Michel Sassine Bldg.
Tel: (01) 200452-3-4
Fax: (01) 200455
Branch Manager: Mr. Eric P. Vasdekis

ALEY
Bakaa Street, Riyad Fakih Center
Tel: (05) 556020-1-3
Fax: (05) 556022
Acting Branch Manager: Mr. Rami K. Abdel Malak

ANTELIAS
Internal Main Road, Hage Center
Tel: (04) 419323-4-6-8
Fax: (04) 419327
Branch Manager: Ms. Aline A. Ayoub

BAALBECK
Main Road, Douress Exit, Lakkis Bldg.
Tel: (08) 378701-2-3-4
Fax: (08) 378705
Branch Manager: Mr. Mohamad S. Shreif

CHOUEIFAT
Old Saida Road (Deir Koubel Exit), Ismail Haidar Bldg.
Tel: (05) 433720-1-2
Fax: (05) 433723
Branch Manager: Mr. Fouad H. Hamadeh

GHAZIR
Main Road, Kfarhabab, Zone Jaune
Tel: (09) 856271-3-4-5
Fax: (09) 856279
Branch Manager: Ms. Maya N. Nasr

HALBA
AL Saha, Masoud Center
Tel: (06) 693661-2-7
Fax: (06) 693665
Branch Manager: Mr. Abed S. Chami

HAMRA
Hamra Street, Immobilia Bldg.
Tel: (01) 738502-3 - (01) 738499 - (01) 340440 -
(01) 354799
Fax: (01) 749894
Branch Manager: Ms. Rola S. Zaghloul

HARET HREIK
Hadi Nasrallah Street, Abou Taam Bldg.
Tel: (01) 548222- (01) 548333 - (01) 548444
Fax: (01) 276516
Acting Branch Manager: Mr. Fadi A. Cheaib

HAZMIEH
Main Road, Antoine Chami Bldg.
Tel: (05) 455673-4-6-7
Fax: (05) 457838
Branch Manager: Mr. Jean G. Chehadeh

HORCH TABET
General Chehab Street, ESLA Center
Tel: (01) 495710-1-2
Fax: (01) 495713
Branch Manager: Mr. Georges F. Kayouka

JAL EL DIB
Abouna Hanna Street, Mallah-Yammine Center
Tel: (04) 725882-3-4
Fax: (04) 725881
Branch Manager: Vacant

JDEIDEH
La Sagesse Street
Tel: (01) 870151 - (01) 870164 - (01) 894007
Fax: (01) 898007
Branch Manager: Ms. Nathalie V. Saloumi

JDEITA
Main Road, Naim Nassar Bldg.
Tel: (08) 542200-1-2-3-4
Fax: (08) 542205
Branch Manager: Mr. Mohamad H. Chokr

JNAH – MARRIOTT
Internal Main Road, Golden Tulip Galleria Hotel
Tel: (01) 858310-1-3
Fax: (01) 858312
Branch Manager: Mr. Hussein G. Fakhreddine

JOUNIEH
Fouad Chehab Street (Serail), Al Turk Bldg.
Tel: (09) 645001-2-5
Fax: (09) 645003
Branch Manager: Mr. Tanios E. Aoun

MAIS AL JABAL
Blida, Main Road, Hicham Attieh Haydoura Bldg.
Tel: (07) 865800-1-3 - (03) 399334
Fax: (07) 865802

MAZRAA
Main Road, Khaled Al Ashi Bldg.
Tel: (01) 314339 - (01) 314340 - (01) 305219 -
(01) 305220
Fax: (01) 302527
Branch Manager: Ms. Rania M. Qubaa

MAZRAAT YACHOUH
Elissar, Main Road, Sami Irani Bldg.
Tel: (04) 928560-1-2-3
Fax: (04) 928570
Branch Manager: Ms. Nada A. Kanj

NABATIEH
Habboush, Main Road, Haidar Center
Tel: (07) 531980-1-2
Fax: (07) 531983
Branch Manager: Mr. Hassan I. Ghosn

SAIDA
Deckerman Area, Jezzine Street, Golden Tower
Bldg.
Tel: (07) 727701-2-3
Fax: (07) 727704
Branch Manager: Mr. Ghassan R. Abou Zahr

TARIK JDIDEH – SABRA
Main Road, Sabra Street, Ajlan & Zein Bldg.
Tel: (01) 843801-2-3
Fax: (01) 843804
Acting Branch Manager: Ms. Loma S. Zarief

TRIPOLI
Jimayzat Street, Sahat El Nour,
Moujamaa Tripoli Bldg.
Tel: (06) 432974 - (06) 434974 - (06) 447539
Fax: (06) 431713
Branch Manager: Mr. Ahmad Saoud A. Hajar

TYRE
Main Road, Al Abbassiah, Jal al Bahr,
Commercial Center
Tel: (07) 351081-2
Fax: (07) 351086
Branch Manager: Mr. Ali Y. Khochen

VERDUN
Rachid Karami Street , Omar Saab Bldg.
Tel: (01) 355901-2-3
Fax: (01) 355904
Branch Manager: Mr. Wajih S. Akkari

ZAHLE
Hoch Al Omara, Al Manara Roundabout, Haraoui
1321 Center
Tel: (08) 829501-2
Fax: (08) 829503
Branch Manager: Mr. Charbel A. Skaff

ZOUK MOSBEH
Main Road , Jeita Exit
Tel: (09) 225534-6-7-8
Fax: (09) 225539
Branch Manager: Mr. Elie H. Khalil

LIST OF CORRESPONDENT BANKS

Country	Institution Name
Austria - Vienna	UniCredit Bank Austria AG
Bahrain - Manama	Arab Banking Corporation BSC
Belgium - Brussels	KBC Bank NV
Canada - Montreal	Bank of Montreal
China - Beijing	Bank of China Limited Industrial & Commercial Bank of China Limited
Denmark - Copenhagen	Danske Bank A/S
France	Al Khaliji France SA Union de Banques Arabes et Françaises - UBAF
Germany	Commerzbank AG Deutsche Bank AG
Iraq	Trade Bank of Iraq
Italy	Banca UBAE SPA Intesa Sanpaolo SPA Unicredit SPA
Jordan	Arab Bank PLC Cairo Amman Bank Jordan Kuwait Bank
Kingdom of Saudi Arabia	Alawwal Bank Riyad Bank
Kuwait	Gulf Bank KSCP National Bank of Kuwait SAKP
Norway – Oslo	DNB Bank ASA
Qatar – Doha	Qatar National Bank SAQ
Spain	Banco de Sabadell SA CaixaBank SA
Sri Lanka – Colombo	People's Bank
Sweden	Skandinaviska Enskilda Banken AB
Switzerland	Credit Suisse AG UBS AG
Turkey	AKbank TAS Alternatif Bank Türkiye Is Bankasi A.S.
UAE	Commercial Bank of Dubai PSC Emirates NBD Bank PJSC InvestBank PSC Mashreqbank PSC
UK	Barclays Bank PLC Standard Chartered Bank PLC
USA	JPMorgan Chase Bank The Bank of New York Mellon Standard Chartered Bank

LIST OF FREE-STANDING ATMS

ATM	Address
Beirut	Adlieh, Surete Generale premises
Beirut	Gemmayzeh, Electricite du Liban premises (EDL)
Beirut	Hamra, Clemenceau street, Weavers center (CFC)
Beirut	Hamra, Makdessi street
Beirut	Sodeco,Surete Generale premises
Bekaa	Baalbeck, Rayyan Hospital
Bekaa	Rayyak, Rayyak Hospital, main entrance
Mount Lebanon	Dekwaneh, Nasr Market, Slave Street, Hagop Kichichian Bldg
Mount Lebanon	Ghineh, Municipality Premises
Mount Lebanon	Hazmieh, FNB Finance premises
Mount Lebanon	Mkalles, OTV premises
Mount Lebanon	Roumieh, Daher El Bachek Hospital
Mount Lebanon	Zouk Mosbeh, Electricity plant(EDL), Administration Bldg.
North Lebanon	Hrar, Habtoor Hospital
North Lebanon	Kadisha, Electricite du Liban(EDL) premises
South Lebanon	Tyre, Army Coop