

CENTRAL BANK OF LEBANON

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Governor
Central Bank of Lebanon
Beirut, Lebanon

Qualified Opinion

We have audited the accompanying separate financial statements (the "financial statements") of Central Bank of Lebanon (the "Bank"), which comprise the statement of financial position as at December 31, 2018, and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

As disclosed in Note 2.1 to the financial statements, the Central Council of the Bank, in preparing these financial statements, is authorized under article 33 of the Lebanese Money and Credit Law to identify the Bank's Credit and Monetary policies and to set all the policies and procedures related to the Bank's operations after having regard to its objectives and functions of maintaining the stability of the Lebanese monetary system and the Banking and Financial systems as stipulated by Article 70 of the Money and Credit Law. In light of the above, the Central Council adopted an accounting and financial reporting framework pursuant to its decision number 21/3/2016 dated January 27, 2016 attended by the Bank's Central Council in its decision number 49/12/18 dated April 11, 2018 as disclosed in Note 2.2 to the financial statements that differs from International Financial Reporting Standards which according to the Bank are not aligned for adoption given its objectives and functions, and on which we do not express any opinion.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary, had we been able to perform further auditing procedures as described in paragraphs (a) to (e) in the Basis for Qualified Opinion paragraph, and except for the substance and accounting effect of the transactions discussed in paragraph (1) in the Basis for Qualified Opinion paragraph, the financial statements reflect the financial position of the Central Bank of Lebanon as of December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with the Bank's accounting policies as included in the Accounting Policies Manual for the Banque du Liban approved by the Bank's Central Council in its decision number 49/12/18 dated April 11, 2018, as set forth in Note 2 to the accompanying financial statements.

Basis for Qualified Opinion

- (a) We were unable to conduct a physical inventory observation of the gold held by the Bank and valued at LBP10,610billion as at December 31, 2018, triggered by limitations related to a complex accessibility policy which gives access exclusively to top executives of the Bank. Given the nature of the related business cycle, we were unable to perform alternative auditing procedures.
- (b) With respect to cash at banks, reverse repurchase agreements and interest bearing time deposits with banks; we received direct confirmations from banks and financial institutions to the extent of aggregate debit balances amounting to LBP45,632billion as at December 31, 2018, representing 99.86% of the total circularized balances. Several follow ups were done by the Bank. Unconfirmed balances amounted to LBP62billion representing 0.14% of the total circularized balances. Our verification of the validity of the unconfirmed account balances was limited to an examination of third party statements of accounts and advices received by the Bank from the correspondent banks.
- (c) We received direct confirmations from public sector depositors in respect of credit balances aggregating LBP2,955billion as at December 31, 2018, which represent approximately 38.80% of the circularized deposits. Several follow ups were done by the Bank. We were unable to satisfy ourselves by other auditing procedures as to the unconfirmed balances aggregating LBP4,661billion, which represent approximately 61.20% of the circularized deposits.
- (d) We received direct confirmations from banks and financial institutions in respect of credit balances with the Bank aggregating LBP138,382billion as at December 31, 2018, which represent approximately 90.14% of the circularized deposits. Several follow ups were done by the Bank. We were unable to satisfy ourselves by other auditing procedures as to the unconfirmed balances aggregating LBP15,136billion, which represent approximately 9.86% of the circularized deposits.
- (e) The Bank has not performed an assessment of the fair value of its investment in an associate reflected in the statement of financial position at a carrying value of LBP345billion as at December 31, 2018, as a result of the unavailability of financial and other relevant information to perform such an assessment. As a result, we were unable to ascertain the value of the Bank's investment in an associate as at December 31, 2018.

- 1- During 2016, the Central Bank of Lebanon followed a strategy of acquiring sovereign papers in LBP from the banking sector as well as redeemed certificates of deposit in LBP which in most cases was conditional to placing foreign currency deposits at the Central Bank in the form of certificates of deposit or investing in Treasury bonds in USD with medium to long term maturities. As disclosed in Note 6 to the accompanying financial statements, the exchange of such instruments was executed at a value equivalent to par plus the value of all the coupons to maturity resulting in a LBP6,489billion above the fair value on Lebanese Treasury bills which will be refunded over time from proceeds of interest until maturity without generating future income which would have otherwise been realized over time. The unamortized amount of LBP4,083billion is reflected under "Lebanese treasury bills" in the statement of financial position as at December 31, 2018. Furthermore, as disclosed in Note 25 to the accompanying financial statements, certificates of deposit were redeemed at a premium of LBP12,980billion which was deferred and the unamortized amount of LBP10,824billion is reflected under "Deferred interest expense and other finance costs" under liabilities in the statement of financial position as at December 31, 2018. In connection with these transactions, the Central Bank charged the relevant entities a commission in the form of retrocession on the coupons paid which was accounted for separately as fees credited to "Deferred interest expense and other finance costs" in the amount of LBP9,727billion reflected in the financial statements for the year ended December 31, 2016 as an integral part of assets from exchange operations of financial instruments.
- During 2017, as part of its monetary policy, the Bank entered into several transactions, whereby, the Bank redeemed certificates of deposit with a nominal value of LBP4,056billion at a premium of LBP2,478billion which was recorded under "Deferred interest expense and other finance costs" to be amortized. The unamortized premium amounted to LBP2,078billion as of December 31, 2018 as disclosed in Note 25 to the accompanying financial statements. As a result of these transactions, the Bank charged the counterparties transaction fees in the amount of LBP2,287billion booked as a credit to "Deferred interest expense and other finance costs" in the statement of financial position.
- During 2018, as part of its monetary policy, the Bank entered into several transactions, whereby, the Bank redeemed certificates of deposit with a nominal value of LBP5,569billion at a premium of LBP7,956billion. The unamortized premium amounted to LBP7,559billion as of December 31, 2018 as disclosed in Note 25 to the accompanying financial statements. As a result of these transactions, the Bank charged the counterparties transaction fees in the amount of LBP8,072billion booked as a credit to "Deferred interest expense and other finance costs" in the statement of financial position.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank 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 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 qualified audit opinion.

Emphasis of a Matter

As disclosed in note 35 to the accompanying financial statements, since the last quarter of 2019, Lebanon is witnessing severe events that have set off an interconnected fiscal, monetary and economic crisis as well as a deep recession that have reached unprecedented levels which in conjunction with the outstanding exposure to financial liabilities in foreign currency referred to in Note 25, have affected negatively the Bank's financial situation.

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

Management is responsible for the preparation and presentation of the financial statements in accordance with the Bank's accounting standards and policies included in the Financial Accounting Manual for Banque du Liban approved by the Bank's Central Council in its decision number 49/12/18 dated April 11, 2018, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement in relation to the internally adopted accounting policies, 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 financial statements.

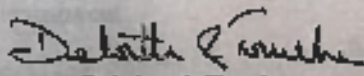
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

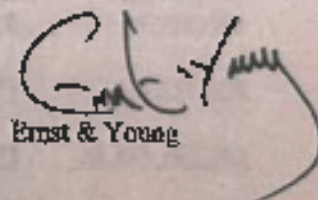
- Identify and assess the risks of material misstatement of the financial statements from accounting policies described in Note 2 of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the consistency of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management with the accounting policies approved by the Central Council as described in Note 2 to the financial statements.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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.
- Evaluate the overall presentation and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves presentation consistent with the adopted accounting policies as described under Note 2 to the financial statements.

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.

Beirut, Lebanon
 June 30, 2020
 Reissued on June 30, 2020
 for redrafting of the notes to
 eliminate references to
 third party names


 Deloitte & Touche


 Ernst & Young

CENTRAL BANK OF LEBANON
STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31,	
		2018	2017
		LBP'000	LBP'000
Cash at banks	3	8,713,437,963	5,992,945,204
Reverse repurchase agreement	4	958,468,500	3,806,286,730
Interest bearing time deposits with banks	5	36,195,588,355	43,245,546,638
Lebanese treasury bills	6	44,843,665,063	42,482,542,684
Asset-backed and credit linked notes	7	1,037,475,224	1,213,928,920
Lebanese Government Eurobonds	8	5,760,551,136	2,976,792,153
Foreign bonds	9	2,368,081,719	3,696,798,912
Certificates of deposit	10	1,618,343,525	1,427,707,054
Loans and advances, less provision for credit losses	11	420,259,548	421,639,753
Loans to banks and financial institutions	12	10,082,753,392	8,885,806,769
Soft loans to banks	13	659,005,184	658,680,521
Loans under leverage arrangement	14	41,936,784,648	9,971,621,694
Investments in subsidiaries	16	1,279,784,596	1,279,784,596
Investment in an associate	17	344,911,900	344,911,900
Other investments		11,306,258	11,306,258
Gold, at market value	18	17,743,081,983	18,033,091,890
Real estate acquired in satisfaction of loans to problematic banks	19	244,205,551	227,185,154
Properties and equipment	20	103,461,850	133,915,725
Accrued income and other assets	21	66,900,888	65,938,682
Excess in end-of-service indemnity investment fund	22	62,762,675	24,253,368
Assets from exchange operations of financial instruments and seigniorage	23	<u>40,168,672,575</u>	<u>29,898,393,761</u>
Total Assets		<u>214,619,502,533</u>	<u>174,799,078,386</u>

THE ACCOMPANYING NOTES 1 TO 35 FORM AN INTEGRAL PART OF
THE FINANCIAL STATEMENTS

CENTRAL BANK OF LEBANON
STATEMENT OF FINANCIAL POSITION

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2018</u>	<u>2017</u>
		<u>LBP'000</u>	<u>LBP'000</u>
<u>LIABILITIES:</u>			
Bank notes in circulation		5,766,691,975	5,572,723,112
Coins in circulation		94,073,187	89,759,812
	24	<u>5,860,765,162</u>	<u>5,662,482,924</u>
Banks and financial institutions:			
Current and demand deposits		7,001,372,455	10,165,082,052
Term deposits		121,351,204,687	103,583,070,883
Blocked deposits		30,284,800	51,512,053
Certificates of deposit		42,864,648,805	45,797,614,515
Term deposits under leverage arrangement	14	27,439,698,738	1,248,418,175
Certificates of deposit under leverage arrangement	14	2,638,000,000	-
Other		8,367,144	8,602,315
	25	<u>201,333,576,629</u>	<u>160,854,299,993</u>
Public sector:			
Demand deposits		7,118,520,209	8,254,805,954
Time deposits-margin accounts	32	444,191,140	595,252,679
Blocked deposits		15,426,578	41,918,174
Other		38,134,343	49,002,064
		<u>7,616,272,270</u>	<u>8,940,978,871</u>
Accrued expenses and other liabilities	26	554,233,081	564,265,159
Total liabilities		<u>215,364,847,142</u>	<u>176,022,026,947</u>
Unrealized gain on exchange - Article 115	27	9,464,174,368	9,725,723,002
Provision for contingencies	28	3,864,405,855	3,836,517,302
Deferred interest expense and other finance costs	29	(15,787,813,242)	(16,486,010,581)
		<u>(11,923,407,387)</u>	<u>(12,649,493,279)</u>
<u>EQUITY:</u>			
Capital		15,000	15,000
Grants (restricted)		150,750,000	150,750,000
Revaluation reserve	16, 17	1,052,769,681	1,052,769,681
Other reserves		28,921,100	30,877,424
Income, after appropriations		75,447,527	75,530,637
General reserve	30	405,985,102	390,878,974
Total Equity		<u>1,713,888,410</u>	<u>1,700,821,716</u>
Total Liabilities and Equity		<u>214,619,502,533</u>	<u>174,799,078,386</u>

THE ACCOMPANYING NOTES 1 TO 35 FORM AN INTEGRAL PART OF
THE FINANCIAL STATEMENTS

CENTRAL BANK OF LEBANON
STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31,	
		2018 LBP'000	2017 LBP'000
Interest income:			
Time and overnight deposits with banks		872,086,246	359,493,503
Loans		686,850,073	195,062,019
Reallocation to interest subsidy - retail loans granted by banks	26	(66,686,658)	-
Reverse repurchase agreements		34,646,927	27,999,184
Treasury bills, securities and certificates of deposit		1,752,880,876	1,286,876,788
Other		8,641,428	8,814,879
		<u>3,288,418,894</u>	<u>2,078,246,373</u>
Interest expense:			
Banks and financial institutions		2,874,645,328	1,715,896,910
Other		14,127	16,093
		<u>2,874,659,455</u>	<u>1,715,913,003</u>
Net interest income		413,759,439	362,333,370
(Loss)/gain on sale of Lebanese treasury bills, Government bonds and other securities, (net)	6, 8	(93,444,164)	33,204,868
Gain on sale of real estate acquired in satisfaction of loans to problematic banks	19	16,110,054	5,199,936
Commissions, (net)		15,301,926	15,812,598
Other income		3,047,489	6,985,283
Dividend income	16, 17	88,690,077	82,773,243
Write-back of accrued expenses		3,788,514	6,905,636
Prior year adjustments		732,452	(33,757,630)
Net financial income		<u>447,985,787</u>	<u>479,457,304</u>
Other expenses:			
Salaries and related charges		167,198,575	164,899,870
Employees' end-of-service indemnity, net of recoveries	22	4,833,980	7,047,066
Salaries and related charges - Early retirement of employees		70,222,288	113,823,519
General operating expenses, net of recoveries		49,204,455	43,148,438
Write-down of properties and equipment	20	53,190,209	10,939,024
		<u>344,649,507</u>	<u>339,857,917</u>
Income for the year		103,336,280	139,599,387
Less: Appropriation to provision for contingencies	28	(27,888,753)	(64,068,750)
Income, after appropriations		<u>75,447,527</u>	<u>75,530,637</u>

THE ACCOMPANYING NOTES 1 TO 35 FORM AN INTEGRAL PART OF
THE FINANCIAL STATEMENTS

CENTRAL BANK OF LEBANON
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<u>Notes</u>	<u>Year Ended</u> <u>December 31,</u>	
		<u>2018</u> <u>LBP'000</u>	<u>2017</u> <u>LBP'000</u>
Income for the year, before appropriation		<u>103,336,280</u>	<u>139,599,387</u>
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Change in fair value of investment in a subsidiary	16	<u>-</u>	<u>33,138,670</u>
Total other comprehensive income for the year		<u>-</u>	<u>33,138,670</u>
Total comprehensive income for the year		<u>103,336,280</u>	<u>172,738,057</u>

THE ACCOMPANYING NOTES 1 TO 35 FORM AN INTEGRAL PART OF
 THE FINANCIAL STATEMENTS

**CENTRAL BANK OF LEBANON
STATEMENT OF CHANGES IN EQUITY**

	Capital LBP'000	Restricted Grants LBP'000	Cumulative Change in Fair Value LBP'000	Other Reserves LBP'000	Income for the Year LBP'000	General Reserve LBP'000	Total LBP'000
Balance, January 1, 2017	15,000	150,750,000	1,019,631,011	31,782,256	75,853,179	375,708,339	1,653,739,785
Total comprehensive income for the year 2017	-	-	33,138,670	-	139,999,387	-	172,758,057
Appropriation from income (Note 28)	-	-	-	-	(64,068,750)	-	(64,068,750)
Write-down of other assets	-	-	-	(904,832)	-	-	(904,832)
Allocation to general reserve from 2016 income (Note 30)	-	-	-	-	(15,170,635)	15,170,635	-
Allocation to Ministry of Finance from 2016 income	-	-	-	-	(60,682,344)	-	(60,682,344)
Balance, December 31, 2017	15,000	150,750,000	1,052,769,681	30,877,424	75,530,637	390,878,974	1,700,821,716
Total comprehensive income for the year 2018	-	-	-	-	103,336,280	-	103,336,280
Appropriations from income (Note 28)	-	-	-	-	(27,888,753)	-	(27,888,753)
Write-down of properties and equipment (Note 20)	-	-	-	(993,711)	-	-	(993,711)
Write-down of other assets	-	-	-	(960,613)	-	-	(960,613)
Allocation to general reserve from 2017 income (Note 30)	-	-	-	-	(15,106,128)	15,106,128	-
Allocation to Ministry of Finance from 2017 income	-	-	-	-	(60,424,509)	-	(60,424,509)
Balance, December 31, 2018	15,000	150,750,000	1,052,769,681	28,921,100	75,447,522	405,985,102	1,713,888,410

THE ACCOMPANYING NOTES 1 TO 35 FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

CENTRAL BANK OF LEBANON
STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31,	
		2018 LBP'000	2017 LBP'000
Cash flows from operating activities:			
Income after appropriations		75,447,527	75,530,637
Adjustments for:			
Write-down of properties and equipment	20	53,190,209	10,939,024
Provisions for employees' end-of-service indemnities	22	17,250,000	68,678,131
Appropriation of income to provision for contingencies	28	27,888,753	64,068,750
Amortization of deferred cost of certificates of deposit and time deposits	29	96,663,722	60,400,614
Gain on sale of real estate acquired in satisfaction of loans to problematic banks	19	(16,110,054)	(5,199,936)
Deferred interest paid on certificates of deposit and time deposits	29	(14,003,390,875)	(9,100,219,733)
Net increase in accrued income and other assets		(57,682,326)	(39,438,040)
Net (decrease)/increase in accrued expenses and other liabilities		(10,032,078)	253,180,868
Deferred interest expense and other finance costs		4,334,645,678	2,207,451,685
Net cash used in operating activities		(9,482,129,444)	(6,404,608,000)
Cash flows from investing activities:			
Net increase in Lebanese treasury bills		(2,361,122,379)	(5,132,196,845)
Net decrease/(increase) in asset-backed and credit linked notes		176,453,696	(590,421,163)
Net increase in Lebanese Government Eurobonds		(2,783,758,983)	(1,625,551,397)
Net decrease in foreign bonds		1,328,717,193	2,438,673,574
Net (increase)/decrease in certificates of deposit		(190,636,471)	548,271,994
Net decrease/(increase) in loans and advances		1,380,205	(10,137,338)
Net increase in loans to banks and financial institutions		(3,108,587,293)	(9,151,304,846)
Net (increase)/decrease in soft loans to banks		(324,663)	226,135
Proceeds from sale of real estate acquired in satisfaction of loans to problematic banks		23,266,111	11,475,422
Net increase in properties and equipment		(23,732,045)	(52,068,545)
Net cash used in investing activities		(6,938,344,629)	(13,563,033,009)
Cash flows from financing activities:			
Net increase in bank notes and coins in circulation		198,282,238	377,556,491
Net increase in deposits from banks and financial institutions		12,385,760,316	20,274,501,817
Net (decrease)/increase in deposits from the public sector	31	(1,385,131,110)	686,527,774
Net increase in unrealized gains on exchange - Article 115	31	38,461,273	123,815,444
Net cash provided by financing activities		11,227,372,717	21,462,401,526
Net (decrease)/increase in cash and cash equivalents		(5,193,101,356)	1,494,760,517
Cash and cash equivalents - Beginning of the year	31	18,198,352,624	16,703,592,107
Cash and cash equivalents - End of the year	31	13,005,251,268	18,198,352,624

THE ACCOMPANYING NOTES 1 TO 35 FORM AN INTEGRAL PART OF
THE FINANCIAL STATEMENTS

CENTRAL BANK OF LEBANON
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

1. GENERAL

The Central Bank of Lebanon (the "Bank" or "BDL") is an entity incorporated under the provisions of the Lebanese public law and is financially independent from the Government of Lebanon. The Bank is considered commercial in nature when dealing with third parties and is not subject to the rules of administration and running of business and the regulations applicable to the Public Sector in Lebanon. The Bank's activities are governed by the Lebanese Money and Credit Law. The Bank's main objective is to maintain monetary stability so that it can constitute the basis of sustainable societal and economic growth. The Bank's main objective applies in particular to the preservation of the stability of the economy, the Lebanese monetary system and the Lebanese Pound, in addition to the development of financial and money markets.

The capital of the Central Bank of Lebanon, amounting to LBP15million, was set up as a capital contribution by the Lebanese Government. The capital is not divided into shares.

The financial statements have been authorized for issue by the Central Council of the Bank in its decision number 19/7/19 dated March 13, 2019.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared in accordance with the accounting policies included in the Accounting Policies Manual for the Banque du Liban approved by the Bank's Central Council in its decision number 21/3/2016 dated January 27, 2016 amended by the Banks' Central Council in its decision number 49/12/18 dated April 11, 2018. Article 33 of the Money and Credit Law authorizes the Bank's Central Council to identify the Bank's credit and monetary policies and to set all the policies and procedures related to the Bank's operations after having regard to its objectives and functions of maintaining the stability of the Lebanese monetary system and the Lebanese economy, as well as preserving the Lebanese Banking and Financial systems as established by Article 70 of the Money and Credit Law. The Central Council, considering its responsibilities for managing the Lebanese monetary policy, adopted the above mentioned Accounting Policies Manual that differs from International Financial Reporting Standards which according to the Bank's Central Council are not appropriate for adoption considering the Bank's objectives and functions.

Hence, the adopted framework encompasses the application of policies which are specific to the execution of the role of the Central Bank. These include the recognition of seigniorage assets and liabilities on currency, treasury bills and financial stability, deferral of finance costs, deferral of unrealized gains and losses on revaluation of Gold together with the effect of translation of assets and liabilities denominated in foreign currencies, and recognition of the value of currency in circulation in liabilities net of cash held by the Bank. As such, the most significant accounting policies applied by the Bank differ from the relevant applicable International Financial Reporting Standards. Management believes that compliance with the Money and Credit Law as well as the effective implementation of the financial accounting framework constitute the basis on which Lebanon's monetary policy can be managed since, given its role, the Bank is not subject to commercial accounting practices.

The financial statements have been prepared under the historical cost convention, except for gold, investment in a subsidiary and investment in an associate which are measured at fair value.

The financial statements and the relevant disclosures are presented in thousands of Lebanese Pounds (LBP'000), except when otherwise indicated.

The Bank presents its statement of financial position broadly in order of liquidity.

1.2 Significant Accounting Policies

A. Foreign Currencies:

The Lebanese Pound (LBP) is the functional, reporting and presentation currency of the Bank.

All components of the financial statements are measured in the functional currency. All transactions entered into in currencies other than the functional currency are treated as transactions in a foreign currency.

Transactions effected during the year in foreign currencies related to income and expenses are translated into Lebanese Pounds using spot rates of exchange prevailing at the transaction dates.

Transactions effected during the year in foreign currencies as a result of the Bank's intervention in the market to stabilize the Lebanese Pound against the U.S. Dollar are translated into Lebanese Pounds at the end of the period based on the weighted average daily exchange rate.

Monetary assets and liabilities denominated in foreign currencies are translated into Lebanese Pounds at period-end exchange rates, as published by the Bank.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All translation gains and losses arising from foreign currency fluctuation are included in the statement of financial position under "Unrealized Gain on Exchange - Article 115" account.

B. Gold:

Gold is valued at the published market price in an active international market at the date of the Bank's official closing date. Unrealized gain or loss is deferred and recognized periodically under "Unrealized gain on exchange - Article 115" account based on fluctuations in the market value of gold and in accordance with Article 115 of the Lebanese Money and Credit Law.

C. Financial Instruments:

Recognition

BDL recognizes a financial instrument when it becomes a party to the contractual provisions of the instrument.

Financial assets

Except for soft loans, investments in debt and equity securities are initially measured at fair value plus transaction costs directly attributable to the purchase except when those are classified as held-for-trading which are initially measured at fair value.

Debt instruments include: Lebanese treasury bills, Government bonds, foreign bonds, foreign Government bonds, asset-backed notes, credit linked notes and similar instruments, certificates of deposit, reverse repurchase agreements, interest bearing time deposits with banks, loans and advances, loans and soft loans to banks, and instruments having similar financial characteristics.

Soft loans granted to third parties at preferential interest rates are initially recognized at the face (nominal) value.

Classification

The Bank does not classify its investments in financial instruments into categories.

Subsequent Measurement

After initial recognition, the Bank measures investments in debt securities at amortized cost.

Accretion of discounts and amortization of premiums representing a yield adjustment are accounted for in the statement of profit or loss as an adjustment to interest income using the straight-line method.

Equity securities are subsequently measured at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Impairment

The allowance for credit losses is set up against specific accounts to offset the losses that may result therefrom, determined on the basis of an assessment of credit risks which is updated regularly. This credit loss assessment is made based on objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is estimated based on the difference between the asset carrying value and the present value of future anticipated cash flows discounted at the financial asset's original effective interest rate, taking into consideration the liquidating value of the guarantee in hand. Provisions for credit losses are charged to profit or loss.

The Bank also records impairment charges on equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Impairment losses on debt instruments are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Impairment losses on equity investments recognized in the income statement may be subsequently reversed through the income statement.

Derecognition of Financial Assets

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

Initial Measurement

Financial instruments issued by the Bank are initially measured at fair value.

Classification and Subsequent Measurement

Financial instruments issued by the Bank, are classified as liabilities where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial recognition, debt issued and other financing are subsequently measured at amortized cost using the straight-line method. Amortized cost is calculated by taking into account any discount or premium on the issue.

Banks' and Public Sector Deposits

All deposits are carried at amortized cost less amounts repaid.

Derecognition of Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability (certificate of deposit, time deposit) is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is deferred and recorded under "Deferred interest expense and other finance costs" under liabilities.

D. Repurchase and Reverse Repurchase Agreements:

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the statement of financial position. Amounts received under these agreements are treated as liabilities and the difference between the sale and the repurchase price is treated as interest expense. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are recognized in the statement of financial position. Amounts paid under these agreements are treated as assets and the difference between the purchase and resale price is treated as interest income.

However, the Bank, within the context of conducting monetary policy, may elect to record certain types of repos as sales at sale dates and subsequently as purchases at repurchase dates.

E. Investment in Subsidiaries and Associates:

Investments in subsidiaries and investments in associates are accounted for at fair value. The change in fair value is recorded under "cumulative change in fair value" in other comprehensive income and accumulated under equity.

The Bank assesses at each reporting date whether there is an indication that investments in subsidiaries and associates may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an investment in an associate is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to investment in subsidiaries in the separate financial statements may be reversed for subsequent increases in its recoverable amount in future periods.

The Bank does not consolidate subsidiaries.

F. Determination of Fair Value:

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted average market prices.

For investments where there is no quoted price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or through the use of valuation models such as discounted cash flow models or the underlying net assets of the investment. The input to these models are derived from observable markets data where possible, but where observable market data are not available, judgment is required to establish fair values.

G. Property and Equipment:

Properties and equipment are stated at historical cost, less accumulated depreciation and any accumulated impairment and written down amounts.

The cost comprises: a) the purchase price, b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

The Bank records depreciation for the year during which the asset is acquired. At each year-end, the Bank writes down the remaining book value of the acquired fixed assets, except for land and work in progress, as period expenses.

Impairment

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

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 as an expense immediately, 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 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 in prior years. A reversal of an impairment loss is recognized as income immediately, 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.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognized: a) on disposal, or b) when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

EL Real estate acquired in satisfaction of loans to problematic banks:

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure (professional fees for legal services, property transfer taxes, etc...).

The Bank's investment properties comprise real estate acquired in satisfaction of loans to problematic banks which are accounted for as if the real estate had been acquired for cash.

Subsequent to initial recognition, investment properties are measured at cost less any accumulated impairment or fair value provided that the choice of policy is consistently applied.

A gain or loss arising from a change in the fair value of investment property is recognized in other comprehensive income for the period in which it arises.

A change in accounting policy with respect to remeasurement of investment properties subsequent to initial recognition triggers a retrospective restatement of the financial statements.

I. Employees' End-of-Service Benefits:

The Bank provides for employees' end-of-service indemnity in accordance with applicable Lebanese Labor and Social Security Laws. The entitlement to these benefits is usually based upon the employee's length of service, the employee's salaries and other requirements outlined in the relevant laws. The Bank accrues for these indemnities on a current basis. The provision for staff end-of-service indemnities is disclosed in the financial statements net of advance payments effected thereon.

The Bank provides for end-of-service indemnities of the Governor and Vice Governors in accordance with Article 24 of the Money and Credit Law. Indemnities of the Banking Control Commissions members are provided for by BDL in accordance with its Central Council's decision.

Effective 1999, the Bank set up an investment account in Lebanese treasury bills with offset to the employees' provision for end-of-service indemnities. Interest income on these treasury bills is netted against the end-of-service indemnity charge in the statement of profit or loss.

J. Cost of New Bank Notes, Coins and Medals in Stock:

The cost of new bank notes is charged to income when the bank notes or coins are issued. The cost of medals in stock is charged to the statement of profit or loss when sold.

K. Treasury Bills Swap & Discount Transactions:

The Bank buys treasury bills from the general public and Lebanese resident banks and financial institutions and enters into Lebanese treasury bills swap and/or exchange transactions with resident banks and financial institutions. The Bank then discounts the bills acquired with the Ministry of Finance as part of the declared policy to stabilize the Lebanese Pound market exchange rate against the U.S. Dollar. The resulting costs arising from these transactions up to December 31, 2002 were netted against the unrealized gain on exchange - Article 115 account. Costs arising subsequent to December 31, 2002, including any excess amounts paid over fair value, are deferred under "Deferred interest expense and other finance costs", which are offset on a periodic basis against credit seigniorage balances.

Exchange of financial assets:

Debt securities exchanged against securities with longer maturities, with similar risk characteristics, and issued by the same issuer, are treated as sales and purchases transactions. Premiums and discounts derived from the exchange of said securities are deferred under "Deferred interest expense and other finance costs".

L. Deferred Finance Costs:

The Bank's operations on deposits taken from local banks either by issuing a certificate or as a regular time deposit are considered as intervention in the market which is part of the monetary policy. Interest expense on these certificates of deposit and time deposits, in addition to related cost of discounting is deferred as an offset to provision for contingencies and reversed against the credit side of the seigniorage to the extent of available credit balances in seigniorage accounts. Similar treatment applies to capital gains and losses, finance costs and costs paid over fair value of financial instruments.

Based on Central Council Decision, the deferred finance cost is reduced by using the following sources: Profit for the year, seigniorage on financial stability, commission on financial engineering transactions, seigniorage on the swap of Lebanese Treasury bills with Eurobonds, seigniorage on payments on behalf of government in foreign currency, seigniorage on coins and currency, seigniorage on Lebanese Treasury bills, provision for contingency. Details of the application mechanism relating to this process is determined by the Governor.

Based on the decision of the Bank's Central Council, the remaining deferred cost is amortized over the number of years from the deferral date to the end of the year 2017, extended in 2008, until the year 2037 and extended further in 2015 until the year 2050, inclusive, based on Central Council decision number 44/7/15 dated March 18, 2015, in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Lebanese Ministry of Justice. Any further extension of the deferral period is subject to the Central Council's approval.

M. Appropriation from Income:

At each year-end, the Bank may appropriate an amount determined and approved by the Central Council from income to be recorded under provision for contingencies and other reserves.

N. Distribution Policy:

In accordance with the requirements of Article 113 of the Lebanese Money and Credit Law, the Bank transfers 20% of its net income to general reserve and distributes 80% to the Lebanese Government.

O. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of three months or less, including current, overnight, and time deposits with banks and financial institutions.

P. Offsetting:

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Q. Trade & Settlement Date Accounting:

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the Bank receives or delivers the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

R. Taxation:

The Bank is exempted from Lebanese income tax in accordance with Article 118 of the Money and Credit Law and Article 5 of the Income Tax law.

S. Seigniorage on Currency, Treasury Bills and Financial Stability:

The Bank recognizes seigniorage on issued banknotes and coins. As such, the Bank, records an asset and a liability balance from this seigniorage representing the difference between the cost of printing the issued money and the cumulative face value of this money prior to circulation. The value of seigniorage on currency is adjusted every fifteen days due to changes in the stock of issued money. This policy is supported by a legal opinion from the Bank's Legal Department under reference 5205/11 dated December 29, 2006.

Effective 2015 and based on Central Council decision number 21/3/16 dated January 27, 2016, the Bank recognizes seigniorage on currency capped at 2.5% of cumulative annual Gross Domestic Product (GDP) of Lebanon since 2002 inclusive, when the Financial Rectification Plan was initiated.

Furthermore, the Bank recognizes seigniorage on Lebanese Treasury Bills swapped against Lebanese Republic Eurobonds or outstanding in the Bank's portfolio. As such, the Bank, records asset and liability balances from this seigniorage representing the value of these treasury bills.

Additionally, effective 2018, and based on the Central Council's decision number 47/12/18 dated April 11, 2018, the Bank recognizes seigniorage on Financial Stability. As such, the Bank records on a yearly basis asset and liability balances from this seigniorage representing an amount deemed appropriate by the Governor in view of the Bank's role and operations.

Such assets recognized as a result of the above are accumulated over time and the Bank uses the credit balance to offset part of the deferred cost of matured certificates of deposit and paid coupons on outstanding instruments originally issued pursuant to the Paris II Summit of Donors to Lebanon as well as deferred costs relating to or derived from other financial instruments. The offset amount, originally booked under deferred interest expense and other finance costs, represents already paid interest expense on matured or discounted certificates of deposit and time deposits, as well as deferred costs relating to or derived from other financial instruments. This policy is supported by a legal opinion from the Bank's Legal Department under reference 5205/11 dated December 29, 2006.

The policy of recognizing seigniorage on Treasury Bills is approved by the Bank's Central Council (decision number 33/39/13 dated November 20, 2013) following its legal department's opinion.

3. CASH AT BANKS

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Current accounts	4,117,075,494	3,691,584,535
Overnight deposits	4,594,024,167	2,300,013,643
	8,711,099,661	5,991,597,578
Accrued interest receivable	2,338,302	1,347,626
	<u>8,713,437,963</u>	<u>5,992,945,204</u>

Cash at banks as at December 31, 2018 and 2017 are mainly denominated in the following currencies:

	<u>2018</u>	<u>2017</u>
	<u>%</u>	<u>%</u>
Euro	46.68	42.08
U.S. Dollars	52.87	57.21
Sterling Pound	0.33	0.49
Others	0.12	0.22
	<u>100.00</u>	<u>100.00</u>

The carrying amounts of cash at banks approximate their fair value.

4. REVERSE REPURCHASE AGREEMENT

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Reverse repurchase agreement	1,823,699,693	3,806,286,750
Contra asset account	(865,231,133)	-
	<u>958,468,560</u>	<u>3,806,286,750</u>

The reverse repurchase agreement represents an amount of USD635,800,000 (LBP958billion) placed from December 31, 2018 to January 2, 2019 and earning an annual interest rate of 3.04% (USD2,524,900,000 (LBP3,806billion) placed from December 29, 2017 to January 2, 2018 and earning an annual rate of 1.46%).

During 2018, the Bank recorded an amount of USD574million (LBP865billion) determined by the Bank based on excess over foreign currency position at commercial banks which are required to be closed as an expected settlement from these commercial banks in foreign currency against an equal liability. This amount was recorded under foreign bank deposits, however, it was not collected during the year and as a result, the corresponding liability was netted-off from this balance.

5. INTEREST BEARING TIME DEPOSITS WITH BANKS

Interest bearing time deposits with banks are maintained with international banks and central banks and segregated by currency as follows:

Base Currency	December 31, 2018		December 31, 2017	
	Amount LBP'000	Percentage %	Amount LBP'000	Percentage %
U.S. Dollars	33,341,116,702	92.55	38,607,883,020	89.63
Others	2,683,812,402	7.45	4,467,803,964	10.37
	36,024,929,104	100.00	43,075,686,984	100.00
Accrued interest receivable	170,659,251		169,859,654	
	<u>36,195,588,355</u>		<u>43,245,546,638</u>	

Interest bearing time deposits with banks as at December 31, 2018 and December 31, 2017 mature as follows (excluding accrued interest receivable):

Period	December 31, 2018	
	Counter Value of Foreign Currency Balances LBP'000	Weighted Average Interest Rate %
January 2019	12,896,053,470	2.50
February 2019	13,054,725,382	2.57
March 2019	9,344,520,252	2.00
April 2019	277,380,000	3.05
May 2019	150,750,000	3.52
June 2019	150,750,000	3.55
Year 2020	150,750,000	3.37
	<u>36,024,929,104</u>	

Period	December 31, 2017	
	Counter Value of Foreign Currency Balances LBP'000	Weighted Average Interest Rate %
January 2018	17,844,663,420	1.26
February 2018	7,293,043,800	0.78
March 2018	2,596,906,014	1.79
April 2018	2,927,565,000	1.52
May 2018	3,684,330,000	1.60
June 2018	3,151,428,750	1.64
July 2018	3,230,572,500	1.73
August 2018	1,100,475,000	1.73
September 2018	226,125,000	1.96
October 2018	266,827,500	1.87
Year 2019	603,000,000	2.23
Year 2020	150,750,000	2.25
	<u>43,075,686,984</u>	

The carrying amounts of interest bearing deposits with banks approximate their fair value.

Net available funds in foreign currencies are analyzed as follows:

	December 31,	
	2018 LBP'000	2017 LBP'000
Foreign assets in foreign currencies:		
Cash at banks - Note 3	8,713,437,963	5,992,945,204
Reverse repurchase agreement - Note 4	958,468,500	3,806,286,750
Interest bearing time deposits with banks - Note 5	36,195,588,353	43,245,546,638
Foreign bonds - Note 9	2,108,630,798	3,245,452,361
Foreign government bonds - Note 9	259,450,921	451,346,551
Certificates of deposit - Note 10	<u>1,618,343,525</u>	<u>1,427,707,054</u>
	49,853,920,062	58,169,284,558
Local assets in foreign currencies:		
Asset backed and credit linked notes - Note 7	1,037,475,224	1,213,928,920
Government Eurobonds - Note 8	<u>5,760,551,136</u>	<u>2,976,792,153</u>
	6,798,026,360	4,190,721,073
Total assets in foreign currencies	56,651,946,422	62,360,005,631
Less: Deposits in foreign currencies including accrued interest - Note 25	<u>101,182,673,465</u>	<u>94,670,740,083</u>
Shortage of foreign currency reserves	<u>(44,530,727,043)</u>	<u>(32,310,734,452)</u>
	<u>USD'000</u>	<u>USD'000</u>
U.S. Dollars equivalent of shortage of foreign currency reserve	(29,539,454)	(21,433,323)
Banks' compulsory reserve in foreign currencies - Note 25	<u>18,800,000</u>	<u>17,690,000</u>
Shortage of foreign currency reserve after excluding compulsory deposits	<u>(10,739,454)</u>	<u>(3,743,323)</u>

6. LEBANESE TREASURY BILLS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Treasury bills purchased at discount	866,582,948	1,311,483,060
Less: Unearned interest	(13,474,706)	(36,852,154)
	853,108,242	1,274,630,906
Coupon treasury bills gross of net premium (2018, LBP1,744billion, 2017, LBP2,068billion)	30,266,624,173	26,433,727,138
Coupon treasury bills from financial engineering gross of net premium (2018, LBP4,083billion 2017, LBP4,807billion)	13,250,992,366	14,231,117,840
	44,370,724,781	41,939,475,884
Accrued interest receivable	472,940,282	543,066,800
	<u>44,843,665,063</u>	<u>42,482,542,684</u>

During 2018, the Bank entered into several exchange transactions with banks, whereby the Bank acquired Lebanese treasury bills with a nominal value of LBP3,585billion at a premium of LBP72billion, and redeemed term deposits from banks and financial institutions denominated in LBP with a nominal value of LBP719billion and certificates of deposit in LBP with a nominal value of LBP2,123billion at a premium of LBP23billion against term deposits from banks and financial institutions denominated in LBP with a nominal value of LBP4,114billion, and issued certificates of deposit in LBP with a nominal value of LBP2,411billion.

During 2017, the Bank entered into several exchange transactions with banks, whereby the Bank acquired Lebanese treasury bills with a nominal value of LBP6,389billion at a premium of LBP247billion, and redeemed certificates of deposit with a nominal value of LBP2,554billion at a premium of LBP154billion against term deposits from banks and financial institutions denominated in LBP, U.S. Dollars and Euros with a nominal value of LBP6,322billion, LBP2,515billion (USD1,668million) and LBP54.2billion (EUR30million) respectively, and issued certificates of deposit in LBP and in USD with nominal value of LBP1,854billion and LBP1,581billion (USD1,048million), respectively.

Furthermore, during 2018, the Bank entered into an exchange transaction with the Ministry of Finance in accordance with the Central Council decision number 44/16/18 dated May 16, 2018, whereby the Bank sold Lebanese treasury bills of aggregate carrying amount of LBP8,147billion including premium and accrued interest receivable of LBP134billion, with maturities ranging from 2018 to 2027 against acquisition of Lebanese Government Eurobonds in the aggregate carrying amount of LBP8,147billion net of discount of LBP276billion and interest receivable of LBP132billion (USD5,404million) maturing from 2028 to 2034.

During 2017, the Bank entered into an exchange transaction with the Ministry of Finance in accordance with Central Council decision number 44/27/17 dated October 25, 2017, whereby the Bank sold Lebanese treasury bills of aggregate carrying amount of LBP2,563billion including premium and accrued interest receivable of LBP57billion, with maturities ranging from 2018 to 2025 against acquisition of Lebanese Government Eurobonds in the aggregate amount of LBP2,563billion (USD1,700million) maturing in 2028 and 2031.

Furthermore, during 2018, the Bank acquired Lebanese treasury bills in the aggregate nominal amount of LBP164billion at a premium of LBP65billion (LBP1,157billion at a premium of LBP572billion in 2017).

During 2016, as part of its monetary policy, the Bank entered into several financial engineering transactions, whereby, the Bank acquired Lebanese treasury bills with a nominal value of LBP9,217billion at a premium of LBP6,489billion, and redeemed certificates of deposit with an aggregate nominal value of LBP12,976billion at a premium of LBP12,980billion in 2016, and sold Government Eurobonds with a nominal value of LBP3,193billion (USD2,118,000,000) and issued certificates of deposit with a nominal value of LBP18,903billion (USD12,539,400,000).

As a result of these transactions, the Bank charged the counterparties transaction fees in the amount of LBP9,727billion in 2016 recorded under "Deferred interest expense and cost of certificates of deposit" in the statement of financial position (Note 29).

Premiums resulting from the above transactions are amortized as yield adjustment over the period to maturity of the acquired treasury bills and recorded under "Interest income from treasury bills, securities and certificates of deposit" in the statement of profit or loss.

During 2018, the Bank recognized net capital loss in the amount of LBP39,3billion included in the statement of profit or loss resulting from sale of Lebanese treasury bills transactions (net capital gain in the amount of LBP1.8million in 2017).

Lebanese treasury bills outstanding as at December 31, 2018 and December 31, 2017 (excluding accrued interest receivable) carry the following maturities:

(a) Expressed in terms of period from origination to maturity date:

Period	December 31, 2018	
	Nominal Value	Carrying Value
	LBP'000	LBP'000
6 months	121,168,320	120,476,166
12 months	745,414,930	732,632,076
24 months	5,015,993,000	5,015,990,284
36 months	4,396,560,370	4,399,081,804
60 months	6,823,591,140	7,084,089,932
84 months	5,775,325,870	6,378,771,321
96 months	848,417,740	909,834,911
120 months	12,386,559,540	16,196,384,602
144 months	2,150,987,260	3,069,665,365
180 months	292,993,000	463,798,320
	<u>38,556,981,170</u>	<u>44,370,724,781</u>

Period	December 31, 2017	
	Normal Value	Carrying Value
	LBP'000	LBP'000
3 months	43,000,000	42,808,470
6 months	441,439,060	436,442,280
12 months	827,044,000	795,380,156
24 months	4,523,594,930	4,523,597,474
36 months	5,246,205,010	5,264,450,381
60 months	6,190,323,910	6,545,895,138
84 months	5,579,030,630	6,341,888,086
96 months	784,552,390	880,351,021
120 months	9,157,026,100	13,559,555,181
144 months	2,132,419,380	3,186,976,196
180 months	177,250,000	362,131,501
	<u>35,101,885,410</u>	<u>41,939,475,884</u>

(b) Expressed in terms of maturity profile:

Maturity	December 31, 2018					
	Normal Value	Carrying Value	Fair Value	Unrealized	Weighted	Weighted
	LBP'000	LBP'000	LBP'000	Gain/(Loss)	Average	Average
				LBP'000	Coupon Rate	Yield
					%	%
First quarter 2019	889,540,320	885,942,396	893,520,225	7,577,829	5.44	5.09
Second quarter 2019	423,634,380	422,435,993	423,029,021	593,028	5.70	5.06
Second half 2019	4,104,316,440	4,120,388,377	4,046,925,597	(73,462,780)	4.32	3.57
Year 2020	5,214,035,680	3,347,187,615	5,075,421,623	(271,765,992)	4.96	3.32
Year 2021	4,085,953,300	4,193,513,956	3,757,635,918	(435,878,038)	3.89	2.75
Year 2022	1,995,041,870	2,308,653,557	1,975,832,227	(332,821,330)	7.19	2.63
Year 2023	5,493,694,440	6,124,613,508	4,841,030,264	(1,283,583,244)	4.98	2.37
Year 2024	1,861,443,240	2,486,843,548	1,815,472,256	(671,371,292)	7.77	1.79
Year 2025	7,227,667,350	9,367,463,638	6,369,206,975	(2,998,256,663)	6.08	1.53
Year 2026	3,146,416,360	4,575,021,231	2,945,530,531	(1,629,490,700)	7.46	1.30
Year 2027	979,344,590	1,225,450,335	913,201,921	(312,748,414)	7.46	4.50
Year 2028	2,842,700,000	2,848,912,397	1,590,207,952	(1,258,704,445)	2.50	2.37
Year 2031	192,993,000	363,798,230	177,841,275	(185,956,955)	7.90	0.65
Year 2033	<u>100,000,000</u>	<u>100,000,000</u>	<u>85,338,606</u>	<u>(14,661,394)</u>	10.50	10.50
	<u>38,556,981,170</u>	<u>44,370,724,781</u>	<u>34,910,124,391</u>	<u>(9,460,530,390)</u>		

Maturity	December 31, 2017					
	Nominal Value LBP'000	Carrying Value LBP'000	Fair Value LBP'000	Unrealized Gain/(Loss) LBP'000	Weighted Average Coupon Rate %	Weighted Average Yield %
First quarter 2018	844,039,020	844,136,075	853,388,283	9,252,208	5.93	4.06
Second quarter 2018	2,183,985,130	2,201,207,779	2,218,564,313	17,356,534	7.33	3.84
Second half 2018	3,261,889,210	3,245,363,286	3,263,536,550	18,173,264	6.14	5.54
Year 2019	6,064,210,300	6,125,068,206	5,809,802,218	(225,265,988)	5.06	4.46
Year 2020	6,209,031,460	6,426,539,438	5,835,525,402	(541,014,036)	5.47	4.03
Year 2021	1,468,367,410	1,621,797,766	1,423,748,333	(198,049,433)	6.68	3.52
Year 2022	2,379,386,620	2,784,363,038	2,312,988,408	(471,374,630)	7.09	3.26
Year 2023	2,017,367,230	2,731,872,942	1,960,285,794	(791,587,148)	7.57	0.86
Year 2024	1,931,627,880	2,668,040,053	1,854,235,092	(813,804,963)	7.73	1.97
Year 2025	4,603,372,490	7,049,528,242	4,514,330,919	(2,535,197,323)	8.14	1.05
Year 2026	2,718,076,760	4,340,897,327	2,508,681,442	(1,832,215,885)	7.46	0.33
Year 2027	1,243,091,900	1,518,530,229	1,137,803,951	(380,726,278)	7.46	5.13
Year 2031	177,250,000	362,131,501	161,878,805	(200,252,696)	7.90	0.00
	<u>33,101,885,410</u>	<u>41,939,475,884</u>	<u>33,994,769,512</u>	<u>(7,944,706,372)</u>		

The fair value of the Lebanese treasury bills is determined based on future cash flows discounted at a rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity factor as applicable.

7. ASSET BACKED AND CREDIT LINKED NOTES

	December 31,	
	2018 LBP'000	2017 LBP'000
Asset backed notes (a)	836,662,500	836,662,500
Credit linked notes (b)	177,873,642	352,738,222
Accrued interest receivable - Asset backed notes	22,461,750	23,888,850
Accrued interest receivable - Credit linked notes	477,332	639,348
	<u>1,037,475,224</u>	<u>1,213,928,920</u>

- (a) On June 15, 2017, the Bank subscribed into an asset backed note where the ultimate underlying assets are shares in a Lebanese bank with a nominal value of USD355,000,000 (LBP535.16billion). The asset backed note earns interest at an annual rate of 6% payable annually. The note matures on June 30, 2024. Interest income amounted to LBP32.1billion for the year ended December 31, 2018 included in the statement of profit or loss under "Interest income on treasury bills, securities and certificates of deposit" (LBP17.5billion for the year ended December 31, 2017).

On November 20, 2015, the Bank subscribed into a perpetual callable convertible note backed by shares of a Lebanese bank with a nominal value of USD100,000,000 (LBP150.75billion) issued on November 20, 2015 and maturing on December 29, 2049. The asset backed note earns interest at an annual rate of 8.5% payable annually. The note is callable by the issuer at any time after the fifth year of the issue date or at any time there is a change in the regulatory classification of the loan such that it is no longer included under common equity Tier 1 of the borrower or at any time there is a change in the regulatory law such that the borrower has to pay additional amounts at the interest payment date. Interest income amounted to LBP12.8billion for the year ended December 31, 2018 and 2017 and was included in the statement of profit or loss under "Interest income on treasury bills, securities and certificates of deposit".

On December 21, 2012, the Bank acquired a callable convertible note backed by shares of a Lebanese bank with a nominal value of USD100,000,000 (LBP150.75billion) issued on December 21, 2012 and maturing on October 30, 2022. The asset backed note earns interest at an annual rate of 6.5%, payable quarterly. The note is callable by the issuer at any time after the first year of the issue date. Interest income amounted to LBP9.8billion for the years ended December 31, 2018 and 2017, and was included in the statement of profit or loss under "Interest income on treasury bills, securities and certificates of deposit".

- (b) Credit linked notes represent debt instruments issued by a non-resident foreign bank linked to Lebanese Republic Eurobonds earning interest at fixed or variable interest rate linked to Libor and are broken down as follows:

Maturity Date	December 31, 2018		Coupon Rate %
	Carrying Value		
	USD	LBP'000	
June 20, 2019	50,000,000	75,375,000	5.642
June 20, 2019	25,000,000	37,687,500	7.642
June 20, 2019	15,000,000	22,612,500	7.142
December 20, 2019	25,000,000	37,687,500	6.292
February 3, 2021	2,992,466	4,511,142	7.400
	<u>117,992,466</u>	<u>177,873,642</u>	

Maturity Date	December 31, 2017		Coupon Rate %
	Carrying Value		
	USD	LBP'000	
March 20, 2018	9,000,000	13,567,500	4.925
June 20, 2018	15,000,000	22,612,500	5.275
September 20, 2018	7,000,000	10,552,500	5.025
December 20, 2018	35,000,000	52,762,500	5.325
December 20, 2018	50,000,000	75,375,000	5.425
June 20, 2019	50,000,000	75,375,000	3.175
June 20, 2019	15,000,000	22,612,500	5.975
February 3, 2021	50,000,000	75,375,000	4.475
	<u>2,988,870</u>	<u>4,505,722</u>	7.400
	<u>233,988,870</u>	<u>352,738,222</u>	

8. LEBANESE GOVERNMENT EUROBONDS

This caption consists of Lebanese Government Eurobonds maturing as follows:

Maturity Date	December 31, 2018				
	Nominal Value USD	Coupon Rate %	Carrying Value USD	Fair Value USD	Unrealized Gain/(Loss) USD
April 23, 2019	5,000,000	5.50	4,956,848	4,960,400	3,552
May 20, 2019	154,000	6.00	154,000	153,038	(962)
March 9, 2020	15,505,000	6.38	15,101,725	14,968,837	(132,888)
June 19, 2020	15,000,000	6.15	14,309,277	14,231,400	(77,877)
April 12, 2021	2,031,000	8.25	2,031,000	1,932,537	(98,463)
May 27, 2022	6,000,000	6.25	5,112,845	5,244,720	131,875
October 4, 2022	14,235,000	6.10	14,235,000	12,313,275	(1,921,725)
January 27, 2023	10,000,000	6.00	8,287,655	8,474,100	186,445
April 22, 2024	15,173,000	6.65	12,523,186	12,712,243	189,057
November 4, 2024	4,827,000	6.25	3,863,404	3,896,065	32,661
December 3, 2024	3,920,000	7.00	3,920,000	3,284,450	(635,550)
June 12, 2025	1,000,000	6.25	1,000,000	798,540	(201,460)
November 27, 2026	2,663,000	6.60	2,663,000	2,097,139	(565,861)
November 29, 2027	11,573,000	6.75	11,083,906	9,047,424	(2,036,482)
November 3, 2028	8,105,000	6.65	7,621,435	6,245,146	(1,376,289)
May 25, 2029	42,600,000	6.85	40,084,992	32,712,540	(7,372,452)
February 26, 2030	71,463,000	6.65	63,312,063	54,195,395	(9,116,668)
April 22, 2031	13,000,000	7.00	9,477,087	9,875,970	398,883
November 20, 2031	2,201,000,000	7.15	2,108,884,734	1,712,598,100	(396,286,634)
March 23, 2032	51,719,000	7.00	48,267,534	39,417,119	(8,850,415)
May 17, 2033	455,000,000	8.20	455,000,000	383,678,750	(71,321,250)
May 17, 2034	747,500,000	8.25	747,500,000	627,571,100	(119,928,900)
November 2, 2035	106,800,000	7.05	106,800,000	81,169,068	(25,630,932)
March 23, 2037	<u>105,850,000</u>	7.25	<u>97,411,091</u>	<u>80,346,501</u>	<u>(17,064,590)</u>
	<u>3,910,118,000</u>		<u>3,783,600,782</u>	<u>3,121,923,857</u>	<u>(661,676,925)</u>
Counter Value in LBP'000	<u>5,824,502,885</u>		<u>5,703,778,179</u>	<u>4,706,300,214</u>	<u>(997,477,965)</u>
Accrued interest receivable			<u>56,772,957</u>		
			<u>5,760,551,136</u>		

Maturity Date	December 31, 2017				
	Nominal Value USD	Coupon Rate %	Carrying Value USD	Fair Value USD	Unrealized Gain/(Loss) USD
January 2, 2018	600,000	4.00	600,000	600,000	-
January 2, 2018	1,000,000	4.00	1,000,000	1,000,000	-
June 12, 2018	10,000,000	5.15	9,829,238	10,018,700	189,462
November 29, 2027	9,500,000	6.75	8,956,063	9,095,300	139,237
March 20, 2028	700,000,000	7.00	700,000,000	679,630,000	(20,370,000)
November 3, 2028	8,105,000	6.65	7,572,340	7,623,320	50,980
May 25, 2029	41,600,000	6.85	39,131,867	39,260,000	128,133
February 26, 2030	55,463,000	6.65	51,346,849	51,382,032	35,183
November 20, 2031	1,000,000,000	7.15	1,000,000,000	954,028,010	(45,971,990)
March 23, 2032	50,719,000	7.00	47,301,026	47,638,328	337,302
March 23, 2037	96,850,000	7.25	90,596,608	90,433,688	(162,920)
	<u>1,973,837,000</u>		<u>1,956,333,991</u>	<u>1,890,709,378</u>	<u>(65,624,613)</u>
Counter Value in LBP'000	<u>2,275,559,278</u>		2,949,173,491	<u>2,850,244,387</u>	<u>(98,929,104)</u>
Accrued interest receivable			27,618,662		
			<u>2,976,792,153</u>		

During 2018, the Bank recognized net capital loss in the amount of LBP54.1 billion included in the statement of profit or loss resulting from sale transactions of Lebanese Government Eurobonds (capital gain in the amount of LBP33.2 billion during 2017).

Sales of Lebanese Government Eurobonds include LBP5,758 billion (USD3.82 billion) sold to banks as part of the loans under leverage arrangement transactions. Refer to Note 14.

The fair value of the Lebanese Government Eurobonds is determined based on market prices as at year-end.

9. FOREIGN BONDS

	December 31,	
	2018 LBP'000	2017 LBP'000
Bonds issued by foreign governments - U.S. Dollars (a)	-	451,346,551
Bonds issued by foreign governments - Euro (b)	259,450,921	-
Bonds issued by supranational entities - U.S. Dollars (c)	529,701,498	-
Bonds issued by supranational entities - Zeros - U.S. Dollars (d)	<u>1,578,929,300</u>	<u>3,245,452,361</u>
	<u>2,368,081,719</u>	<u>3,696,798,912</u>

(a) Bonds issued by foreign governments - U.S. Dollars are broken down as follows:

<u>Maturity Date</u>	<u>December 31, 2017</u>			<u>Rate</u> %
	<u>Nominal Value</u> USD	<u>Unearned Interest</u> USD	<u>Carrying Value</u> USD	
February 21, 2018	<u>300,000,000</u>	<u>599,303</u>	<u>299,400,697</u>	1.390
	<u>300,000,000</u>	<u>599,303</u>	<u>299,400,697</u>	
Counter value in LBP'000	<u>452,250,000</u>	<u>903,449</u>	<u>451,346,551</u>	

(b) Bonds issued by foreign governments - Euro are broken down as follows

<u>Maturity Date</u>	<u>December 31, 2018</u>				<u>Rate</u> %
	<u>Nominal Value</u> EUR	<u>Accrued Interest</u> EUR	<u>Outstanding Premium</u> EUR	<u>Carrying Value</u> EUR	
January 31, 2019	<u>150,000,000</u>	<u>343,151</u>	<u>86,726</u>	<u>150,429,877</u>	0.25
	<u>150,000,000</u>	<u>343,151</u>	<u>86,726</u>	<u>150,429,877</u>	
Counter value in LBP'000	<u>258,709,500</u>	<u>591,842</u>	<u>149,579</u>	<u>259,450,921</u>	

(c) Bonds issued by supranational entities denominated in U.S. Dollars consist of the following:

<u>Maturity Date</u>	<u>December 31, 2018</u>			
	<u>Nominal Value</u> USD	<u>Accrued Interest</u> USD	<u>Carrying Value</u> USD	<u>Coupon Rate</u> %
February 13, 2019	<u>350,000,000</u>	<u>1,377,445</u>	<u>351,377,445</u>	2.53
	<u>350,000,000</u>	<u>1,377,445</u>	<u>351,377,445</u>	
Counter value in LBP'000	<u>527,625,000</u>	<u>2,076,498</u>	<u>529,701,498</u>	

- (d) Bonds issued by supranational entities - Zeros denominated in U.S. Dollars consist of the following:

<u>Maturity Date</u>	<u>December 31, 2018</u>			
	<u>Initial</u>	<u>Purchase</u>	<u>Discount</u>	<u>Carrying</u>
	<u>Nominal</u>	<u>Price</u>	<u>Amortized</u>	<u>Value</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
January 22, 2019	125,000,000	124,201,916	613,264	124,815,180
January 22, 2019	125,000,000	124,201,916	613,264	124,815,180
February 1, 2019	100,000,000	99,360,121	417,313	99,777,434
February 1, 2019	100,000,000	99,361,382	416,490	99,777,872
February 1, 2019	100,000,000	99,361,382	416,490	99,777,872
February 13, 2019	375,000,000	372,315,605	1,537,663	373,853,268
February 19, 2019	125,000,000	124,053,473	512,341	124,565,814
	<u>1,050,000,000</u>	<u>1,042,855,795</u>	<u>4,526,825</u>	<u>1,047,382,620</u>
Counter value in LBP'000	<u>1,582,875,000</u>	<u>1,572,105,111</u>	<u>6,824,189</u>	<u>1,578,929,300</u>

<u>Maturity Date</u>	<u>December 31, 2017</u>			
	<u>Initial</u>	<u>Purchase</u>	<u>Discount</u>	<u>Carrying</u>
	<u>Nominal</u>	<u>Price</u>	<u>Amortized</u>	<u>Value</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
January 3, 2018	320,000,000	318,835,187	1,128,412	319,963,599
January 5, 2018	50,000,000	49,828,093	162,564	49,990,657
January 8, 2018	20,000,000	19,913,253	81,105	19,994,358
January 11, 2018	150,000,000	149,478,693	459,651	149,938,344
January 18, 2018	30,000,000	29,896,094	83,576	29,979,670
January 22, 2018	750,000,000	748,968,089	322,473	749,290,562
January 25, 2018	130,000,000	129,546,443	330,308	129,876,751
January 29, 2018	100,000,000	99,645,627	245,045	99,890,672
January 29, 2018	100,000,000	99,281,861	606,171	99,888,032
January 29, 2018	100,000,000	99,643,553	246,479	99,890,032
January 30, 2018	55,000,000	54,819,279	121,790	54,941,069
February 13, 2018	50,000,000	49,759,661	156,411	49,916,072
February 16, 2018	20,000,000	19,903,774	59,457	19,963,231
February 21, 2018	125,000,000	124,435,839	313,423	124,749,262
March 1, 2018	100,000,000	99,533,850	233,075	99,766,925
March 22, 2018	55,000,000	54,623,068	208,250	54,831,318
	<u>2,155,000,000</u>	<u>2,148,112,364</u>	<u>4,758,190</u>	<u>2,152,870,554</u>
Counter value in LBP'000	<u>3,248,662,500</u>	<u>3,238,279,389</u>	<u>7,172,972</u>	<u>3,245,452,361</u>

10. CERTIFICATES OF DEPOSIT

This caption consists of certificates of deposit issued by foreign banks:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Certificates of deposit - U.S. Dollars (a)	303,503,291	302,845,338
Certificates of deposit - Zeros - U.S. Dollars (b)	<u>1,314,840,234</u>	<u>1,124,861,716</u>
	<u>1,618,343,525</u>	<u>1,427,707,054</u>

(a) Certificates of deposit denominated in U.S. Dollars consist of the following:

<u>Maturity Date</u>	<u>December 31, 2018</u>			
	<u>Nominal Value</u>	<u>Accrued Interest</u>	<u>Carrying Value</u>	<u>Interest Rate</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>%</u>
January 21, 2019	<u>200,000,000</u>	<u>1,328,883</u>	<u>201,328,883</u>	3.37
	<u>200,000,000</u>	<u>1,328,883</u>	<u>201,328,883</u>	
Counter value in LBP'000	<u>301,500,000</u>	<u>2,003,291</u>	<u>303,503,291</u>	

<u>Maturity Date</u>	<u>December 31, 2017</u>			
	<u>Nominal Value</u>	<u>Accrued Interest</u>	<u>Carrying Value</u>	<u>Interest Rate</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>%</u>
January 21, 2019	<u>200,000,000</u>	<u>892,430</u>	<u>200,892,430</u>	2.26
	<u>200,000,000</u>	<u>892,430</u>	<u>200,892,430</u>	
Counter value in LBP'000	<u>301,500,000</u>	<u>1,345,338</u>	<u>302,845,338</u>	

(b) Certificates of deposit - zeros denominated in U.S. Dollars consist of the following:

<u>Maturity Date</u>	<u>December 31, 2018</u>			
	<u>Initial Nominal Value USD</u>	<u>Purchase Price USD</u>	<u>Discount Amortized USD</u>	<u>Carrying Value USD</u>
January 4, 2019	71,000,000	70,481,180	498,067	70,979,247
January 9, 2019	50,000,000	49,283,365	681,582	49,964,947
January 10, 2019	200,000,000	198,659,710	1,194,606	199,854,316
January 11, 2019	150,000,000	148,994,783	885,028	149,879,811
February 13, 2019	50,000,000	49,282,124	546,210	49,828,334
February 13, 2019	150,000,000	148,922,012	617,489	149,539,501
April 4, 2019	20,000,000	19,698,256	145,898	19,844,154
April 11, 2019	35,000,000	34,468,515	236,540	34,705,055
April 15, 2019	19,000,000	18,711,479	122,066	18,833,545
April 18, 2019	10,000,000	9,896,842	8,742	9,905,584
April 18, 2019	40,000,000	39,388,666	248,564	39,637,230
April 25, 2019	80,000,000	78,777,333	450,103	79,227,436
	<u>875,000,000</u>	<u>866,564,265</u>	<u>5,634,895</u>	<u>872,199,160</u>
Counter Value in LBP'000	<u>1,319,062,500</u>	<u>1,306,345,630</u>	<u>8,494,604</u>	<u>1,314,840,234</u>

<u>Maturity Date</u>	<u>December 31, 2017</u>			
	<u>Initial Nominal Value USD</u>	<u>Purchase Price USD</u>	<u>Discount Amortized USD</u>	<u>Carrying Value USD</u>
January 5, 2018	100,000,000	99,128,550	847,770	99,976,320
January 8, 2018	300,000,000	297,114,134	2,761,407	299,875,541
March 2, 2018	16,000,000	15,783,360	168,233	15,951,593
April 4, 2018	20,000,000	19,805,750	93,923	19,899,673
April 6, 2018	200,000,000	198,441,377	736,493	199,177,870
April 13, 2018	19,000,000	18,811,695	81,737	18,893,432
April 19, 2018	13,000,000	12,874,382	50,385	12,924,767
April 25, 2018	80,000,000	79,173,451	304,279	79,477,730
	<u>748,000,000</u>	<u>741,132,699</u>	<u>5,044,227</u>	<u>746,176,926</u>
Counter Value in LBP'000	<u>1,127,610,000</u>	<u>1,117,257,544</u>	<u>7,604,172</u>	<u>1,124,861,716</u>

11. LOANS AND ADVANCES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Loans to employees	311,346,653	329,075,087
Employees' overdrafts	84,967,460	68,593,703
Loan to private sector (b)	23,969,250	23,969,250
Doubtful employee loans, net of unearned interest (2018, LBP738; 2017, LBP688million)	447,517	473,045
Acquired loans net of provisions for credit losses (a)	420,730,880	422,111,085
Less: Provision for credit losses	(471,332)	(471,332)
	<u>420,259,548</u>	<u>421,639,753</u>

- (a) Acquired loans in the aggregate of LBP38.74billion and USD1,780,005 as at December 31, 2018 (LBP38.74billion and USD1,780,005 as at December 31, 2017), represent loans acquired from merged banks and are fully provided for. The merged banks are managing the collection of these loans on behalf of the Bank.

During 2016, acquired loans in the gross amount of LBP61.5billion were offset as a result of an agreement with the debtor to acquire real estate in the amount of LBP32billion recorded under "real estate acquired in satisfaction of loans to problematic banks", write-off of unearned interest on the acquired loans in the amount of LBP21.6billion and write-off of provisions for credit losses in the amount of LBP5billion. The remaining balance of provisions for credit losses in the amount of LBP34.89billion was allocated to provisions for impairment of real estate properties acquired in satisfaction of loans to problematic banks in the amount of LBP14.72billion (Note 19), and to unearned income against real estate properties whose registration has not been finalized in the amount of LBP17billion and provisions for credit losses against the remaining receivable amount from the debtor in the amount of LBP3.17billion recorded under "Accrued income and other assets" (Note 21) as at December 31, 2018 and 2017.

- (b) During 2016, the Bank entered into a real estate sale and repurchase agreement with the shareholders of a Lebanese bank, whereby the shareholders sold to the Bank plot 92 in Zouk El-Kharab Metn area for an amount of USD15.9million (c/v LBP23,969,250,000) with the right to buy back the plot within 3 years. The repurchase price was set at USD15.9million plus interest at 3 months Libor plus 3% to be capitalized quarterly, or LBP23,969,250,000 plus interest set at the interest rate applicable to 1 year Lebanese treasury bills plus 3% capitalized quarterly. The consideration was deposited in the account of the Lebanese bank.

12. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2018 LBP'000	2017 LBP'000
Term loans (denominated in Lebanese Pounds) - (A)	855,450,573	862,217,475
Revolving short term loans (denominated in Lebanese Pounds) - (B)	38,065,149	50,261
Revolving short term loans (denominated in U.S. Dollar) - (C)	2,072,509,273	1,790,286,779
Facilities granted to banks and financial institutions (denominated in Lebanese Pounds)- (D)	6,867,730,152	6,205,692,650
Facilities granted to banks and financial institutions (denominated in U.S. Dollar) - (E)	181,927,188	-
Loans under real estate repurchase agreements (denominated in U.S. Dollar) - (F)	67,071,057	27,559,604
	<u>10,082,753,392</u>	<u>8,885,806,769</u>

A. Term loans (denominated in Lebanese Pounds):

	December 31,	
	2018 LBP'000	2017 LBP'000
Loans secured by treasury bills	505,890,550	515,728,050
Back to back loan secured by Lebanese treasury bills	342,405,000	342,405,000
Loan secured by regulatory blocked deposit	3,000,000	-
	851,295,550	858,133,050
Accrued interest receivable	4,155,023	4,084,425
	<u>855,450,573</u>	<u>862,217,475</u>

Term loans secured by treasury bills as at December 31, 2018 and 2017 consist of the following:

Name of Bank	Date of Loan	Initial Loan LRP'000	Loan Balance LRP'000	Interest Rate %p.a.	Maturity of Loan	December 31, 2018		December 31, 2017	
						Treasury Bills Mortgage in Favor of the Bank LRP'000	Regulatory Deposit Blocked in Favor of the Bank LRP'000	Loan Balance LRP'000	Treasury Bills Mortgage in Favor of the Bank LRP'000
Loans Reduced to July 2016									
Warr (b)									
Bank G	January 30, 2011	2,745,000	-	1.754	January 19, 2018	-	-	2,745,000	2,745,000
Bank H	April 14, 2011	6,620,000	-	2.540	April 14, 2018	-	-	6,620,000	6,620,000
Bank C	July 6, 2011	482,800	-	2.275	July 7, 2018	-	-	482,800	482,800
Bank I	March 29, 2012	21,571,500	17,734,000	2.761	March 2019	17,734,000	-	17,734,000	17,734,000
Other Loans:									
Bank J (b)	July 22, 2010	300,000,000	300,000,000	2.000	July 27, 2019	300,000,000	-	300,000,000	300,000,000
Bank L (c)	November 19, 2015	73,156,550	73,156,550	3.000	November 15, 2020	73,156,550	-	73,156,550	73,156,550
Bank F (d)	November 10, 2016	115,000,000	115,000,000	2.085	November 10, 2026	115,000,000	-	115,000,000	115,000,000
Loans secured by treasury bills									
PI K (e)	February 21, 2014	347,405,000	347,405,000	1.475	February 21, 2010	347,405,000	-	347,405,000	347,405,000
Bank AL (f)	December 4, 2018	3,000,000	3,000,000	22.60	December 4, 2019	-	3,000,000	-	-
		851,113,050	851,229,550			448,295,550	3,000,000	658,183,000	658,183,000

- (a) The loans made to banks and related to the July 2006 war in Lebanon were granted to cover, over the period of the loans, 60% of the liquidity deficit faced by the banks due to defaulting loans pertaining to customers who were directly affected by the war. The interest rate earned on these loans was set to be equivalent to the interest rate earned on the instrument in which the loan funds are invested less the interest spread required to offset the payments made by the banks. The loans are fully secured by Lebanese treasury bills.
- (b) During 2010, the Bank granted bank J a loan in the amount of LBP300billion. The loan was not subject to interest and is secured by mortgaged three years treasury bills until maturity of the loan. Furthermore, certain shareholders of the debtor bank have pledged their shares in the said bank in favor of the Bank as additional collateral to cover the loan. During 2012, the loan contract was amended and the loan became subject to interest at a rate of 2% per annum starting May 3, 2012 and is payable semi-annually. The loan is fully secured by 5 years Lebanese treasury bills.
- (c) On November 11, 2015, the Bank granted bank L a loan in the amount of LBP73billion to cover commitments required of the said bank. The interest rate earned on this loan is set at 2% per annum for the entire period of the loan and is payable semi-annually. The loan is fully secured by Lebanese treasury bills.
- (d) On November 10, 2016, the Bank granted bank F a loan in the amount of LBP115billion to cover commitments required of the said bank. The interest rate earned on this loan is set at 2.0847% per annum for the period of the loan and is payable semi-annually. The loan is fully secured by Lebanese treasury bills.
- (e) On February 21, 2014, the Bank granted FT K a back to back renewable loan in the amount of LBP343.4billion for a period of one year. Effective 2015, the loan was renewed at an amount of LBP342.4billion. The interest rate earned on this loan is set at 1.875% per annum for the period of the loan and is payable semi-annually. The loan is fully secured by Lebanese treasury bills.
- (f) On October 4, 2018, the Bank granted bank AR a loan in the amount of LBP3billion to cover commitments required of the said bank. The interest rate earned on this loan is set at 12% per annum for the entire period of the loan and is payable when the loan is due. The loan is fully secured by the regulatory blocked deposit placed with the Lebanese Treasury.

B. Revolving short term loans (denominated in Lebanese Pound):

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Loans secured by Lebanese treasury bills	10,000,003	50,001
Loans secured by term deposits	<u>28,000,000</u>	-
	38,000,003	50,001
Accrued interest receivable	65,146	260
	<u>38,065,149</u>	<u>50,261</u>

Secured revolving short term loans denominated in Lebanese Pound approved by the Governor consist of the following as at December 31, 2018 and 2017:

December 31, 2018						
Name of Bank	Date of Loan	Initial Loan LBP'000	Interest Rate %	Maturity of Loan	Treasury Bills Mortgaged in Favor of the Bank LBP'000	Terms Deposits Blocked in Favor of the Bank LBP'000
Bank N (Related party)	December 17, 2018	11,000,000	7.00	January 7, 2019	-	11,000,000
Bank N (Related Party)	December 26, 2018	17,000,000	7.09	January 16, 2019	-	17,000,000
Bank M	December 24, 2018	10,000,000	10.00	January 14, 2019	10,000,000	-
		<u>38,000,000</u>			<u>10,000,000</u>	<u>28,000,000</u>

December 31, 2017					
Name of Bank	Date of Loan	Initial Loan LBP'000	Interest Rate %	Maturity of Loan	Treasury Bills Mortgaged in Favor of the Bank LBP'000
Bank M	December 11, 2017	50,001	10.00	January 1, 2018	50,001
		<u>50,001</u>			<u>50,001</u>

Interest income from related party bank amounted to LBP512million for the year ended December 31, 2018 (LBP Nil) in 2017).

C. Revolving short term loans (denominated in U.S. Dollar):

	December 31,	
	2018 LBP'000	2017 LBP'000
Secured loans	2,050,200,000	1,778,850,000
Accrued interest receivable	<u>22,309,273</u>	<u>11,436,779</u>
	<u>2,072,509,273</u>	<u>1,790,286,779</u>

Secured revolving short term loans denominated in U.S. Dollar approved by the Governor consist of the following as at December 31, 2018 and 2017:

Name of Bank	Date of Loan	Initial Loan		Interest Rate %	Maturity of Loan	Blocked Deposits LBP'000	Treasury Bills Mortgages in Favor of the Bank LBP'000	Certificates of Deposit Mortgage in favor of the Bank LBP'000
		USD	LBP'000					
Bank B	August 13, 2018	480,000,000	603,000,000	6.000	February 13, 2019	603,000,000	-	-
Bank B	December 20, 2018	540,000,000	746,625,000	14.000	August 4, 2019	-	-	746,625,000
Bank A	November 16, 2019	350,000,000	376,875,000	4.375	February 19, 2019	-	-	376,875,000
Bank A	December 27, 2018	100,000,000	120,750,000	11.000	January 2, 2019	150,750,000	-	-
Bank A-G	October 2, 2018	10,000,000	15,075,000	10.000	February 4, 2019	7,537,500	-	-
Bank N (Related party)	December 4, 2018	5,000,000	7,537,500	2.000	March 4, 2019	128,137,500	-	-
Bank E	December 18, 2018	1,292,000,000	1,243,375,000	-	March 28, 2019	301,500,000	-	-
			7,050,750,000					1,465,200,000

Name of Bank	Date of Loan	Initial Loan		Interest Rate %	Maturity of Loan	Blocked Deposits LBP'000	Treasury Bills Mortgages in Favor of the Bank LBP'000	Certificates of Deposit Mortgage in favor of the Bank LBP'000
		USD	LBP'000					
Bank X (Related party)	December 20, 2017	25,000,000	37,687,500	1.360	January 31, 2018	-	36,985,000	-
Bank A	November 16, 2017	250,000,000	376,875,000	1.100	November 26, 2018	-	-	376,875,000
Bank E	November 24, 2017	300,000,000	301,500,000	5.582	February 26, 2018	401,500,000	-	-
Bank E	December 29, 2017	35,000,000	128,437,500	5.813	March 29, 2018	128,137,500	-	-
Bank F	November 14, 2017	125,000,000	188,437,500	2.500	February 13, 2018	-	-	-
Bank B	November 17, 2017	200,000,000	301,500,000	8.000	January 4, 2019	301,500,000	-	-
Bank B	November 27, 2017	50,000,000	75,375,000	8.000	May 28, 2018	75,375,000	-	-
Bank B	November 29, 2017	150,000,000	226,125,000	6.000	February 28, 2018	226,125,000	-	-
Bank J	November 24, 2017	70,000,000	105,825,000	8.500	February 26, 2018	-	-	-
Bank Y	December 21, 2017	25,000,000	37,687,500	8.500	January 4, 2018	128,137,500	-	-
		1,180,000,000	1,718,850,000			1,226,875,000	36,985,000	376,875,000

During 2018 and 2017, the Bank granted the above mentioned commercial banks revolving facilities in U.S. Dollars, to finance temporary working capital needs.

Interest income from related party bank amounted to LBP1.54billion for the year ended December 31, 2018 (LBP1.17billion in 2017).

D. Facilities granted to banks and financial institutions (denominated in Lebanese Pounds):

	December 31,	
	2018	2017
	LBP'000	LBP'000
Facilities granted to commercial banks	6,802,413,056	6,152,624,534
Accrued interest receivable	65,317,096	53,068,116
	<u>6,867,730,152</u>	<u>6,205,692,650</u>

Facilities granted to commercial banks as at December 31, 2018 and 2017 consist of the following:

Name of Bank	December 31, 2018			
	Initial Loan LBP'000	Loan Balance LBP'000	Treasury Bills Mortgaged in Favor of the Bank LBP'000	Certificates of Deposit Mortgaged in Favor of the Bank LBP'000
Bank B	1,123,973,327	751,918,837	-	49,552,883
Bank R	1,045,256,000	986,476,192	-	-
Bank O	989,924,452	776,119,638	37,020,096	-
Bank D	740,648,622	568,361,392	36,084,277	-
Bank P	731,556,387	553,308,341	-	-
Bank Q	644,118,691	493,573,558	15,000,000	-
Bank S	491,587,456	398,301,739	-	67,724,925
Bank I	491,281,350	362,385,361	38,510,851	-
Bank F	406,416,608	314,116,608	12,002,275	-
Bank E	396,856,833	303,105,529	2,301,714	15,900,000
Bank A	328,828,725	245,590,812	10,420,005	-
Bank J	249,569,414	222,340,577	37,845,286	-
Bank G	168,853,328	95,162,042	1,591,911	39,482,511
Bank T	163,040,414	143,383,144	3,456,800	-
Bank V	82,186,318	66,860,322	-	-
Bank AL	76,861,977	75,165,340	15,620,659	-
Bank W	73,734,542	48,342,144	45,000	-
Bank G	60,311,248	51,977,079	730,000	-
Bank Y	58,348,659	48,799,108	3,500,000	-
Bank X	57,611,192	45,192,589	256,260	-
Bank AA	54,925,290	51,106,544	5,276,250	1,175,180
Bank AB	41,231,086	18,480,077	-	-
Bank AM	37,666,894	33,882,750	-	-
Bank AF	37,119,042	32,620,561	950,000	-
Bank N (Related party)	36,316,242	575,068	6,173,060	4,500,000
Bank L	29,434,285	26,550,139	2,925,003	-
Bank Z	25,922,478	16,829,212	-	-
Bank I	22,767,805	22,731,407	-	-
Bank AD	20,017,377	18,241,372	-	-
Bank AC	19,435,114	14,912,369	-	-
Bank AE	11,667,732	8,149,797	-	-
Bank AH	4,682,954	3,829,719	519,639	-
Bank M	3,412,725	1,000,048	-	-
Bank AI	3,363,000	3,025,617	-	-
Bank AG	2,411,970	1,930,861	-	-
Bank AJ	113,063	67,413	-	-
	<u>5,733,652,700</u>	<u>6,802,413,056</u>	<u>230,149,023</u>	<u>177,435,499</u>

December 31, 2017

Name of Bank	Initial Loan LBP'000	Loan Balance LBP'000	Treasury Bills Mortgaged in Favor of the Bank LBP'000	Certificates of Deposit Mortgaged in Favor of the Bank LBP'000
Bank J	459,526,765	348,290,565		
Bank D	681,927,879	494,456,523	38,510,851	
Bank Y	55,712,364	49,290,820	36,084,277	
Bank AE	11,667,732	9,439,029	3,600,000	
Bank S	454,497,939	352,618,963		67,724,925
Bank Q	580,989,475	475,487,065	15,000,000	
Bank E	361,178,282	292,940,413	2,301,714	15,000,000
Bank A	258,641,907	192,960,532	10,420,005	
Bank I	10,414,500	11,861,325		
Bank AG	2,411,970	2,073,074		
Bank F	306,204,348	198,850,361	12,002,275	
Bank U	163,792,278	64,911,160	1,591,911	39,482,512
Bank O	965,071,083	814,280,298	37,020,096	
Bank W	1,067,503,062	753,446,393		49,552,883
Bank Z	67,739,192	46,564,800	45,000	
Bank P	23,854,878	17,109,266		
Bank AB	671,391,142	527,836,897		
Bank AD	38,539,238	21,689,783		
Bank X	16,253,377	11,798,951		
Bank J	45,018,167	35,839,871	256,200	
Bank T	215,364,322	198,574,174	37,843,286	
Bank H	154,176,098	140,953,274	3,456,800	
Bank N (Related party)	781,728,000	744,494,051		
Bank AA	36,516,242	31,483,185	6,173,060	4,500,000
Bank AC	54,925,290	52,233,711	3,276,250	1,175,180
Bank G	18,922,114	15,812,448		
Bank AH	41,186,922	35,787,372	750,000	
Bank M	3,946,434	3,398,542	519,639	
Bank V	3,412,725	1,311,809		
Bank AF	78,238,083	68,062,545		
Bank L	16,646,562	8,803,262	750,000	
Bank AI	27,498,649	26,045,815	2,925,000	
Bank AJ	3,363,000	3,177,323		
Bank AL	113,063	90,029		
Bank AM	76,861,977	76,169,611	15,620,654	
	31,394,794	24,479,292		
	<u>7,786,591,873</u>	<u>6,152,624,534</u>	<u>230,149,023</u>	<u>177,435,499</u>

These facilities were granted to commercial banks pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its amendments by which the commercial banks benefited from credit facilities granted against loans the banks granted at their risk, to their customers, pursuant to certain conditions, rules and mechanism. The facilities granted to the commercial banks are subject to interest at a rate of 1% per annum and payable on a yearly basis. Part of these facilities is secured by Lebanese treasury bills and certificates of deposit.

Effective 2018, upon approval of the Governor and pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its subsequent amendments in particular intermediary circular number 485 dated February 1, 2018, interest income on the above facilities in the amount of LBP65.32billion recorded under "Interest income from loans" in the statement of profit or loss was reallocated to "Interest subsidy - retail loans granted by banks" under "Accrued expenses and other liabilities" (Note 26).

Interest income in the amount of LBP53.07billion for the year ended December 31, 2017 was recorded under "Interest income from loans" in the statement of profit or loss.

Interest income from related party bank amounted to LBP194million for the year ended December 31, 2018 (LBP352million in 2017).

E. Facilities granted to banks and financial institutions (denominated in U.S. Dollars):

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Facilities granted to commercial banks	180,557,676	-
Accrued interest receivable	1,369,512	-
	<u>181,927,188</u>	<u>-</u>

These facilities were granted to commercial banks pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its amendments by which the commercial banks benefited from credit facilities granted against loans the banks granted at their risk, to their customers, pursuant to certain conditions, rules and mechanism. The facilities granted to the commercial banks are subject to interest at a rate of 1.5% per annum and payable on a yearly basis. Part of these facilities is secured by Lebanese treasury bills and certificates of deposit.

Facilities granted to commercial banks as at December 31, 2018 consist of the following:

Name of Bank	Initial Loans	Initial Loans	Loan Balance		Certificates of Deposit Mortgaged in Favor of the Bank USD	Certificates of Deposit Mortgaged in Favor of the Bank LBP'000
	USD	USD	USD	LBP'000		
Bank I	17,040,256	25,688,186	10,574,630	15,941,255	1,970,204	2,970,083
Bank D	9,519,338	14,350,402	4,396,192	6,627,258	1,425,788	2,149,375
Bank Y	96,800	145,926	96,800	145,926	-	-
Bank AE	690,000	3,040,175	478,814	721,812	-	-
Bank S	9,508,731	14,334,412	8,861,593	13,358,716	2,781,176	4,192,623
Bank Q	8,970,129	13,722,469	7,742,184	11,671,342	1,617,350	2,438,404
Bank E	5,955,069	8,977,267	150,611	327,046	902,223	1,360,101
Bank A	1,493,800	2,254,919	1,467,845	2,212,776	24,000	36,180
Bank J	1,255,350	1,892,440	1,255,350	1,892,440	81,250	122,484
Bank F	14,869,053	22,415,097	13,539,312	20,410,513	1,545,201	2,328,391
Bank U	5,807,652	8,755,035	5,807,652	8,755,035	1,868,284	2,816,438
Bank O	10,777,340	16,246,840	10,777,340	16,246,840	412,500	621,844
Bank B	14,179,846	21,376,118	10,465,577	15,776,857	1,734,812	2,615,229
Bank W	1,314,250	1,981,232	1,086,576	1,638,013	-	-
Bank Z	3,568,935	5,380,200	3,421,766	5,158,312	2,330,223	3,512,811
Bank P	2,318,048	3,494,457	2,003,251	3,019,901	-	-
Bank AB	30,000	45,223	30,000	45,223	-	-
Bank AD	2,415,000	3,640,613	135,000	203,513	-	-
Bank X	5,731,001	8,639,620	5,731,767	8,640,639	771,697	1,163,335
Bank J	3,612,704	5,446,151	3,344,063	5,041,175	1,000,000	1,507,500
Bank T	14,015,696	21,128,662	13,001,734	19,609,114	-	-
Bank N (Related party)	4,815,001	7,258,614	3,145,418	4,741,716	1,500,000	2,261,250
Bank AA	342,178	214,333	142,178	214,333	47,393	71,445
Bank AH	165,900	250,094	165,900	250,094	-	-
Bank I	618,750	932,766	377,575	569,194	-	-
Bank AC	570,000	859,275	570,000	859,275	-	-
Bank V	7,859,018	11,847,470	7,859,018	11,847,470	-	-
Bank AF	12,206,550	18,401,374	3,984,865	4,650,434	-	-
Bank AJ	60,000	90,450	60,000	90,450	-	-
	<u>152,608,595</u>	<u>240,602,822</u>	<u>119,772,921</u>	<u>180,237,626</u>	<u>20,012,601</u>	<u>29,168,081</u>

Effective 2018, upon approval of the Governor and pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its subsequent amendments in particular intermediary circular number 485 dated February 1, 2018, interest income on the above facilities in the amount of LBP1.4 billion (USD906thousand) recorded under "Interest income from loans" in the statement of profit or loss was reallocated to "Interest subsidy - retail loans granted by banks" under "Accrued expenses and other liabilities" (Note 26).

Interest income from related party bank amounted to LBP44million for the year ended December 31, 2018.

F. Loans under real estate repurchase agreements (denominated in U.S. Dollar)

	December 31,	
	2018	2017
	LBP'000	LBP'000
Bank N (Related party)	35,332,381	18,918,090
Bank V	31,738,676	8,641,514
	<u>67,071,057</u>	<u>27,559,604</u>

The movement of the long term loans (denominated in U.S. Dollars) during 2018 and 2017 was as follows:

	2018	2017
	LBP'000	LBP'000
Balance - Beginning of year	27,559,604	-
Additions	63,687,907	27,559,604
Settlements against real estate acquisition (Note 19)	(24,176,454)	-
Balance - End of year	<u>67,071,057</u>	<u>27,559,604</u>

During 2018, the Bank entered into real estate sale and repurchase agreement Bank V and Bank N for a total amount of USD29,313,634 (c/v LBP44.19billion) (USD5,732,348 (c/v LBP8.64billion) in 2017) and USD12,933,734(c/v LBP19.50billion) (USD12,549,313 (c/v LBP18.92billion) in 2017) respectively, whereby the said banks sold to the Bank shares of plots of land and buildings with the right to buy back within the period of the contract.

Contracts relating to plots of land during 2018 amounted to USD25,822,463 (c/v LBP38.93billion) (USD12,057,846 (c/v LBP18.18billion) in 2017) mature 3 years after initiation. The repurchase price is equal to the contract value in USD plus interest at 3 months Libor plus 3% to be capitalized quarterly, or the contract value in LBP plus interest set at the rate applicable to 1 year Lebanese treasury bills plus 3% capitalized quarterly.

Contracts relating to buildings during 2018 amounted to USD16,424,905 (c/v in LBP24.76billion) (USD6,223,815 (c/v LBP9.38billion) in 2017) and mature 6 months after initiation date. The repurchase price is equal to the contract value in USD plus interest at 6 months Libor plus 3% to be capitalized semi-annually, or the contract value in LBP plus interest set at the rate applicable to 1 year Lebanese treasury bills plus 3% capitalized semi-annually.

During 2018, loans in the amount of USD16,037,449 (c/v LBP24.18billion) were settled upon the elapse of the repurchase period against acquisition of real estate recorded under "Real estate acquired in satisfaction of loans to problematic banks" (Note 19).

13. SOFT LOANS TO BANKS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Direct loans to banks secured by Lebanese treasury bills	658,089,400	658,089,400
Accrued interest receivable	915,784	591,121
	<u>659,005,184</u>	<u>658,680,521</u>

Direct loans to banks secured by Lebanese treasury bills
Accrued interest receivable

Soft loans are granted to support mergers between local banks. The direct loans to banks outstanding consist of the following:

	December 31, 2018				December 31, 2017				
	Name of Bank	Date of Loan	Initial Loan LBP'000	Loan Balance LBP'000	Interest Rate %	Maturity of Loan	Treasury Bills Outstanding in Favor of the Bank LBP'000	Less: Balance LBP'000	Treasury Bills Held in 1/2 year of the Bank LBP'000
Bank E		June 7, 2012	170,000,000	170,000,000	1.85	June 7, 2022	170,000,000	170,000,000	170,000,000
Bank D		November 24, 2014	243,589,400	243,589,400	3.40	December 6, 2020	243,589,400	243,589,400	243,589,400
Bank A/F		June 16, 2016	138,500,000	138,500,000	1.41	November 17, 2022	138,500,000	138,500,000	138,500,000
Bank F		November 10, 2016	106,000,000	106,000,000	2.03	May 18, 2023	106,000,000	106,000,000	106,000,000
			<u>658,089,400</u>	<u>658,089,400</u>			<u>658,089,400</u>	<u>658,089,400</u>	<u>658,089,400</u>

14. LOANS UNDER LEVERAGE ARRANGEMENT

During 2017, and in accordance with Central Council decision number 39/21/17 dated August 17, 2017 the Bank granted banks, loans in Lebanese Pound under leverage arrangement at an interest rate of 2% per annum, to acquire Lebanese treasury bills in Lebanese Pound in exchange of term deposits in U.S. Dollar, at different multiples, placed with the Bank that earn interest subject to yield enhancement through the leverage arrangements. In accordance with the same Central Council decision, the percentage of U.S. Dollar deposits required to benefit from the above facilities is set by the Governor.

During 2018, upon the approval of the Governor, the Bank granted banks and financial institutions loans under leverage arrangement against the following underlying transactions in U.S. Dollars and other foreign currencies:

- Purchase of certificates of deposit.
- Purchase of Lebanese Government Eurobonds.
- Foreign exchange transactions.
- Placement of term deposits in foreign currency.

Management's objective of increasing foreign currency reserves by these varied underlying transactions is consistent with the objective of the Central Council decision mentioned above.

The tables below detail the foreign currency investment by the banks against the loans granted:

	2018		Equivalent of Foreign Currency in LBP LBP'000
	Loan LBP'000	Foreign Currency Investments USD	
Loans against purchase of certificates of deposit in USD	681,346,409	361,552,870	545,040,952
Loans against purchase of Lebanese Government Eurobonds in USD	4,116,984,455	2,184,663,577	3,293,380,342
Loans against foreign exchange transactions in USD	3,959,586,000	1,821,125,000	2,745,545,938
Loans against placement of term deposits in foreign currency	18,681,731,874	9,899,292,709	14,921,423,458
Loans under leverage arrangement against term deposits	27,439,698,738	14,266,594,156	21,506,590,690
Loans against purchase of certificates of deposit in USD	52,629,748	27,856,921	41,994,308
Loans against purchase of Lebanese Government Eurobonds in USD	439,236,946	234,902,383	354,115,350
Loans against placement of term deposits in foreign currency	11,193,995,555	5,339,574,371	8,803,458,365
Loans under leverage arrangement against Lebanese treasury bills	11,687,862,249	6,107,333,680	9,199,269,023
Loans against purchase of Lebanese Government Eurobonds in USD	2,638,000,000	1,400,000,000	2,110,500,000
Loans under leverage arrangement against certificates of deposit	2,638,000,000	1,400,000,000	2,110,500,000
	41,765,560,987	21,768,927,856	32,816,658,713

	2017		
	<u>Loan</u> <u>LBP'000</u>	<u>Foreign</u> <u>Currency</u> <u>Investments</u> <u>(USD)</u>	<u>Equivalent</u> <u>of Foreign</u> <u>Currency</u> <u>in LBP</u> <u>LBP'000</u>
Loans against placement of term deposits in foreign currency	1,248,418,175	662,510,474	998,734,540
Loans under leverage arrangement against term deposits	1,248,418,175	662,510,474	998,734,540
Loans against placement of term deposits in foreign currency	8,685,028,185	4,608,970,181	6,948,022,548
Loans under leverage arrangement against Lebanese treasury bills	8,685,028,185	4,608,970,181	6,948,022,548
	<u>9,933,446,360</u>	<u>5,271,480,655</u>	<u>7,946,757,088</u>

Loans under leverage arrangement granted to banks and financial institutions were invested in Lebanese treasury bills, term deposits and certificates of deposit in Lebanese Pound as follows:

	December 31,	
	<u>2018</u> <u>LBP'000</u>	<u>2017</u> <u>LBP'000</u>
Loans under leverage arrangement invested in Lebanese treasury bills (a)	11,687,862,249	8,685,028,185
Loans under leverage arrangement invested in term deposits (b)	27,439,698,738	1,248,418,175
Loans under leverage arrangement invested in certificates of deposit (c)	2,638,000,000	-
Accrued interest receivable	171,223,661	38,175,334
	<u>41,936,784,648</u>	<u>9,971,621,694</u>

(a) Loans under leverage arrangement invested in Lebanese treasury bills as at December 31, 2018 and 2017 consist of the following:

Name of Bank	December 31, 2018		
	Loan	Deposits Locked In Favor of the Bank	Lebanese Treasury Bills Mortgaged in Favor of the Bank
	LBP'000	LBP'000	LBP'000
Bank Q			
Bank B	2,321,271,334	-	2,321,271,334
Bank F	1,979,140,730	-	1,979,140,730
Bank A	1,013,933,166	70,800	1,013,862,366
Bank O	814,863,530	-	814,863,530
Bank S	483,673,091	-	483,673,091
Bank X	473,801,805	-	473,801,805
Bank E	448,032,554	-	448,032,554
Bank P	436,783,200	-	436,783,200
Bank I	422,798,258	-	422,798,258
Bank J	416,969,692	-	416,969,692
Bank U	415,569,800	-	415,569,800
Bank D	396,587,195	-	396,587,195
Bank AL	376,180,873	-	376,180,873
Bank G	275,303,809	-	275,303,809
Bank AF	274,174,194	-	274,174,194
Bank Z	199,835,250	170,450	199,664,800
Bank W	142,893,539	-	142,893,539
Bank Y	126,683,280	-	126,683,280
Bank T	118,133,311	-	118,133,311
Bank I	105,149,581	-	105,149,581
Bank AD	88,845,980	-	88,845,980
Bank AM	64,883,900	61,050	64,822,850
Bank AQ	59,971,070	-	59,971,070
Bank AE	48,669,040	-	48,669,040
Bank AB	46,832,600	-	46,832,600
Bank AC	30,146,000	-	30,146,000
Bank AN	20,241,616	-	20,241,616
Bank V	18,850,000	-	18,850,000
FI AP	15,761,845	3,365	15,758,480
Bank AG	15,546,090	-	15,546,090
FI K	11,753,780	-	11,753,780
Bank J	8,480,375	5	8,480,370
Bank AO	8,334,439	-	8,334,439
Bank AJ	6,656,000	-	6,656,000
	<u>1,111,322</u>		<u>1,111,322</u>
	<u>11,687,862,249</u>	<u>305,670</u>	<u>11,687,556,579</u>

December 31, 2017

Name of Bank	December 31, 2017		
	Loan LBP'000	Deposits Blocked in Favor of the Bank LBP'000	Lebanese Treasury Bills Mortgaged in Favor of the Bank LBP'000
Bank Q	1,707,572,713	315,048,083	1,392,524,630
Bank B	2,449,687,500	1,828,840,370	620,847,130
Bank F	504,085,000	-	504,085,000
Bank A	277,960,000	435,000	277,525,000
Bank O	339,770,000	94,544,050	245,225,950
Bank S	565,312,499	222,026,799	343,285,700
Bank X	225,337,375	61,052,375	164,285,000
Bank E	436,783,200	-	436,783,200
Bank P	152,048,750	6,027,050	146,021,700
Bank I	159,536,375	31,099,615	128,436,760
Bank L	213,960,000	160,118,400	53,841,600
Bank U	194,906,550	97,334,270	97,572,280
Bank D	187,819,750	77,665,270	110,154,480
Bank AL	128,732,500	42,855,000	85,877,500
Bank G	197,037,375	64,902,135	132,135,240
Bank AF	124,460,000	-	124,460,000
Bank W	131,218,750	46,543,870	84,674,880
Bank Y	56,962,700	11,448,260	45,514,440
Bank T	172,190,013	92,625,063	79,564,950
Bank I	93,650,000	25,940,900	67,709,100
Bank AD	90,979,500	43,141,110	47,838,390
Bank AM	57,346,400	-	57,346,400
Bank AQ	29,821,075	5,909,635	23,911,440
Bank AE	48,669,040	18,168,810	30,500,230
Bank AB	46,832,600	-	46,832,600
Bank AC	30,146,000	6,339,190	23,806,810
Bank AN	17,093,000	-	17,093,000
Bank V	18,850,000	-	18,850,000
FI AP	2,571,220	-	2,571,220
Bank AG	7,537,500	4,901,960	2,635,540
Bank AO	9,494,800	1,210,460	8,284,340
	<u>6,656,000</u>	<u>-</u>	<u>6,656,000</u>
	<u>8,685,028,185</u>	<u>3,258,177,675</u>	<u>5,426,850,510</u>

Loans under leverage arrangement invested in Lebanese treasury bills as at December 31, 2018 and 2017 mature as follows:

<u>Maturity Date</u>	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Loans with unspecified maturity	305,670	3,258,177,675
Year 2022	1,562,065,980	1,562,065,980
Year 2023	1,250,553,580	119,540,000
Year 2024	1,420,810,730	1,224,104,710
Year 2025	1,569,053,910	48,200,000
Year 2026	203,483,000	203,483,000
Year 2027	2,269,456,820	2,269,456,820
Year 2028	2,801,017,745	-
Year 2029	611,114,814	-
	<u>11,687,862,249</u>	<u>8,685,028,185</u>

(b) Loans under leverage arrangement invested in term deposits as at December 31, 2018 and 2017 consist of the following:

Name of Bank	December 31, 2018	
	Loan LBP'000	Term Deposits Blocked in favor of the Bank LBP'000
Bank B	4,772,031,770	4,772,031,770
Bank Q	4,197,909,918	4,197,909,918
Bank A	2,885,596,000	2,885,596,000
Bank U	2,826,963,300	2,826,963,300
Bank F	2,334,095,000	2,334,095,000
Bank D	1,824,652,625	1,824,652,625
Bank S	1,631,368,000	1,631,368,000
Bank U	1,078,132,620	1,078,132,620
Bank O	999,349,000	999,349,000
Bank I	776,003,520	776,003,520
Bank AF	655,085,000	655,085,000
Bank P	475,616,000	475,616,000
Bank G	472,878,860	472,878,860
Bank X	471,557,000	471,557,000
Bank Z	463,388,000	463,388,000
Bank AD	330,367,125	330,367,125
Bank J	274,894,000	274,894,000
Bank Y	192,957,000	192,957,000
Bank T	180,834,000	180,834,000
Bank AM	162,811,000	162,811,000
Bank L	97,604,000	97,604,000
Bank AL	73,673,000	73,673,000
Bank W	64,258,000	64,258,000
Bank N (Related party)	31,093,000	31,093,000
Bank I	44,337,000	44,337,000
Bank V	35,843,000	35,843,000
Bank AC	28,916,000	28,916,000
Bank AB	20,352,000	20,352,000
Bank AO	15,894,000	15,894,000
Bank AJ	10,160,000	10,160,000
Bank AS	9,422,000	9,422,000
Bank AQ	995,000	995,000
Bank AG	662,000	662,000
	<u>27,439,698,738</u>	<u>27,439,698,738</u>

<u>Name of Bank</u>	<u>December 31, 2017</u>	
	<u>Loan</u>	<u>Term Deposits Blocked in favor of the Bank</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Bank E		
Bank D	671,799,300	671,799,300
Bank AJ	565,312,625	565,312,625
	11,306,250	11,306,250
	<u>1,248,418,175</u>	<u>1,248,418,175</u>

Interest income from related party bank amounted to LBP134million for the year ended December 31, 2018 (LBP Nil in 2017).

Loans under leverage arrangement invested in term deposits as at December 31, 2018 and 2017 mature as follows:

<u>Maturity Date</u>	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Year 2021	1,224,844,000	-
Year 2023	377,485,000	-
Year 2025	388,758,000	-
Year 2027	1,613,986,925	1,248,418,175
Year 2028	21,904,755,813	-
Year 2030	931,055,000	-
Year 2031	424,080,000	-
Year 2033	574,734,000	-
	<u>27,439,698,738</u>	<u>1,248,418,175</u>

(c) Loans under leverage arrangement invested in certificates of deposit consist of the following:

<u>Name of Bank</u>	<u>December 31, 2018</u>	
	<u>Loan</u>	<u>Certificates of Deposit Blocked in Favor of the Bank</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Bank B	2,638,000,000	2,638,000,000
	<u>2,638,000,000</u>	<u>2,638,000,000</u>

This loan which is designated for investment in certificates of deposit in Lebanese Pound with the Bank, matures in 2023.

15. NET LOANS TO AFFILIATES

	December 31,	
	2018 LBP'000	2017 LBP'000
Direct loans to a bank under liquidation	23,041,405	23,041,405
Indirect loans to a bank under liquidation:		
Deposits of a subsidiary acquired, net of discount (2018 and 2017, LBP10.19billion)	8,828,759	8,828,759
	31,870,164	31,870,164
Less: Provision for credit losses	(31,870,164)	(31,870,164)
	<u> </u>	<u> </u>

16. INVESTMENTS IN SUBSIDIARIES

	December 31, 2018		December 31, 2017	
	Carrying Value LBP'000	% of Ownership %	Carrying Value LBP'000	% of Ownership %
Middle East Airlines Airliban S.A.L.	1,275,372,768	99.37	1,275,372,768	99.37
Independence Plaza S.A.L.	4,055,589	100.00	4,055,589	100.00
Midelear S.A.L.	3,281,100	99.72	3,281,100	99.72
	1,282,709,457		1,282,709,457	
Less: Provision for decline in investment value	(2,924,861)		(2,924,861)	
	<u>1,279,784,596</u>		<u>1,279,784,596</u>	

As of December 31, 2018, the fair value of Middle East Airlines Airliban S.A.L. (MEA) as estimated by management was determined at approximately USD846million.

As of December 31, 2017, the fair value of Middle East Airlines Airliban S.A.L. (MEA) as estimated by management was determined at approximately USD846million. As a result, the Bank recorded the positive change in fair value in the amount USD 21,982,534 (LBP33.14billion) for the year ended December 31, 2017 under "Cumulative change in fair value" in the statement of profit or loss and other comprehensive income.

The movement of the investment in Middle East Airlines Airliban S.A.L. is as follows:

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Original cost	567,390,452	567,390,452
Change in fair value in 2007	613,036,146	613,036,146
Change in fair value in 2009	102,510,000	102,510,000
Change in fair value in 2012	(164,317,500)	(164,317,500)
Change in fair value in 2015	123,615,000	123,615,000
Change in fair value in 2017	33,138,670	33,138,670
	<u>1,275,372,768</u>	<u>1,275,372,768</u>

During 2018, Middle East Airlines Airliban S.A.L. declared dividends and as a result the Bank recorded dividend income in the amount of LBP82.3billion (2017; LBP82.3billion) under "Dividend income" in the statement of profit or loss.

Dividends received from Midclear S.A.L. during 2018 amounted to LBP500million (2017; LBP500million) and are recorded under "Dividend income" in the statement of profit or loss.

17. INVESTMENT IN AN ASSOCIATE

Investment in an associate as at December 31, 2018 and 2017 consists of a 35.18% equity stake in the share capital of Intra Investment Company S.A.L.

The movement of the investment account during 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
	LBP'000	LBP'000
Original cost	124,536	124,536
Adjustment during 1997	98,456,831	98,456,831
Change in fair value in 2008	138,801,160	138,801,160
Change in fair value in 2012	164,317,500	164,317,500
Change in fair value in 2014	(56,788,127)	(56,788,127)
	<u>344,911,900</u>	<u>344,911,900</u>

In 1997, Intra Investment Company S.A.L. increased its capital by LBP279.7billion by transferring 84.82% of its revaluation reserve. As a result, the Bank recorded its share of the capital increase in the amount of LBP98billion with offset against "cumulative change in fair value" in equity.

During 2018, Intra Investment Company S.A.L. declared dividends and as a result the Bank recorded dividend income in the amount of LBP5.9billion (2017; nil) under "Dividend income" in the statement of profit or loss.

18. GOLD AT MARKET VALUE

	December 31, 2018		December 31, 2017	
	Cost LBP'000	Market LBP'000	Cost LBP'000	Market LBP'000
Bars	1,218,673	17,299,067,357	1,218,673	17,581,819,781
Coins	25,752	444,014,626	25,752	451,272,109
	<u>1,244,425</u>	<u>17,743,081,983</u>	<u>1,244,425</u>	<u>18,033,091,890</u>

The market value of gold held at the Bank and not in custody of third parties amounted to LBP10,610 billion as of December 31, 2018 (LBP10,783 billion as of December 31, 2017).

Inventory of Gold outstanding as of December 31, 2018 are valued on the basis of USD1,276.22 for the ounce (USD1,297.08 in 2017).

The Lebanese Money and Credit Law provides for, inter-alia, the Bank to maintain gold and monetary assets placed in foreign currencies equal to at least 30% of the aggregate of money in circulation and the Bank's current and demand deposits, as a security for the safe coverage of the Lebanese currency. The gold and foreign currency monetary assets should equal to at least 50% of the money in circulation. Management is of the opinion that the Bank complied with these legal requirements as of December 31, 2018 and 2017.

According to Law Number 42/86 dated September 24, 1986, any transaction of any nature on the Bank's gold is prohibited except when made under a legislative decree issued by the Lebanese Parliament.

19. REAL ESTATE ACQUIRED IN SATISFACTION OF LOANS TO PROBLEMATIC BANKS

Real estate properties of LBP244billion as at December 31, 2018 (LBP227billion as at December 31, 2017) represent real estate properties received in satisfaction of loans to problematic banks were acquired by the Bank with a condition to return them to the original owners within certain time limits. The real estate properties were acquired from failing banks and from shareholders of these banks and other debtors of the Bank.

The real estate properties are stated net of provisions for impairment in the amount of LBP16billion as at December 31, 2018 (LBP16billion as at December 31, 2017).

The Bank had an option to resell these properties to the failing banks if certain conditions were met and after the elapse of a period of time. Since these conditions were not met and the time has elapsed, the Bank acquired a number of real estate properties where formalities are currently in process to transfer the ownership of certain properties to the Bank. The estimated values for the transactions were obtained from several independent appraisers appointed by the Bank.

During 2018, the Bank sold a number of real estate properties that had an aggregate book value of LBP7.16billion (LBP6.28billion in 2017). Net gains on sales of these real estate properties amounted to LBP16.1billion and LBP5.2billion in 2018 and 2017, respectively, and are reflected under "Gain on sale of real estate" in the statement of profit or loss.

The estimated fair value of real estate acquired in satisfaction of loans to problematic banks exceeds the carrying value as at December 31, 2018 and 2017.

20. PROPERTIES AND EQUIPMENT

	December 31,	
	2018	2017
	LBP'000	LBP'000
Land	54,340,630	54,340,630
Buildings	159,578,521	142,743,374
Freehold improvements	19,665,051	20,071,863
Fixtures and furniture	47,970,992	41,108,094
Office and computer equipment	118,255,946	89,392,382
Work-in-progress	49,258,286	79,712,161
Other	2,179,040	2,179,040
	451,248,466	429,547,344
Write down of properties and equipment	(347,786,616)	(295,631,819)
	<u>103,461,850</u>	<u>133,915,525</u>

Work-in-progress mainly represents payments related to the cost of the buildings under construction.

Work-in-progress as at December 31, 2018 and 2017, includes an amount of LBP20.3billion (USD13,500,000) representing the acquisition cost of real estate plot No. 1686 in Ras Beirut area which consists of a building.

During 2018, the Bank transferred an amount of LBP16.8billion representing the cost of real estate plot No. 83 in Ras Beirut area from work-in-progress to buildings.

Properties and equipment with an aggregate net book value of LBP54.2billion were written-down in 2018 of which LBP53.2billion were written-down in the statement of profit or loss and LBP996million were written-down against "Other reserves" in the statement of changes in equity (LBP10.9billion were written-down in the statement of profit or loss in 2017).

21. ACCRUED INCOME AND OTHER ASSETS

	December 31,	
	2018	2017
	LBP'000	LBP'000
Accrued income	268,744	465,542
Prepaid and deferred charges	9,002,887	8,019,107
Accounts receivable (net of provision for credit loss of LBP3.17billion in 2018 and 2017) - Note 11	7,821,682	8,173,713
Sundry debtors	9,606,088	8,969,550
Cost of new bank notes and medals in stock	26,837,037	27,581,682
Other	13,364,450	12,729,088
	<u>66,900,888</u>	<u>65,938,682</u>

22. EXCESS IN END-OF-SERVICE INDEMNITY INVESTMENT FUND

This caption represents the excess of designated invested funds over the provision for staff end-of-service indemnities:

	December 31,	
	2018	2017
	LBP'000	LBP'000
End-of-service indemnities	(121,342,004)	(130,449,827)
Less: Loans against end-of-service indemnities	10,950,081	10,604,337
Net end-of-service indemnities	(110,391,923)	(119,845,490)
Less: Investment in Lebanese treasury bills for account of the fund	173,154,598	144,098,858
Excess of investment over liability	<u>62,762,675</u>	<u>24,253,368</u>

The movement of the balance of end-of-service indemnities is as follows:

	2018 LBP'000	2017 LBP'000
Balance - Beginning of year	130,449,827	97,606,724
Additional provision charged to the statement of profit or loss	17,250,000	68,674,131
Settlement of end-of-service indemnities	(26,357,823)	(35,835,628)
Balance - End of year	<u>121,342,004</u>	<u>130,449,827</u>

The balance of Lebanese treasury bills held in fiduciary for settlement of the staff end-of-service indemnities consists of the following:

	2018 LBP'000	2017 LBP'000
Coupon treasury bills	168,182,710	140,040,700
Accrued interest receivable	4,971,888	4,058,158
	<u>173,154,598</u>	<u>144,098,858</u>

During 1999, the Bank set up an investment fund in Lebanese treasury bills with offset to the provision for end-of-service indemnities. Interest income of LBP12.42billion and LBP9.55billion in 2018 and 2017, respectively, from these treasury bills was set-off in the statement of profit or loss against a catch-up provision of LBP17.3billion and LBP17.33billion in 2018 and 2017, respectively.

23. ASSETS FROM EXCHANGE OPERATIONS OF FINANCIAL INSTRUMENTS AND SEIGNIORAGE

	December 31,	
	2018 LBP'000	2017 LBP'000
Seigniorage on currency (A)	11,817,753,916	11,817,753,916
Seigniorage on treasury bills (B)	18,080,639,845	18,080,639,845
Seigniorage on financial stability (C)	10,270,278,814	-
	<u>40,168,672,575</u>	<u>29,898,393,761</u>

(A) Seigniorage on Currency

Effective 2007, the Bank adopted a policy of recognition of seigniorage on issued banknotes and coins. Since then, the Bank, recorded an asset and a liability balance from seigniorage in the amount of LBP12,941billion, of which LBP229billion was recorded in 2018 (LBP12,712billion up to December 31, 2017 of which LBP400billion in 2017). The Bank has off-set the liability from seigniorage by an amount of LBP11,818billion in prior years against deferred interest expense and other finance costs. This accounting practice resulted in the recognition of a debit balance against a decrease in deferred interest expense and other finance costs.

The Bank has applied this policy of recording seigniorage as both assets and liabilities at an amount representing the difference between the cost of printing the issued money and the face value of this money, to be adjusted every fifteen days due to changes in the stock of issued money. The Bank used the credit balance to offset part of the deferred cost of matured certificates of deposits and paid coupons on outstanding instruments originally issued pursuant to the Paris II Summit of Donors to Lebanon as well as deferred costs relating to or derived from other financial instruments. The offset amount represents already paid interest expense on financial instruments.

During 2015 and based on Central Council decision number 21/3/16 dated January 27, 2016, the Bank recognized additional seigniorage on currency in the amount of LBP5,930 billion out of LBP6,447 billion recorded in 2015.

The movement of seigniorage on currency is as follows:

	2018 LBP'000	2017 LBP'000
Seigniorage Debt		
Balance - Beginning of year	12,712,379,921	12,312,391,746
Seigniorage for the year	<u>228,550,733</u>	<u>390,988,175</u>
	<u>12,940,930,654</u>	<u>12,712,379,921</u>
Seigniorage Credit		
Balance - Beginning of year	(12,712,379,921)	(12,312,391,746)
Seigniorage for the year	(228,550,733)	(390,988,175)
Amount allocated to deferred interest expense and other finance costs	11,817,753,916	11,817,753,916
Allocation during the year (Note 29)	<u>1,123,176,738</u>	<u>(894,626,005)</u>
Seigniorage on Currency	<u>11,817,753,916</u>	<u>11,817,753,916</u>

(B) Seigniorage on Treasury bills

In 2009, the Bank adopted a policy of recognition of seigniorage on Lebanese treasury bills swapped against Lebanese Government Eurobonds. At the date of adoption, seigniorage booked resulted from the retrospective application of this policy for all such swaps taking place since 2002.

During 2013, the Bank settled dues on behalf of the Lebanese Government and in return obtained Lebanese Government Eurobonds and recognized seigniorage accordingly.

Additionally, effective 2014, the Bank adopted a policy of recognition of seigniorage on Lebanese treasury bills held in its portfolio.

As a result, the Bank has an outstanding seigniorage asset and a liability balance from seigniorage in the cumulative amount of LBP75,947billion as of December 31, 2018 (LBP65,439billion as of December 31, 2017). The Bank off-set an amount of LBP18,081billion as of December 31, 2018 and 2017, of the total liability from seigniorage against deferred interest expense and other finance costs. The allocation to deferred interest expense and other finance costs during the year amounted to LBP Nil in 2018 (LBP702billion in 2017).

	<u>2018</u> LBP'000	<u>2017</u> LBP'000
Seigniorage Debit		
Balance - beginning of the year	65,438,986,350	57,744,039,496
Seigniorage for the year	<u>10,507,875,387</u>	<u>7,694,946,854</u>
	<u>75,946,861,737</u>	<u>65,438,986,350</u>
Seigniorage Credit		
Balance - beginning of the year	(65,438,986,350)	(57,744,039,496)
Seigniorage for the year	(10,507,875,387)	(7,694,946,854)
Allocated to deferred interest expense and Finance costs in previous years	18,080,639,845	17,378,693,658
Allocation to deferred interest expense and finance costs during the year (Note 29)	-	<u>701,946,187</u>
	<u>(57,866,221,892)</u>	<u>(47,358,346,505)</u>
Seigniorage on treasury bills	<u>18,080,639,845</u>	<u>18,080,639,845</u>

(C) Seigniorage on Financial Stability

In accordance with Central Council decision number 47/12/18 dated April 11, 2018, the Bank adopted seigniorage for financial stability. As per the decision referred to above, the Governor determines the seigniorage amount resulting from financial stability as deemed appropriate by him.

As a result, the Bank recorded a seigniorage asset and a liability balance from seigniorage in the cumulative amount of LBP20,000 billion as at December 31, 2018. The Governor determines on a yearly basis the amount that should be allocated from the liability balance from seigniorage to deferred interest expense and other finance costs. In this respect, the Bank allocated an amount of LBP10,270 billion during 2018.

	<u>2018</u> <u>LBP'000</u>
Seigniorage Debt	
Balance - beginning of the year	-
Seigniorage for the year	<u>20,000,000,000</u>
Seigniorage Credit	<u>20,000,000,000</u>
Balance - beginning of the year	-
Seigniorage for the year	(20,000,000,000)
Allocation to deferred interest expense and other finance costs (Note 29)	<u>10,270,278,814</u>
	<u>(9,729,721,186)</u>
Seigniorage on financial stability	<u>10,270,278,814</u>

As such, the above mentioned seigniorage on Treasury bills, currency and financial stability represent cost of funds in current and previous years resulting from the Central Bank's intervention in the Lebanese banking sector to stabilize the monetary supply in line with its objective stipulated for in Article 70 of the Money and Credit Law. The allocation to deferred interest expense and other finance costs by year was as follows:

	<u>Seigniorage on</u> <u>Currency</u> <u>LBP'000</u>	<u>Seigniorage on</u> <u>Treasury Bills</u> <u>LBP'000</u>	<u>Seigniorage on</u> <u>Financial</u> <u>Stability</u> <u>LBP'000</u>
2018	-	-	10,270,278,814
2017	-	701,946,187	-
2016	-	-	-
2015	6,447,180,805	(3,262,082,272)	-
2014	199,000,000	3,262,082,272	-
2013	757,000,000	3,662,107,084	-
2012	5,900,000	3,694,250,878	-
2011	363,250,000	2,728,043,369	-
2010	303,000,000	2,943,516,581	-
2009	600,000,000	4,350,775,746	-
2008	318,000,000	-	-
2007	2,824,423,111	-	-
	<u>11,817,753,916</u>	<u>18,080,639,845</u>	<u>10,270,278,814</u>

Being primarily responsible for setting and monitoring Lebanon's monetary policy and being a legal public entity entrusted with the general mission of safeguarding the Lebanese currency as provided for in article 70 and 75 of the Money and Credit Law, the Bank believes that seigniorage is one of the available measures to maintain economic and financial stability. In this connection, the Bank is not legally subject to commercial accounting practices.

24. BANK NOTES AND COINS IN CIRCULATION

Bank notes and coins in circulation are analyzed as follows:

	December 31,	
	2018 LBP'000	2017 LBP'000
Issued bank notes	6,948,426,369	6,723,733,431
Issued coins	94,073,187	89,759,812
Less: Bank notes on hand	(1,181,734,394)	(1,151,010,319)
	<u>5,860,765,162</u>	<u>5,662,482,924</u>

Issued bank notes consist of:

	December 31,	
	2018 LBP'000	2017 LBP'000
Printed bank notes	35,562,036,475	30,562,036,475
Less: Bank notes in reserve	(5,155,449,973)	(2,670,000,973)
Bank notes cancelled, includes LBP23,309billion and LBP20,956billion destroyed up to 2018 and 2017, respectively.	(23,458,160,133)	(21,168,302,071)
	<u>6,948,426,369</u>	<u>6,723,733,431</u>

25. BANKS AND FINANCIAL INSTITUTIONS

Banks and financial institutions consist of:

	December 31,	
	2018 LBP'000	2017 LBP'000
Deposits in foreign currency	53,300,280,324	57,635,222,076
Deposits in foreign currency under leverage arrangement (Note 14)	21,726,281,824	7,946,757,087
Deposits in LBP	48,973,463,106	46,926,164,146
Deposits in LBP under leverage arrangement (Note 14)	27,439,698,738	1,248,418,175
Certificates of deposit in foreign currency	22,372,865,412	27,907,651,870
Certificates of deposit in foreign currency under leverage arrangement (Note 14)	587,035,261	-
Certificates of deposit in LBP	19,061,000,000	17,071,000,000
Certificates of deposit in LBP under leverage arrangement (Note 14)	2,638,000,000	-
Accrued interest on LBP deposits	198,098,626,665	158,735,213,354
Accrued interest on foreign currency deposits	2,038,739,320	937,977,589
	<u>1,196,210,644</u>	<u>1,181,109,050</u>
	<u>201,333,576,629</u>	<u>160,854,299,093</u>

Deposits in foreign currency and local certificates of deposit in foreign currency are further analyzed as follows (excluding accrued interest):

	December 31,	
	2018 LBP'000	2017 LBP'000
Residents	98,968,519,281	92,485,929,980
Non-residents	1,017,943,540	1,003,701,053
	<u>99,986,462,821</u>	<u>93,489,631,033</u>

As at December 31, 2018 and 2017, approximately USD18.8billion (LBP28,341billion) and USD17.7billion (LBP26,661billion), respectively, of deposits in foreign currency from resident banks consisted of compulsory interest bearing deposits representing 15% of banks' foreign currency deposits. This requirement was imposed on banks operating in Lebanon since September 2001.

The banks operating in Lebanon are also required to maintain compulsory non-interest bearing deposits equivalent to 25% of demand deposits and 15% of term deposits denominated in Lebanese Pounds. These deposits amounted to LBP5,209billion as at December 31, 2018 (LBP4,246billion as at December 31, 2017).

Certificates of deposit as at December 31, 2018 mature as follows:

Period	LBP		USD	
	LBP'000	Weighted Average Rate %	Equivalent LBP'000	Weighted Average Rate %
March 2019	-	-	-	-
December 2019	-	-	400,479,907	5.30
Year 2020	1,229,000,000	7.60	381,251,416	5.68
Year 2021	958,000,000	7.80	541,598,787	6.20
Year 2022	13,000,000	7.68	30,753,000	6.21
Year 2023	1,222,000,000	8.24	3,514,396,949	6.20
Year 2024	214,000,000	8.14	5,729,013,897	6.41
Year 2025	1,168,000,000	8.62	7,684,896,628	6.45
Year 2026	2,209,000,000	8.86	734,172,070	6.47
Year 2027	1,842,000,000	7.87	1,171,449,886	6.67
Year 2028	3,975,000,000	10.50	895,824,298	6.69
Year 2029	601,000,000	9.23	1,548,418,800	6.76
Year 2030	319,000,000	9.33	4,088,327,741	6.92
Year 2031	25,000,000	7.90	585,437,508	6.74
Year 2032	403,000,000	8.17	58,038,750	6.50
Year 2033	832,000,000	10.30	180,790,459	6.86
Year 2034	150,000,000	8.32	603,000	6.86
Year 2035	19,000,000	8.32	550,997,250	7.01
Year 2036	1,105,000,000	9.61	47,486,250	7.00
Year 2040	792,000,000	10.50	107,679,087	7.00
Year 2046	302,000,000	6.00	119,846,250	7.50
Year 2047	71,000,000	9.00	31,657,500	7.40
Year 2048	2,410,000,000	9.95	510,808,490	7.48
Total	<u>21,699,000,000</u>	<u>11.83</u>	<u>45,978,750</u>	<u>7.48</u>
			<u>12,959,900,673</u>	

Certificates of deposit as at December 31, 2017 mature as follows:

Period	LBP		USD	
	LBP'000	Weighted Average Rate %	Equivalent LBP' 000	Weighted Average Rate %
January 2018	8,000,000	3.85	-	-
February 2018	4,000,000	3.85	(985,010)	-
December 2018	-	-	464,370,406	5.41
Year 2019	-	-	933,041,187	5.47
Year 2020	1,993,000,000	7.60	860,478,684	6.20
Year 2021	1,125,000,000	7.80	52,762,500	6.11
Year 2022	23,000,000	7.42	4,636,671,566	6.13
Year 2023	3,140,000,000	8.24	6,698,204,625	6.41
Year 2024	338,000,000	8.14	1,987,310,528	6.47
Year 2025	383,000,000	7.61	937,205,934	6.40
Year 2026	2,600,000,000	8.84	1,667,209,413	6.66
Year 2027	1,530,000,000	7.57	2,114,080,024	6.60
Year 2028	20,000,000	7.56	1,077,410,250	7.04
Year 2029	691,000,000	9.21	4,236,904,345	6.92
Year 2030	568,000,000	7.98	601,972,610	6.74
Year 2031	50,000,000	7.90	63,315,000	6.50
Year 2032	258,000,000	8.02	180,225,560	6.86
Year 2035	433,000,000	8.32	590,991,250	7.03
Year 2036	608,000,000	8.32	62,561,250	7.00
Year 2037	544,000,000	9.19	107,388,716	7.00
Year 2045	732,000,000	9.00	119,846,250	7.50
Year 2046	90,000,000	9.00	31,657,500	7.40
Year 2047	<u>1,933,000,000</u>	9.72	<u>525,029,282</u>	7.48
	<u>17,071,000,000</u>		<u>27,907,651,870</u>	

During 2018, as part of its monetary policy, the Bank entered into several transactions, whereby, the Bank redeemed certificates of deposit with a nominal value of LBP5,569billion at a premium of LBP7,956billion (Note 29). The unamortized premium related to the redeemed certificates of deposit amounted to LBP7,559billion as of December 31, 2018. As a result of these transactions, the Bank charged the counterparties during 2018 transactions fees in the amount of LBP8,072billion recorded under "Deferred interest expense and other finance costs" in the statement of financial position (Note 29).

During 2017, as part of its monetary policy, the Bank entered into several transactions, whereby, the Bank redeemed certificates of deposit with a nominal value of LBP4,056billion at a premium of LBP2,478billion (Note 29). The unamortized premium related to the redeemed certificates of deposit amounted to LBP2,078billion as of December 31, 2018 (LBP2,412billion as of December 31, 2017). As a result of these transactions, the Bank charged the counterparties during 2017 transactions fees in the amount of LBP2,287billion recorded under "Deferred interest expense and other finance costs" in the statement of financial position (Note 29).

During 2016, as part of its monetary policy, the Bank entered into several financial engineering transactions, whereby, the Bank redeemed certificates of deposit with a nominal value of LBP12,976billion at a premium of LBP12,980billion. The unamortized premium related to the redeemed certificates of deposit amounted to LBP10,324billion as of December 31, 2018 (LBP11,750billion as of December 31, 2017) (Note 29). As a result of these transactions, the Bank charged the counterparties during 2016 transactions fees in the amount of LBP6,614billion recorded under "Deferred interest expense and other finance costs" in the statement of financial position (Note 29).

Deposits of banks and financial institutions include balances of a related party bank as follows:

	December 31,	
	2018	2017
	LBP'000	LBP'000
Current and demand deposits in LBP	1,818,697	3,976,845
Current and demand deposits in foreign currencies	6,075,261	2,659,637
Term deposits in LBP	125,924,000	138,995,000
Term deposits in foreign currencies	24,873,750	31,657,500
	<u>158,691,708</u>	<u>177,288,982</u>

Interest expense on the credit balances of the related bank amounted to LBP15.28billion for the year ended December 31, 2018 (LBP13.90billion in 2017) recorded under interest expense in the statement of profit or loss.

26. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2018	2017
	LBP'000	LBP'000
Accounts payable - Matured treasury bills - Public	8,290,091	8,956,619
Transitory accounts	19,024,207	20,326,813
Accrued expenses	107,696,356	118,016,354
Social security dues	1,053,523	1,128,033
Payables - Problematic bank's Group (a)	6,168,429	6,165,429
Payment orders in favor of public and private sectors (b)	10,347,658	159,926,609
Unearned income (c)	4,396,743	4,021,051
Withholding tax on interest	122,645,575	23,638,008
Interest subsidy - retail loans granted by banks (d)	63,106,041	-
Other (e)	211,507,458	222,086,241
	<u>554,233,081</u>	<u>564,265,159</u>

- (a) Payables - Problematic bank's Group represent the amounts due to the problematic group as a result of the Bank's acquisition in previous years of assets in satisfaction of loans granted to that group and recorded under "Real estate acquired in satisfaction of loans to problematic banks". In accordance with the original loan agreement and the Central Council's decision, payables on acquired assets in excess of the amounts used by the problematic group to settle its loans granted by the Bank and to settle the group's customers' deposits, are written off to the statement of profit or loss.
- (b) Payment orders in favor of public and private sectors includes an amount of LBP154billion as at December 31, 2017 payable to a foreign bank on behalf of the Ministry of Finance. This amount was settled in 2018.
- (c) Unearned income includes an amount of LBP912million as at December 31, 2018 (LBP912million as at December 31, 2017) resulting from settlement of acquired doubtful loans of previous shareholders of a problematic bank (refer to Note 11).
- (d) During 2018, the Bank set up an interest subsidy credit balance in the amount of LBP66.69billion against interest income from loans to banks granted pursuant to Central Bank of Lebanon basic decision number 6116 dated March 7, 1996 and its subsequent amendments in particular intermediary circular 485 dated February 1, 2018. An aggregate amount of LBP3.58billion was distributed to banks as a subsidy of interest on retail loans granted by these banks to their customers. Refer to Note 12(D) and 12(E).
- (e) Other includes a loan obtained from an Arab Fund in the amount of KWD34million (equivalent to LBP170billion) as at December 2018 and 2017. The purpose of the loan is to finance housing loans through a Lebanese housing bank. The role of the Bank is to manage the loan against commission fees. The loan is subject to an interest rate equal to 3% and is repaid through 37 semi-annual installments of KWD920,000 (equivalent to LBP4.6billion) each, starting February 1, 2021, with a final installment of KWD880,000 (equivalent to LBP4.4billion) on February 1, 2039.

27. UNREALIZED GAIN ON EXCHANGE - ARTICLE 115

The unrealized gain on exchange account represents a specially designated account where the unrealized appreciation/depreciation of gold and net unrealized appreciation/depreciation of translation of assets and liabilities denominated in foreign currencies are deferred in accordance with Article 115 of the Lebanese Money and Credit Law. Also deferred under this account are realized losses on treasury bill swaps and discounts and loss on sale of Eurobonds being a tool used by the Bank to support the stability of the Lebanese Pound.

This account consists of the following:

	December 31,	
	2018 LBP'000	2017 LBP'000
Gold, at market - Note 18	17,743,081,983	18,033,091,890
Cost of gold	(1,244,425)	(1,244,425)
	<u>17,741,837,558</u>	<u>18,031,847,465</u>
Net depreciation on translation of assets and liabilities in foreign currencies in 1996	(68,486,082)	(68,486,082)
Net depreciation on translation of assets and liabilities in foreign currencies in 1997	(126,851,079)	(126,851,079)
	<u>17,546,500,397</u>	<u>17,836,510,303</u>
Net appreciation on translation of assets and liabilities in foreign currencies in prior years	282,405,911	158,590,468
Net appreciation on translation of assets and liabilities in foreign currencies in current year (c)	28,461,274	123,815,443
	<u>310,867,185</u>	<u>282,405,911</u>
Balance	<u>17,857,367,582</u>	<u>18,118,916,215</u>
Transfer in 2002 of prior years change in currency fair value to unrealized gain on gold	(156,524,012)	(156,524,012)
Transfer in 2004 of prior years change in currency fair value to unrealized gain on gold	87,866,314	87,866,314
Deferred capital loss on Treasury bill swaps and discounts (a)	(1,458,373,278)	(1,458,373,278)
Realized loss on sale of Eurobonds (a)	(34,765,605)	(34,765,605)
Destroyed bank notes	<u>164,946,409</u>	<u>164,946,409</u>
	16,460,517,410	16,722,066,043
Allocation to provisions for contingencies (b)	(1,399,268,606)	(1,399,268,606)
Distribution to Ministry of Finance (b)	(5,597,074,436)	(5,597,074,436)
	<u>9,464,174,368</u>	<u>9,725,723,002</u>

(a) The deferred realized capital loss on treasury bill swaps and discounts and the realized loss on the sale of Eurobonds is netted against the unrealized gain on exchange - Article 115, but remains subject to the appropriate authorities' approval. The deferral of losses was sustained by the Bank as a result of the monetary policies applied to stabilize the Lebanese Pound exchange rate and to contribute to the Government's efforts to restructure its debt. According to the Bank's management, this is carried out according to the provisions of Articles 115 and 116 of the Money and Credit Law and in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice.

International Financial Reporting Standards require that period costs be directly recognized in the income statement of the year in which they are incurred. The same applies to the allocation to provision for contingencies and the distribution to the Ministry of Finance which should be done through general reserves within the statement of equity.

(b) At December 31, 2002, the Central Council of the Bank approved the distribution of an amount of LBP2,700billion from the account "unrealized gain on exchange - Article 115" to the account of the Ministry of Finance and allocated an amount of LBP200billion to provisions for contingencies. During 2003, the Central Council of the Bank approved the allocation of LBP475billion to provisions for contingencies. Furthermore, during 2004, the Central Council approved the distribution of LBP517billion to the account of the Ministry of Finance and allocated an amount of LBP129billion to provisions for contingencies. During 2007, the Central Council approved the distribution of LBP2,380billion to the account of the Ministry of Finance and allocated an amount of LBP595billion to provisions for contingencies. These transactions are not reflected in the income statement for the years ended December 31, 2007, 2004, 2003 and 2002 nor in the movement of general reserves within the statement of changes in equity.

In the opinion of the Bank's management, the distribution of up to 80% of the balance of the "unrealized gain on exchange - Article 115" account to the Ministry of Finance and the allocation of the remaining 20% to provisions for contingencies, is derived from the provisions of Articles 115 and 116 of the Money and Credit Law and in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice.

(c) The movement of the unrealized appreciation of gold after distribution (excluding destroyed bank notes) and the unrealized appreciation of translation of assets and liabilities during 2018 and 2017 was as follows:

	2018		2017	
	Gold LBP'000	Assets and Liabilities LBP'000	Gold LBP'000	Assets and Liabilities LBP'000
Balance - Beginning of year	9,278,370,684	282,405,911	7,383,713,432	158,590,468
Unrealized (depreciation)/ appreciation during the year	(290,009,907)	28,461,274	1,894,657,252	123,815,443
Balance - End of year	<u>8,988,360,777</u>	<u>310,867,185</u>	<u>9,278,370,684</u>	<u>282,405,911</u>

28. PROVISION FOR CONTINGENCIES

The movement of this account during the year was as follows:

	<u>2018</u> LBP'000	<u>2017</u> LBP'000
Balance - Beginning of year	3,836,517,302	3,772,448,752
Appropriation from income	27,888,753	64,068,750
Other	(200)	(200)
Balance - End of year	<u>3,864,405,855</u>	<u>3,836,517,302</u>

The addition to the provision was set up by the Bank as an appropriation of net income before distribution to offset any contingent liabilities and/or losses that might arise.

29. DEFERRED INTEREST EXPENSE AND OTHER FINANCE COSTS

	<u>December 31,</u>	
	<u>2018</u> LBP'000	<u>2017</u> LBP'000
Unamortized premium on LBP certificates of deposit, net (A)	20,766,434,881	14,492,790,306
Deferred interest expense and cost of certificates of deposit (B)	(4,978,621,639)	1,993,220,275
	<u>15,787,813,242</u>	<u>16,486,010,581</u>

(A) The movement of net unamortized premium on LBP certificates of deposit is summarized as follows:

	<u>2018</u> LBP'000	<u>2017</u> LBP'000
Balance - Beginning of year	14,492,790,306	12,712,362,594
Premium from redeemed certificates of deposit (Note 25)	7,956,463,109	2,478,274,553
Amortization of premium during the year	(1,654,521,155)	(1,022,509,514)
Other transactions	(28,297,379)	324,662,673
Balance - End of year	<u>20,766,434,881</u>	<u>14,492,790,306</u>

- (B) Effective 2003, the Bank has deferred interest expense and the loss from discounting certificates of deposit over the period from deferral date to the end of the year 2017 extended during 2008 to the year 2037 and during 2015 to the year 2050. Furthermore, effective 2004, the Bank has been deferring interest expense on time deposits taken from local banks. The deferral of costs is sustained by the Bank as a result of the monetary policies applied to stabilize the Lebanese Pound exchange rate and to contribute to the Government's efforts to restructure its debt, as derived from its interpretation of the provisions of Articles 115 and 116 of the Money and Credit Law and in line with the interpretation of a legal opinion issued in 1985 by the Legislative and Consultancy Committee of the Ministry of Justice.

The movement of this account during 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Balance - Beginning of year	1,993,220,275	(2,356,773,260)
Interest expense deferred during the year - certificates of deposit	5,291,436,575	4,411,360,166
Interest expense deferred during the year - time deposits	8,711,954,300	4,688,859,567
Amount amortized during the year (a)	(96,663,722)	(60,400,614)
Amount transferred to seigniorage liability on treasury bills (Note 23) (a)	-	(701,946,187)
Amount transferred to seigniorage liability on financial stability (Note 23) (a)	(10,270,278,814)	-
Adjustments charged against income of the year (a)	(2,382,980,265)	(1,430,316,943)
Surplus from financial engineering strategy (Notes 6 and 25) (a)	(8,071,860,749)	(2,557,562,454)
Other	(153,449,239)	-
Balance - End of year	<u>(4,978,621,639)</u>	<u>1,993,220,275</u>

- (a) The mechanism of allocating amounts from the deferred interest expense and other finance costs is determined in accordance with the Central Council decision number 48/12/18 dated April 11, 2018, which stipulates that such allocation is determined by the Governor based on the suggestion of the Organization and Development Department.

30. GENERAL RESERVE

In accordance with the requirements of Article 113 of the Lebanese Money and Credit Law, the Bank transferred 50% of its net income to general reserve and distributed 50% to the Lebanese Government until the general reserve became 50% of the capital, after which the distribution ratio became 20% to the general reserve and 80% to the Lebanese Government. During 2018, LBP15.11billion were transferred to general reserve representing 20% of 2017 net income (2017: LBP15.17billion representing 20% of 2016 net income).

31. NOTES TO THE CASH FLOW STATEMENT

The following non-cash transactions were excluded from the statement of cash flows:

- (a) Change in fair value (loss) of "gold" in the amount of LBP290billion was offset against "unrealized gain on exchange - Article 115" as at December 31, 2018 (gain in the amount of LBP1,895billion as at December 31, 2017).
- (b) The allocation of net income for the year 2017 in the amount of LBP75.5billion was offset against public sector deposits and general reserves in the amount of LBP60.4billion and LBP15.1billion respectively during 2018.
- (c) The allocation of net income for the year 2016 in the amount of LBP75.9billion was offset against public sector deposits and general reserves in the amount of LBP60.7billion and LBP15.2billion respectively during 2017.
- (d) Write-down of properties and equipment in the amount of LBP996million was offset against "Other reserves" in the statement of changes in equity as at December 31, 2018.
- (e) Write-down of other assets in the amount of LBP961million was offset against "Other reserves" in the statement of changes in equity as at December 31, 2018 (LBP905million as at December 31, 2017).
- (f) Change in fair value of investment in a subsidiary in the amount of LBP33.1billion was offset against "Cumulative change in fair value of investments" as at December 31, 2017.
- (g) Seigniorage liabilities in the amount of LBP10,270billion were offset against deferred interest expense and finance costs as at December 31, 2018 (LBP702billion as at December 31, 2017).
- (h) Loans under leverage arrangement in the amount of LBP30,078billion was offset against deposits from banks and financial institutions as at December 31, 2018 (LBP1,248billion as at December 31, 2017).
- (i) Cash and cash equivalents consisted of cash at banks, reverse repurchase agreement, and interest bearing time deposits with banks with maturity periods of 90 days or less from origination, as shown below:

	December 31,	
	2018 LBP'000	2017 LBP'000
Cash at banks	8,713,437,963	5,992,945,204
Reverse repurchase agreements	958,468,500	3,806,286,750
Interest bearing time deposits with banks	3,333,344,805	8,399,120,670
	<u>13,005,251,268</u>	<u>18,198,352,624</u>

32. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its eligible customers. These financial instruments include commitments to extend credit and commercial letters of credit and letters of guarantees.

At December 31, 2018 and 2017, the Bank had outstanding letters of credit issued to the public sector in the aggregate amount of LBP444billion and LBP595billion, respectively, against which it held margin accounts in the amount of LBP444billion and LBP595billion as at December 31, 2018 and 2017, respectively.

The outstanding letters issued to the public sector against margin accounts are segregated between Lebanese Pounds and foreign currencies as follows:

	December 31,	
	2018 LBP'000	2017 LBP'000
Lebanese Pounds	36,611,610	22,861,983
Foreign currencies	407,579,530	572,390,696
	<u>444,191,140</u>	<u>595,252,679</u>

33. COMMITMENTS AND CONTINGENCIES

Litigation is a common occurrence in operations. At year-end, the Bank had several unresolved legal claims; however, management, after review with its legal counsel of all pending actions and proceedings, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the financial position of the Bank.

34. CRITICAL JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in accordance with the Bank's accounting standards and policies included in the Accounting Policies Manual for the Banque du Liban approved by the Bank's Central Council in its decision number 21/3/2016 dated January 27, 2016 amended by the Bank's Central Council in its decision number 49/12/18 dated April 11, 2018, requires management to make judgments, estimates and assumptions that affect the carrying amounts of assets and liabilities recorded in the financial statements and notes to the financial statements. These estimates and associated assumptions are based on management's experience, best knowledge of current events and actions that the Bank may undertake in the future. Actual results may differ from those 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.

Key sources of estimation uncertainty

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

(i) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. Management uses judgment and estimates based on experience to determine the amount of impairment loss.

(ii) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Fair value of investment in subsidiaries and associates

The Bank exercises judgement to determine changes in the fair value of certain investments in subsidiaries and associates held at fair value based on valuation techniques with observable and unobservable inputs.

35. SUBSEQUENT EVENTS

Lebanon has been witnessing, since October 17, 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis as well as deep recession that have reached unprecedented levels.

Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on March 7, 2020, the Lebanese Government announced that it will withhold payment on its bonds due on March 9, 2020, which was followed by another announcement on March 23, 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have restricted transfers of foreign currencies outside Lebanon and reduced credit lines to companies and withdrawal of cash to private depositors.

The difficulty in accessing foreign currencies led to the emergence of a parallel market on the official peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the official peg of 1,507.5 LBP/USD.

On April 30, 2020, the council of ministers approved the Lebanese Government's Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars.

On May 1, 2020, the Lebanese Prime Minister signed a request for financial support from the International Monetary Fund and began negotiations with the IMF staff during May 2020.

Particular Situation of the Bank

As of December 31, 2018, the Bank holds the following exposure to the Lebanese Government:

	<u>2018</u>
	<u>LBP'000</u>
Lebanese treasury bills	44,843,665,063
Lebanese Government Eurobonds	5,760,551,136

Currently the Bank is conducting its role in what relates to stabilizing the crisis by extending financing to commercial banks and by using its foreign currency reserves to support the purchase of fuel, medicine, wheat, medical supplies and other necessities.