NATIONAL BANK OF KUWAIT (LEBANON) SAL

FINANCIAL STATEMENTS

31 DECEMBER 2020

Building a better working world

Ernst & Young p.c.c.
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT (LEBANON) SAL

Adverse opinion

We have audited the financial statements of National Bank of Kuwait (Lebanon) SAL (the "Bank"), which comprise the statement of financial position as at 31 December 2020, statement of 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.

In our opinion, because of the significance of the matters discussed in the *"Basis for Adverse Opinion"* section of our report; the accompanying financial statements do not present fairly, the financial position of the Bank as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for adverse opinion

1- As disclosed in Note 33.2 to the financial statements, the Bank holds assets with the Central Bank of Lebanon and a portfolio of Lebanese government treasury bills which represent 45% of the Bank's total assets as at 31 December 2020.

As disclosed in Note 1, the accompanying financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amounts of the above assets and related disclosures that would result from resolution of the uncertainties described in Note 1, which prevailed since the last quarter of 2019 and the future effects of the economic crisis and the implementation of government reforms and restructuring plans.

Also, as disclosed in Note 31.2, management was unable to produce faithful estimation of the fair value of these assets and other financial assets concentrated in Lebanon and these financial statements do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

Had such adjustments and disclosures been determined and made, many elements and related disclosures in the accompanying financial statements for the year ended 31 December 2020 and the year ended 31 December 2019 would have been materially different. The effects of the resolution of these uncertainties on the carrying amounts of the assets and the related disclosures in these financial statements have not been determined. Our opinion for the year ended 31 December 2019 was modified for the same reasons explained above.

2- Further, as disclosed in Note 2 to the financial statements, the Bank did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying financial statements for the year ended 31 December 2020. Had the Bank applied IAS 29, many elements in the accompanying financial statements, including the comparative financial information for the year ended 31 December 2019, would have been materially different and also the disclosures for the year ended 31 December 2020 and 31 December 2019 would have been materially affected. The effects on the financial statements arising from the failure to apply IAS 29 have not been determined.

3- The events and conditions and, practices that would not qualify as normal course of business in a non-crisis environment described in Note 1 and the matters described in paragraph 1 above, affect the financial position, liquidity, solvency and profitability of the Bank, expose the Bank to increased litigation and regulatory risks and represent events and conditions that may cast significant doubt on the Bank's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Bank's ability to continue as a going concern. Our opinion for the year ended 31 December 2019 was modified for the same reasons explained above.

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Emphasis of a matter

We draw attention to Notes 1 and 31 to the financial statements, which describe that the Bank's assets and liabilities denominated in foreign currency are translated to Lebanese Pounds as per the accounting policy on foreign currency transactions, at the official exchange rate prevailing at the end of the reporting period and that the actual realization and settlement of these assets and liabilities, respectively, could be materially different.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended 31 December 2020. Except for the matters described in the *"Basis for Adverse Opinion"* section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of management and the audit committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement 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 sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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Auditors' responsibilities for the audit of the financial Statements (continued)

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Ernst & Young

22 June 2021
Beirut, Lebanon

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 LL million	2019 LL million
Interest and similar income	3	**7,528**	18,942
Interest and similar expense	4	**(1,904)**	(3,836)
Net interest income		**5,624**	15,106
Fee and commission income		**1,553**	2,011
Fee and commission expenses		**(638)**	(359)
Net fee and commission income	5	**915**	1,652
Loss on sale of financial instruments at amortized cost	15	**(2,249)**	(3,196)
Net loss on derivative financial instruments	30	**(1,210)**	-
Net gain from foreign exchange	6	**159**	764
Other operating income	7	**682**	556
Total operating income		**3,921**	14,882
Net impairment loss on financial assets	29	**(17,073)**	-
Net operating (loss) income		**(13,152)**	14,882
Personnel expenses	8	**(8,173)**	(8,887)
Administrative and other operating expenses	9	**(4,513)**	(4,088)
Depreciation of property and equipment	16	**(670)**	(722)
Total operating expenses		**(13,356)**	(13,697)
(Loss) profit before tax		**(26,508)**	1,185
Income tax expense	10	**-**	(241)
Net (loss) profit for the year		**(26,508)**	944
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(26,508)**	944

The attached notes 1 to 34 form part of these financial statements.

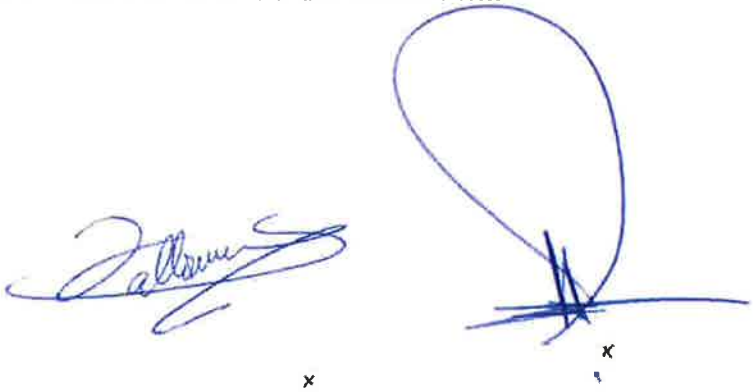
National Bank of Kuwait (Lebanon) SAL

STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 LL million	2019 LL million
Assets			
Cash and balances with the Central Bank	11	**158,093**	160,255
Due from banks and financial institutions	12	**116,097**	147,838
Due from head office, branches and affiliates	13	**27,838**	14,487
Loans and advances to customers at amortized cost	14	**41,126**	87,980
Loans and advances to related parties at amortized cost	26	**65**	984
Financial assets at amortized cost	15	**20,391**	49,815
Property and equipment	16	**10,695**	11,056
Other assets	17	**1,353**	1,415
Total assets		**375,658**	473,830
Liabilities and shareholders' equity			
Liabilities			
Due to the Central Bank	11	**1,357**	-
Due to head office, branches and affiliates	13	**15,166**	37,897
Derivative financial instruments	18	**-**	9
Customers' deposits at amortized cost	19	**266,879**	326,598
Related parties' deposits at amortized cost	26	**4,067**	3,426
Other liabilities	20	**8,317**	4,891
Provisions for risks and charges	21	**3,670**	4,229
Total liabilities		**299,456**	377,050
Shareholders' equity			
Share capital – common shares	22	**40,020**	40,020
Cash contribution by a shareholder	22	**17,819**	8,909
Non-distributable reserves (legal and obligatory)	23	**10,543**	13,429
Distributable reserves	24	**34,328**	33,478
Net results of the financial year – (loss) profit		**(26,508)**	944
Total shareholders' equity		**76,202**	96,780
Total liabilities and shareholders' equity		**375,658**	473,830

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 10 June 2021.



The attached notes 1 to 34 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

			Non-distributable reserves (legal and obligatory)				Distributable free reserve			
	Share capital common shares LL million	*Cash contribution by a shareholder LL million*	*Statutory reserve LL million*	*Reserve for capital increase LL million*	*General reserve LL million*	*Total LL million*	*General reserve LL million*	*Accumulated losses LL million*	*Results of the financial year -profit LL million*	*Total LL million*
Balance at 1 January 2020	40,020	8,909	4,989	3,419	5,021	13,429	33,478	-	944	96,780
Results of the financial year – profit	-	-	-	-	-	-	-	-	(26,508)	(26,508)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	(26,508)	(26,508)
Appropriation of 2019 profit	-	-	94	-	-	94	850	-	(944)	-
Non-distributable general reserves used for ECL	-	-	-	-	(2,980)	(2,980)	-	-	-	(2,980)
Cash contribution during the year (note 22)	-	8,910	-	-	-	-	-	-	-	8,910
Balance at 31 December 2020	**40,020**	**17,819**	**5,083**	**3,419**	**2,041**	**10,543**	**34,328**	**-**	**(26,508)**	**76,202**
Balance at 1 January 2019	40,020	-	4,989	3,419	7,005	15,413	31,845	(2,914)	4,729	89,093
Results of the financial year – profit	-	-	-	-	-	-	-	-	944	944
Total comprehensive income for the year	-	-	-	-	-	-	-	-	944	944
Appropriation of 2018 profit	-	-	-	-	182	182	1,633	2,914	(4,729)	-
Non-distributable general reserves used for ECL	-	-	-	-	(2,166)	(2,166)	-	-	-	(2,166)
Cash contribution during the year (note 22)	-	8,909	-	-	-	-	-	-	-	8,909
Balance at 31 December 2019	40,020	8,909	4,989	3,419	5,021	13,429	33,478	-	944	96,780

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 LL million	2019 LL million
OPERATING ACTIVITIES			
Net (loss) profit before income tax		**(26,508)**	1,185
Adjustments for:			
Depreciation of property and equipment	16	**670**	722
Write-back of provision for retirement benefits obligation	21	**(68)**	(374)
Net impairment loss on financial assets		**17,073**	-
Net provision for risks and charges	21	**27**	126
Loss on sale of financial assets at amortized cost		**2,249**	3,196
Loss on sale of property and equipment		**3**	9
		(6,554)	4,864
Working capital changes:			
Cash and balances with the Central Bank – Maturities of more than 3 months		**251**	29,907
Financial assets at amortized cost		**7,185**	
Loans and advances to customers at amortized cost		**41,439**	17,514
Loans and advances to related parties at amortized cost		**919**	(164)
Other assets		**38**	(161)
Customers' deposits at amortized cost		**(59,701)**	8,228
Related parties' deposits at amortized cost		**623**	1,604
Other liabilities		**3,667**	(2,740)
Cash (used in) from operations		**(12,133)**	59,052
Provisions for risks and charges paid	21	**(515)**	(543)
Taxes paid	10	**(241)**	(1,059)
Net cash (used in) from operating activities		**(12,889)**	57,450
INVESTING ACTIVITIES			
Purchase of financial assets at amortized cost		**-**	(3,000)
Purchase of property and equipment	16	**(312)**	(220)
Proceeds from redemption of financial assets at amortized cost		**-**	39,741
Proceeds from sale of financial assets at amortized cost		**6,796**	46,550
Net cash from investing activities		**6,484**	83,071
FINANCING ACTIVITIES			
Cash contribution by a shareholder		**8,910**	8,909
Due to the Central Bank		**1,357**	-
Due to head office, branches and affiliated – maturities of more than 3 months		**(22,725)**	(33)
Net cash (used in) from financing activities		**(12,458)**	8,876
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(18,863)**	149,397
Cash and cash equivalents at 1 January		**307,904**	158,507
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	**289,041**	307,904
OPERATING CASH FLOWS			
Interest received		**7,592**	20,551
Interest paid		**2,385**	4,222

The attached notes 1 to 34 form part of these financial statements.

1 CORPORATE INFORMATION

National Bank of Kuwait (Lebanon) SAL (the "Bank") is a shareholding company registered in Beirut, Lebanon. It was registered during 1963 under the name of RIF Bank SAL under commercial registration number 13188 and number 73 on the list of banks published by the Central Bank of Lebanon. In 1996, the name of the Bank was changed to National Bank of Kuwait (Lebanon) SAL. The Bank provides a full range of commercial banking activities. Its main branch is at Sanayeh and it operates through two branches.

National Bank of Kuwait S.A.K. owns directly and indirectly 72.66% of the Bank's shares. The main address of National Bank of Kuwait S.A.K. is P.O.Box 95 Safat 13001, Kuwait.

1.1 Macroeconomic environment

The Bank's operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crises as well as deep recession that have reached unprecedent levels. Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US 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 imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon and significantly reduced credit lines to companies and withdrawal of cash to private depositors, all of which added to the disruption the country's economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt and unemployment and poverty are rising fast and have reached unprecedent levels.

The difficulty in accessing foreign currencies lead to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 US$/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese pound, impacting intensely the purchasing power of the Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index. During 2020 in an attempt to control the high rise in prices and to compensate for the loss in the purchasing power of the Lebanese people, the Central Bank of Lebanon, through several circulars introduced the following measures:

(a) subsidized imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 US$/LL (the official exchange rate);
(b) introduced the Platform Rate, currently at 3,900 US$ / LL, to be used only in specific circumstances;
(c) subsidized imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate; and
(d) introduced exceptional measures for bank depositors to withdraw small amounts of cash in LL from their "local" foreign currency bank accounts at the Platform Rate, but up to limits set by the bank.

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and "local" foreign currency bank accounts and tossing Lebanon in hyperinflation and major economic collapse.

As a result of the unofficial capital controls, the multitude of exchange rates, the hyperinflation, and, the potential repercussions of the Lebanese Government's Financial Recovery Plan on (i) the banks operating in Lebanon, and (ii) the Lebanese people's net worth, their local businesses and their local bank accounts, the Lebanese market saw the need to differentiate between onshore assets and offshore assets, foreign currency bank accounts that are subject to unofficial capital controls and those that are not subject to capital controls, onshore liabilities and offshore liabilities. The need to differentiate is mostly due to the difference in the perceived real economic value. Hence the birth of new terms in the Lebanese market, such as "lollars" to designate local US Dollars bank accounts that are subject to unofficial capital controls and "fresh funds", to designate foreign currency cash and foreign currency bank accounts which are free from capital controls (as they are sourced from foreign currency cash and / or from incoming transfers from abroad starting).

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

Lebanese Government's Financial Recovery Plan
On 30 April 2020, the council of ministers approved the Lebanese Government's Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated FX mismatches, embedded losses and resizing the banking sector (see below); a strong phased fiscal adjustment, focused on improving tax compliance, streamlining expenditure and reforming the public sector; growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; ambitious anti-corruption strategy; environmental reform; and international financial assistance to close the large external financing gap and finance the development of the infrastructures that are necessary to support the growth of the economy. On 10 August 2020, the Lebanese government resigned following the massive explosion at the Beirut Port. As of today, the Plan has not been implemented.

Restructuring of the banking sector:
As per the Plan, the preliminary global estimation of losses will result from the restructuring of the Central Bank of Lebanon (BdL) and impairment of assets held at BdL; the impact of the economic crisis and the impairment of the banks' loans portfolio; and the government debt restructuring and impairment of the government securities portfolio.

An Asset Quality Review will be conducted by an international institution to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalization needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

- Conversion into their bank's capital. New legal provisions will be needed
- Conversion into tradable equity stakes in a newly established special Recovery Fund that will receive the proceeds of the ill-gotten assets tracking and recovery program
- Conversion into long dated, subordinated bank obligation with no or limited interest

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring/ recapitalization plans including mergers with or acquisitions by other domestic and foreign banks to address their structural funding issues and generate synergies. The new capital base will be rebuilt via capital raising in the market and a conversion of some deposits into shares. Fresh liquidity will be provided to the reorganized banking sector.

Conducting a full restructuring of the banking sector will require new legal powers for the government and the relevant supervisory bodies.

Alternative plan submitted by association of banks in Lebanon
The Association of Banks in Lebanon (ABL) has released its alternative plan for economic and financial recovery in Lebanon.

ABL's Contribution to the Government's Financial Recovery Plan rests on an IMF-supported two-pillar approach with a clearly phased and timely implementation: (i) An immediate balanced and effective immediate response addressing the external financing needs and putting the medium-term fiscal and debt path on a sustainable footing, while avoiding an internal debt default that would have damaging consequences on the Lebanese people and on confidence; (ii) The launch of long-overdue structural reforms in the coming months, to promote sustainable and inclusive growth as the result of economic diversification.

The ABL plan envisages a settlement mechanism that would include several features for capitalization and settlement of government debt to BDL.

The ABL approach deploys five strategic priorities allowing a prompt and sustainable economic and financial recovery in the wake of expected IMF (or 'the Fund') Balance of Payments ('BoP') support requested on May 1st by the Government:
I. A debt restructuring process that minimizes the damaging consequences to the nearly 3 million domestic bank depositors and to the economy as a whole, while priming the economy for a faster recovery and higher medium-term potential growth

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

Alternative plan submitted by association of banks in Lebanon (continued)
II. A sustainable medium-term fiscal strategy leaving a significant fiscal space to finance much-needed social measures, including an Expanded Social Safety Net to fight poverty and concrete steps against social exclusion
III. A monetary and exchange rate unification policy that addresses the massive external imbalances while containing considerable inflationary pressures and avoiding hyperinflation
IV. A financial sector restructuring based on an orderly banking sector approach on a case-by-case basis when needed, upgrading regulatory matters to international standards
V. A strong diversification strategy of the economy as well as much-needed structural reforms including anticorruption measures, a lower cost of Doing Business in the country as well as reforms that reduce the size of the informal sector

Beirut port explosion
On 4 August 2020, a large explosion occurred at the port of the city of Beirut, causing casualties and material damages across the capital of Lebanon. The Beirut Port explosion affected several individuals and businesses and contributed to further deterioration of the economic environment and disruption of businesses, leading to further Expected Credit Losses charges.

COVID-19
The COVID-19 pandemic has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. It has caused disruption to businesses and economic activities and increased the level of uncertainty in domestic and international markets. Regulators and governments across the globe have introduced schemes to provide financial support to parts of the economy most impacted by the COVID-19 pandemic.

In the case of the Bank, similar to many entities for which the operating environment is mostly in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing. COVID-19 is adding up to the severity of the economic downturn from a commercial, regulatory and risk perspective.

Future impairment charges, already subject to high uncertainty and volatility due to the severe crisis in Lebanon, may be subject to further uncertainty and volatility as a result of the COVID-19 pandemic and related containment and lock down measures. More adverse economic scenarios and macro-economic variables, with higher probabilities are considered for Expected Credit Losses financial impact.

It remains unclear how this will evolve, and the Bank continues to monitor the situation closely. Any and all such events mentioned above will add up to the already material adverse prospects on the Bank's business, financial condition, results of operations, prospects, liquidity, capital position.

1.2 Regulatory environment
During 2020 and up to the date of the approval of the financial statements, The Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the Platform Rate. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations.

- Basic Circular 150 issued on 9 April 2020 exempting Banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020 subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals …)

- Basic Circular 151 issued on 21 April 2020 concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per the Platform Rate up to limits set by the bank. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Intermediate Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to current economic situation as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

- Intermediate circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% loss rates respectively). The circular however changed the requirement for the recognition of expected credit losses in the banks' financial statements from applying at a "Maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "Minimum". In addition, the circular introduced the following measures:
  - Allowing banks to constitute the expected credit losses on exposures to Lebanese Sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.
  - Allowing banks are requested not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of COVID-19 pandemic, then the Bank must immediately downgrade the loan classification and staging to stage 3 (default).
  - Requesting from banks to finalize the assessment of the future financial position of its customers by 31 December 2020 and to estimate expected credit losses based on this assessment and recognize the financial impact in the statement of income for the year ended 31 December 2020.
  - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.
  - Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their common equity tier one capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The deadline imposed to complete the capital increase is 31 December 2020. Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.
  - Changed the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier II), subject to approval of the Central Bank of Lebanon on the revaluation gain.
  - Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. However, under exceptional circumstances, the buffer my be drawn down during 2020 and 2021, however its must be rebuilt, progressively, starting 2022, by at 0.75% each year, to reach the minimum required of 2.5% by end of 2024.
  - Prepare and present to the Central Bank of Lebanon, a comprehensive plan, for rectifying non-compliances with the regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL) as well as other losses or provisions that the bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortized over a period of 3 years (2022-2024 by 25% yearly).

- Basic circular 154 issued on 27 August 2020, aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019 and rectifying any non-compliance with regulatory ratios and banking regulations. The circular introduced mainly the following measures:
  - Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in intermediate circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the bank to their normal levels as at before October 2019.
  - Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than US$ 500,000 or their equivalent in other foreign currencies, to deposit in 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019 and without a minimum threshold.
  - Requesting banks to maintain current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.
  - Requesting banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalization needs, if any, to the Central Bank of Lebanon's Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.

- Intermediate circular 568 issued on 26 August 2020 allowing the payments of retail loans denominated in US dollars in Lebanese Pounds based on the official exchange rate of LBP 1,507.5 per US dollar subject to the following conditions:
  - The client should be a Lebanese resident;
  - The client should not have a bank account denominated in US dollars; and
  - The housing loans granted to the client should not exceed US$800,000 while the aggregate amount of retail loans should not exceed US$100,000 per client.

- Intermediate circular 575 issued on 5 November 2020 states that Banks should book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2 capital based on the following binding conditions:
  - The Central Bank of Lebanon's central council investigating and approving at the expense of the concerned bank the validity of the revaluation process;
  - Raising the capital before December 31, 2021 as follows:
    - Add a maximum of one third of the revaluation gains under Tier 2 capital;
    - Increase common equity Tier 1 capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier 2 capital.
    - The revaluation and capital increase must be completed before 31 December 2021.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank

Assets and liabilities in foreign currency, transactions in foreign currency and foreign currency translation reserves, regardless of whether they are onshore or offshore, were reflected in these financial statements at the official exchange rate of 1,507.5 US$ / LL in line with, IAS 21 due to the lack of an alternative legal exchange mechanism. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, the Platform Rate, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently

undertaken in the Lebanese territory. Accordingly, translation of all assets and liabilities and foreign currency transactions at the official exchange rate does not always represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. In the absence of an alternative legal exchange mechanism, we are unable to estimate the effects on these financial statements and these financial statements do not include adjustments from any future change in the official exchange rate and / or alternative legal exchange mechanism. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognized in these financial statements once the revamping of the peg and / or a new legal exchange mechanism is implemented by the Lebanese Government. FX currency mismatch is detailed in Note 33.6 to these financial statements.

As at 31 December 2020, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortized cost are recorded in these financial statements at the loss rates mentioned in Central Bank of Lebanon intermediate circular 567. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese Sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the financial statements once the debt restructuring has been defined conclusively by the Government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of BdL and Lebanese government and the recognized loss allowances, as well as their staging are detailed in Note 33.2 to the financial statements.

Until the above uncertainties are resolved, the Bank is continuing its operations as performed since 17 October 2019 and in accordance with the applicable laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Bank to litigations that are dealt with on a case by case basis when they occur. Meanwhile, the Bank is exerting extended efforts to (a) strengthen its capitalization, (b) review the quality of its private loans portfolio and deleveraging it as appropriate and downsizing its balance sheet, (c) build up its offshore liquidity and reduce its commitments and contingencies to correspondent banks outside Lebanon, and (d) managing operating profitability.

Once the above uncertainties are resolved, a pro-forma balance sheet of the Bank will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the hyperinflation, the effects of the restructuring of the government debt securities and the effects of the restructuring of the Central Bank of Lebanon.

On 11 February 2021 the Bank received a letter from the Central Bank of Lebanon, referring to Basic Circular 154 and Intermediate Circular 567, and requesting the Bank to submit, by 28 February 2021 a roadmap that sets out the following:

- The Bank's overall strategy for the years 2020 – 2022
- The Bank's assessment of its portfolio of private loans and expected credit losses as at 31 December 2020, as well as total realized and expected losses for the year 2020
- The amount of expected credit losses that have not been translated to foreign currencies
- The capital needs to comply with the minimum required capital and the measures and sources that will be relied upon to cover the shortfall
- The Bank's strategy with respect to its investments in foreign banks and branches
- The mechanism to rectify any non-compliance with banking circulars

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

- The measures that will be taken to rectify non-compliances with articles 154 and 153 of the code of money and credit, if any
- The measures that will be taken to attract foreign liquidity or "fresh funds" and to cover the liquidity needs onshore and offshore

The roadmap was submitted to the Central Bank of Lebanon on 22 March 2021 and sets out mainly the matters below. However, a reasonable and credible roadmap can only be achieved once the above uncertainties are resolved and the amount of recapitalization needs is accurately determinable.

Strengthening capitalization and covering capital shortfalls
Banks operating in Lebanon are required to (a) increase the regulatory capital, through contributions in foreign currencies, in an amount equivalent to 20% of the Common Equity Tier 1 as at 31 December 2018 before 31 December 2020 (a capital enhancement measure required by Article 6 bis of decision 6939 (as amended by Central Bank of Lebanon's Intermediate Circular 567) – to be achieved by all banks in Lebanon regardless of whether or not their capital levels are adequate) and (b) to cover the capital shortfall, if any, to meet the minimum required regulatory capital ratios as determined by the circulars of the Central Bank of Lebanon.
The Bank has complied with the requirements of Intermediate Circular 567 (refer to Note 22).

Build up offshore liquidity
The Bank has complied with Article 2 of Central Bank of Lebanon Basic Circular 154 (see above) that requires the Bank to have an account with an offshore correspondent bank, free from any obligation (liquidity abroad) and exceeding 3% of the Bank's total deposits in foreign currencies on 31 July 2020. Additionally, pursuant to this article the Bank has sent letters to all of customers who have transferred abroad, between 1 July 2017 and the date of the circular, more than US$ 500,000 or their equivalent in other foreign currencies, inciting them to deposit in 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount.

Maintain operating profitability
The Bank has assessed its ability to return to maintain operating income to cover operating expenses and believes that the Bank will be able to realize profits within the coming 3 years due to its strategy that focuses mainly on the below:

Managing internal and external liquidity
Management believes that the Bank's good governance in the past allowed the Bank to face all the adverse conditions has occurred in Lebanon since October 2019 and allowed the Bank to maintain its internal and external liquidity. This governance strategy will be maintained for the coming years and will allow the Bank to maintain its liquidity, noting the small size of the Bank, depositors' confidence in the Bank and the absence of any external commitments.

Managing loans portfolio
Management will maintain its diligent and attentive strategy in managing its portfolio of loans taking into consideration the internal adverse conditions in Lebanon.

Continuity
Management believes that the risks surrounding the Bank are low noting the conservative risk strategy of the Bank and its small portfolio of shares and bonds and similar financial assets. The parent Bank, National Bank of Kuwait S.A.K., which has oversight over the Bank and determines its operating strategies, is following a conservative policy with regard to the Bank's activities in Lebanon and is closely monitoring its operations. Management believes that this relationship between the Bank and its Parent which has an excellent reputation and good financial position, provides the Bank with the ability to overcome all risks and difficulties facing the banking sector in particular and the Lebanese economy in general.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivative financial instruments.

The financial statements have been presented in millions of Lebanese Lira (LL million).

As of 31 December 2020, all conditions have been met for the Bank's financial statements for the year ended such date to incorporate the inflation adjustment provided under IAS 29 "Financial Reporting in Hyperinflationary Economies". IFRS requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy be restated into the current purchasing power at the end of the reporting period. Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyperinflationary economy to apply the standard at the same date. In order to achieve uniformity as to the identification of an economic environment of this kind, IAS 29 provides certain guidelines: a cumulative three-year inflation rate exceeding 100% is a strong indicator of hyperinflation, but also qualitative factors, such as analysing the behaviour of population, prices, interest rates and wages should also be considered.

The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 155% and 133%, respectively, as of November 2020. Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after 31 December 2020.

Therefore, entities whose functional currency is the Lebanese Pound, should restate their financial statements to reflect the effects of inflation in conformity with IAS 29. Such restatement shall be made as if the Lebanese economy have always been hyperinflationary; using a general price index that reflects the changes in the currency's purchasing power.

The effects of the application of IAS 29 are summarized below:

(a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.

(b) In summary, the restatement method under IAS 29 is as follows:

i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.

ii. Non-monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non-monetary items.

iii. Non-monetary items carried at historical cost or at the current value of a date prior to the end of the reporting period are restated using coefficients that reflect the variation recorded in the general level of prices from the date of acquisition or revaluation to the closing date of the reporting period, then comparing the restated amounts of such assets with the relevant recoverable values. Depreciation charges of property, plant and equipment and amortization charges of intangible assets recognized in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.

iv. Income and expenses are restated from the date when they were recorded, except for those profit or loss items that reflect or include in their determination the consumption of assets carried at the purchasing power of the currency as of a date prior to the recording of the consumption, which are restated based on the date when the asset to which the item is related originated; and except also those profit or loss items originated from comparing two measurements expressed in the purchasing power of currency as of different dates, for which it is necessary to identify the compared amounts, restate them separately, and compare them again, but with the restated amounts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

v. At the beginning of the first year of application of the restatement method of financial statements in terms of the current measuring unit, the prior-year comparatives are restated in terms of the measuring unit current at the end of the current reporting period, the equity components, except for reserved earnings and undistributed retained earnings, shall also be restated, and the amount of undistributed retained earnings shall be determined by the difference between net assets restated at the date of transition and the other components of opening equity expressed as indicated above, once all remaining equity components are restated.

As of the date of the accompanying financial statements, for the reasons described below, management is temporarily unable of applying the above mentioned standard nor is it able of quantifying the effect that the application of IAS 29 would have on the presented financial statements, but management estimates such effects to be significant. This situation must be taken into account when interpreting the information reported by the Bank in the accompanying financial statements including its statement of financial position, income statement, statement of comprehensive income and cash flow statement.

The Bank uses the official exchange rate of 1,507.5 US$/LBP to translate balance and transactions in foreign currencies. Since the emergence of the parallel market (which we estimate fluctuates between 8,000 and 9,000 US$/LBP) and since the introduction by the Central Bank of Lebanon of the "Platform Rate" of approximately 3,900 US$/LBP (refer to Marco-economic environment below), the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. Accordingly, since there is no official exchange or payment mechanism for transactions and balances denominated in foreign currencies, the Bank is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the financial statements. (Note 33.6 discloses the assets, liabilities and income statement accounts in foreign currencies, segregating between those that are onshore and those that are offshore).

In addition, IAS 29 requires the use of a general price index to reflect changes in purchasing power. Most governments issue periodic price indices that vary in their scope, but all entities that report in the currency of the same economy should use the same index. The consumer price index is normally closest to the concept of the general price index required by IAS 29 because it is at the end of the supply chain and reflects the impact of prices on the general population's consumption basket. The weights allocated for the calculation of the consumer price index impact the consumer price index and might need to be revisited based on the new behaviour of the population as a result of the crisis facing Lebanon.

Such matters impede a proper application of IAS 29 as any application under the current circumstances would not provide more relevant financial statements to management, shareholders and other users.

The Bank is currently assessing the date at which it will apply IAS 29. The application of IAS 29 is very complex and requires the Bank to develop new accounting software and processes, internal controls and governance framework. Based on the Bank's preliminary assessment, the absence of an official legal payment and settlement mechanism that would reflect in a reasonable manner, the expected cash flows for assets and liabilities in foreign currencies, and the absence of an accurate reflection of price changes impede the useful information that would have been otherwise produced from the application of IAS 29. Accordingly, the Bank has postponed the application of IAS 29 and incurring costs for developing accounting processes and a governance framework until the Bank is comfortable that such application would provide the users with more relevant information.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Presentation of financial statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the risk management note.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 New and amended standards and interpretations
The Bank applied for the first time, certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The nature and the impact of each amendment is described below:

Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform – Phase 2*
The Bank has adopted early the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The Phase 2 reliefs will cease to apply once all changes have been made to financial instruments and hedging relationships, as required by the Reform.

Amendments to IFRS 3: *Definition of a Business*
The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Amendments to IAS 1 and IAS 8 *Definition of Material*
The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Bank.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Amendments to IFRS 16 *Covid-19 Related Rent Concessions*
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Bank.

2.3 Standards issued but not yet effective

Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform – Phase 2*
'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The Phase 2 reliefs will cease to apply once all changes have been made to financial instruments and hedging relationships, as required by the Reform.

As at 31 December 2020, the Bank has not transitioned a financial instrument / hedging instruments from an IBOR to risk-free-rate (RFR) and as such did not early adopt IBOR Reform Phase 2. The Bank applies the reliefs of IBOR Reform Phase 1 to its hedging relationships that are directly affected by interest rate benchmark reform, and assumes that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of the Reform. The Bank is currently assessing the impact of transitioning from an IBOR to RFR and the amendments of IBOR Reform Phase 2 on its hedging relationships and financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IFRS 9 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation OR The amendments are not expected to have a material impact on the Bank.

Property, Plant and Equipment: Proceeds before Intended Use – *Amendments to IAS 16*
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

Reference to the Conceptual Framework – *Amendments to IFRS 3*
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively and are not expected to have a material impact on the Bank.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

Onerous Contracts – Costs of Fulfilling a Contract – *Amendments to IAS 37*
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments OR The amendments are not expected to have a material impact on the Bank.

2.4 Summary of significant accounting policies

Foreign currency translation
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the income statement.

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

Financial instruments – Initial recognition

(i) Date of recognition
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes 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.

(ii) Initial measurement of financial instruments
Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the cases of financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss, the transaction costs are recognised as revenue or expense when the instrument is initially recognised.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss
When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Bank immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in the income statement. In cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments - classification and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

A debt instrument is measured at amortised cost if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

All other financial assets are classified as measured at fair value through profit or loss.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business Model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to Management. However, in some circumstances, it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models. Thus, an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets. Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "net gain on sale of financial assets at amortised cost" in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

The SPPI Test
As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value though profit and loss.

Financial Assets at Amortised Cost
Balances with the Central Bank, Due from Banks and Financial Institutions, Due to Banks and Financial Institutions, and Loans and Advances to Customers and Related Parties – at Amortised Cost
These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "interest and similar income" in the income statement. The losses arising from impairment are recognised in the income statement in "net impairment losses on financial assets".

Financial Assets at Fair Value through Profit or Loss
Included in this category are those debt instruments that do not meet the conditions in "Debt instruments at amortized cost" above, and debt instruments designated at fair value through profit or loss upon initial recognition.

Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Financial Liabilities (other than financial guarantees, documentary credits and undrawn credit lines) – Classification and Measurement
Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for:
- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

Due to banks and financial institutions, customers' deposits and related parties deposits
After initial measurement, due to banks and financial institutions, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derivatives recorded at fair value through profit or loss
The Bank uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognized in "net gain on financial assets at fair value through profit and loss" in the income statement.

Embedded Derivatives
An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

(a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
(b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(d) the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss

Financial Guarantees, Documentary Credits and Undrawn Credit Lines
The Bank issues financial guarantees, documentary credits and undrawn credit lines.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL provision. The premium received is recognised in the income statement in "Net fee and commission income" on a straight line basis over the life of the guarantee.

Undrawn credit lines and documentary credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, documentary credits and undrawn credit lines, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

Reclassification of financial assets
The Bank reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes when significant to the Bank's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

De-recognition of Financial Assets and Financial Liabilities

Financial Assets

(i) Derecognition due to substantial modification of terms and conditions

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below).

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

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

(ii) Derecognition other than for substantial modification

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
- The Bank retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients;
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset; or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of Financial Assets and Financial Liabilities (continued)

Financial Assets (continued)

(ii) Derecognition other than for substantial modification (continued)

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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 the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability 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. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the income statement.

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

Impairment of Financial Assets

(i) Overview of the ECL Principles

The Bank records the allowance for expected credit losses based on forward-looking approach for all loans and other financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, or the debt instrument is determined to have low credit risk at the reporting date, in which cases, the allowance is based on the 12 months' expected credit loss (12mECL).

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply the low credit risk exemption to any other financial instruments. The Bank's policies for determining if there has been a significant increase in credit risk are set out in the risk management notes.

The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetime ECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in the risk management notes.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

(i) Overview of the ECL Principles (continued)

The Bank has established a policy to perform an assessment, on a quarterly basis, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in the risk management notes.

Based on the above process, the Bank groups its financial instruments into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1
When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2
When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3
Loans considered credit-impaired (as outlined in the risk management notes). The Bank records an allowance for the Lifetime ECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(ii) The calculation of ECLs

The Bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

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

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside, and a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECLs for undrawn loan commitments are assessed as set out in the notes. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below.

The mechanics of the ECL method are summarised below:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

(ii) The calculation of ECLs (continued)

Stage 1
The 12mECL is calculated as the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2
When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the lifetime ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3
For loans considered credit-impaired (as defined in the risk management notes), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan Commitments and Letters of Credit
When estimating lifetime ECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within "Provisions for risks and charges".

Financial Guarantees
The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within "Provisions for risks and charges".

(iii) Credit cards and other revolving facilities
The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

(iv) Forward Looking Information

The Bank incorporates forward-looking information in to both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken in to consideration include, but are not limited to gross domestic product, and unemployment rates and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Bank's various credit enhancements are disclosed in the risk management notes.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Bank occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realised is recognised in the income statement under "other operating income" or "other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "reserves appropriated for capital increase" in the following financial year.

Write offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment losses on financial assets".

Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

Forborne and modified loans (continued)
When the loan has been renegotiated or modified but not derecognised, it will be tagged as default and therefore reclassified under stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month moratorium period. In order for the loan to be reclassified out of the forborne category, the customer has to meet the moratorium period and meet the scheduled payments (all on current basis) for at least 1 year, as determined by the Bank.

If modifications are substantial, the loan is derecognised, as explained above.

Fair Value Measurement
The Bank measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

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

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

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

Management determines the policies and procedures for both recurring and non-recurring fair value measurement. At each reporting date, Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting
For the purposes of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
(b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the income statement.

In relation to cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity to the extent that the hedge is effective and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included as part of the cost of the related asset or liability.

For those derivatives which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. For fair value hedges, if the relationship does not meet the hedge effectiveness criteria, the Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in shareholders' equity and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

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.

Revenue Recognition
The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and Similar Income and Expense

The effective interest rate
Interest income and expense are recognized in the income statement applying the EIR method for all financial instruments measured at amortised cost.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Revenue Recognition (continued)

(i) Interest and Similar Income and Expense (continued)

Interest income and interest expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortized cost of the instrument. If the financial asset cures and is no longer credit-impaired, the Bank reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss includes interest on financial assets at amortised cost.

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

Interest income or expense on financial instruments measured at amortized cost are presented in the income statement under "Interest and similar income.

(ii) Fee and Commission Income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee Income Earned from Services That Are Provided over a Certain Period of Time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised as revenues on expiry.

Cash and cash equivalents

Cash and cash equivalents comprise of those balances whose original maturities are three months or less from the date of acquisition: cash and balances with the Central Bank, due from banks and other financial institutions, deposits with head office, branches and affiliates, deposits due to banks and other financial institutions, deposits due to head office, branches and affiliates, and treasury bills.

Property and equipment

Property and equipment are stated at cost. Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Property and equipment (continued)

Buildings	50 years
Furniture, fixtures and equipments	From 4 to 12.5 years
Leasehold improvements and decorations	5 years
Vehicles	4 years
Computer equipment	5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

Fixed assets taken in recovery of debt
The Bank occasionally acquires real estate in settlement of certain loans and advances. Such real estate is stated at the lower of the amount of the related loans and advances and the current fair value of such assets based on the instructions of the Control Authorities. Gains or losses on disposal, and revaluation losses, are recognized in the income statement for the year.

Customers' deposits
All customer deposits are carried at the fair value of the consideration received, less amounts repaid.

Taxation

(i) Current tax
Taxation is provided for in accordance with the fiscal regulations in Lebanon.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

(ii) Deferred tax
Deferred tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2 SIGNIFICANT ACCOUNTING POLICIES (continued

2.4 Summary of significant accounting policies (continued)

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

Retirement benefits obligations
The retirement benefits obligations are provided for based on 8.5% of the employees' salaries. The benefits are calculated upon completion of 20 years of services, or when the employee reaches retirement age, or resigns permanently, on the basis of the last salary multiplied by years of service. The Bank is obliged to pay the difference between the paid contribution (calculated at 8% basis) and the provisions for retirements benefits payable to the National Social Security Fund. The Bank provides for employees' retirement benefit obligations on this basis.

Fiduciary assets
Assets held in a fiduciary capacity are not treated as assets of the Bank and are recorded as off financial position items.

2.5 Significant accounting judgements and estimates
In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgement and estimates are as follows:

Going concern
Notwithstanding the events and conditions disclosed in Note 1, these financial statements have been prepared based on the going concern assumption. The Board of Directors believes that they are taking all the measures available to maintain the viability of the Bank and continue its operations in the current business and economic environment.

Hedge Accounting
The Bank's hedge accounting policies include an element of judgement and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Bank's hedge accounting policies and the sensitivities most relevant to risks are disclosed in notes.

The Bank has early adopted *Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.* The amendments provide temporary reliefs which enable the Bank's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

Determining the lease term of contracts with renewal and termination options
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., a change in business strategy).

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position, cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 31.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Impairment Losses on Financial Instruments
The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

During 2020, the key areas that involved a higher degree of judgement and where significant assumptions were made in the estimation of expected credit losses are described in Note 1.

Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset 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 the 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. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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 Bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement. Impairment losses relating to goodwill cannot be reversed in future periods.

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Business model

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

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets

The Bank exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

3 INTEREST AND SIMILAR INCOME

	2020 ***LL million***	*2019* *LL million*
Loans and advances to customers at amortized cost	**4,175**	6,357
Balances with the Central Bank	**2,009**	3,490
Financial assets at amortized cost	**610**	5,129
Due from banks and financial institutions	**591**	3,349
Due from head office, branches and affiliates	**60**	289
Loans and advances to related parties at amortized cost	**83**	328
	7,528	18,942

Withholding taxes amounting to LL 261 million were deducted from interest and similar income (2019: LL 432 million).

4 INTEREST AND SIMILAR EXPENSE

	2020 ***LL million***	*2019* *LL million*
Deposits from customers and other credit balances at amortized cost	**1,218**	2,536
Term loan from a related party	**686**	1,300
	1,904	3,836

5 NET FEE AND COMMISSION INCOME

	2020 ***LL million***	*2019* *LL million*
Commission income		
Loans and advances to customers	**91**	105
Credit cards	**82**	288
Letters of credit, guarantees and acceptances	**31**	31
Commissions on real estate	**29**	90
Special banking services	**3**	4
Other services	**1,317**	1,493
	1,553	2,011
Commission expenses		
Commissions and other fees	**(324)**	(66)
Commission of clearance room and accounts management	**(263)**	(244)
Credit cards	**(51)**	(49)
	(638)	(359)
Net commission income	**915**	1,652

6 NET GAIN FROM FOREIGN EXCHANGE

This account represents the profit generated from exchange operations that are mainly in Euros, Kuwaiti Dinars and US Dollars.

7 OTHER OPERATING INCOME

	2020 ***LL million***	*2019* *LL million*
Write-back of provision for retirement benefits obligations (Note 21)	**68**	374
Write-back of provisions	**163**	77
Net gain on sale of property and equipment	**-**	1
Other income	**451**	104
	682	556

8 PERSONNEL EXPENSES

	2020 ***LL million***	*2019* *LL million*
Salaries and wages	**6,037**	5,855
Social security contribution	**704**	729
Contractual employees' salaries	**296**	545
Other employees' benefits	**1,136**	1,758
	8,173	8,887

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2020 ***LL million***	*2019* *LL million*
Expenses and computer services	**1,087**	979
Taxes and fees	**988**	518
Professional fees	**370**	444
Maintenance and repairs	**334**	360
Electricity, fuel and telecommunication expenses	**341**	333
Cleaning	**259**	248
Guarding fees	**219**	212
Guarantee of deposits fee	**176**	176
Subscriptions	**177**	140
Insurance fees	**54**	47
Rent	**80**	86
Office supplies	**45**	80
Building expenses	**84**	85
Travel, transport and similar expenses	**33**	52
Net provision for risks and charges (Note 21)	**27**	126
Other expenses	**239**	202
	4,513	4,088

10 INCOME TAX EXPENSE

The relationship between income tax expense and the accounting profit is as follows:

	2020 ***LL million***	*2019* *LL million*
Net (loss) profit before income tax	**(26,508)**	1,185
Non-deductible expenses and non-taxable income in determining taxable profit:		
Net provision for risks and charges non-deductible	**-**	49
Other non-deductible taxes	**180**	196
Write-back of provisions previously taxable	**(3,950)**	(176)
Other expenses non- tax deductible	**323**	162
ECL Provision	**20,782**	-
	17,335	231
Taxable (loss) income	**(9,173)**	1,416
Effective income tax rate	**17%**	17%
Income tax expense	**-**	241

The movement of income tax expense is as follows:

	2020 ***LL million***	*2019* *LL million*
Balance at 1 January	**273**	1,091
Tax paid during the year	**(241)**	(1,059)
Provisions for the year	**-**	241
Balance at 31 December (Note 20)	**32**	273

11 CASH AND BALANCES WITH THE CENTRAL BANK

	2020 **LL million**	*2019* LL million
Cash on hand	**5,708**	6,483
Balances due from the Central Bank of Lebanon		
Current accounts	**60,208**	59,937
Time deposits	**93,991**	94,478
	154,199	154,415
Less: Allowance for expected credit losses (Note 29)	**(1,814)**	(643)
	152,385	153,772
	158,093	160,255
Balances due to the Central Bank of Lebanon		
Term borrowings	**1,357**	-

Current accounts at the Central Bank include an amount of LL 10,960 million (2019: LL 11,731 million) to cover the monetary regulatory reserve requirement on Lebanese Lira deposits, according to Lebanese banking laws and regulations.

Time deposits at the Central Bank include one placement of US$ 31 million with zero interest rate to cover the regulatory reserve of 15% on foreign currency deposits and amounting to LL 35,292 million. The placement matures on 11 January 2021 (2019: two placements of US$ 19 million and US$ 12 million with interest rates of 1.589 % and 1.734% respectively to cover the regulatory reserve of 15% on foreign currency deposits and amounting to LL 43,718 million).

Term borrowings correspond to a loan granted by the Central Bank of Lebanon on 2 July 2020 for an amount of US$ 999,960 (equivalent to LL million 1,507). The loan bears no interest and is to be settled in monthly installments starting on 31 July 2020 and ending on 30 June 2025.

12 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2020 **LL million**	*2019* LL million
Current accounts	**12,299**	15,110
Time deposits	**104,018**	132,728
	116,317	147,838
Less: Allowance for expected credit losses (note 29)	**(220)**	-
	116,097	147,838

13 HEAD OFFICE, BRANCHES AND AFFILIATES

	2020 ***LL million***	*2019* *LL million*
Due from head office, branches and affiliates		
Current accounts	**3,765**	5,441
Time deposits	**24,120**	9,046
	27,885	14,487
Less: Allowance for expected credit losses (note 29)	**(47)**	-
	27,838	14,487
Due to head office, branches and affiliates		
Current accounts	**68**	74
Term loan	**15,098**	37,823
	15,166	37,897

14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2020 ***LL million***	*2019* *LL million*
Gross commercial loans	**25,766**	47,809
Gross consumer loans	**23,880**	43,276
	49,646	91,085
Less: Allowance for expected credit losses (note 29)	**(8,520)**	(3,105)
	41,126	87,980

15 FINANCIAL ASSETS AT AMORTIZED COST

	2020 ***LL million***	*2019* *LL million*
Lebanese sovereign		
Lebanese eurobonds - quoted	**31,658**	40,986
Lebanese treasury bills - unquoted	**-**	6,969
	31,658	47,955
Other sovereign		
US treasury bills - quoted	**2,983**	2,907
Effect of hedging interest rate risk (Note 30)	**-**	9
	34,641	50,871
Less: Allowance for expected credit losses (Note 29)	**(14,250)**	(1,056)
	20,391	49,815

During the year 2020, the Bank sold Lebanese eurobonds with a principal value of LL 9,045 million (2019: LL 49,746 million) which resulted in a loss of LL 2,249 million recorded in the statement of comprehensive income (2019: LL 3,196 million).

16 PROPERTY AND EQUIPMENT

	Advances on purchase of fixed assets LL million	*Land LL million*	*Buildings LL million*	*Furniture, fixtures and equipment LL million*	*Leasehold improvements and decorations LL million*	*Vehicles LL million*	*Computer equipment LL million*	*Total LL million*
Cost:								
At 1 January 2020	57	1,478	15,394	2,776	925	210	3,021	23,861
Additions	-	-	-	22	2	-	288	312
Disposals	-	-	-	-	(10)	-	-	(10)
Transfers	(57)	-	-	-	-	-	57	-
At 31 December 2020	**-**	**1,478**	**15,394**	**2,798**	**917**	**210**	**3,366**	**24,163**
Depreciation:								
At 1 January 2020	-	-	6,768	2,579	862	185	2,411	12,805
Charge for the year	-	-	308	81	32	25	224	670
Relating to disposals	-	-	-	-	(7)	-	-	(7)
At 31 December 2020	**-**	**-**	**7,076**	**2,660**	**887**	**210**	**2,635**	**13,468**
Net carrying amount:								
At 31 December 2020	**-**	**1,478**	**8,318**	**138**	**30**	**-**	**731**	**10,695**

	Advances on purchase of fixed assets LL million	*Land LL million*	*Buildings LL million*	*Furniture, fixtures and equipment LL million*	*Leasehold improvements and decorations LL million*	*Vehicles LL million*	*Computer equipment LL million*	*Total LL million*
Cost:								
At 1 January 2019	351	1,478	15,394	2,770	907	210	2,553	23,663
Additions	-	-	-	12	18	-	190	220
Disposals	-	-	-	(6)	-	-	(16)	(22)
Transfers	(294)	-	-	-	-	-	294	-
At 31 December 2019	57	1,478	15,394	2,776	925	210	3,021	23,861
Depreciation:								
At 1 January 2019	-	-	6,460	2,500	823	140	2,173	12,096
Charge for the year	-	-	308	85	39	45	245	722
Relating to disposals	-	-	-	(6)	-	-	(7)	(13)
At 31 December 2019	-	-	6,768	2,579	862	185	2,411	12,805
Net carrying amount:								
At 31 December 2019	57	1,478	8,626	197	63	25	610	11,056

17 OTHER ASSETS

	2020 LL million	*2019 LL million*
Deferred expenses	**300**	348
Prepaid expenses	**442**	579
Staff receivables	**302**	232
Sundry debtors	**145**	90
Exchange difference on structural foreign exchange position	**156**	156
Stamps	**17**	10
	1,362	1,415
Less: Allowance for expected credit losses (Note 29)	**(9)**	-
	1,353	1,415

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2020 ***LL million***	*2019* *LL million*
Negative fair value on swap contracts (Note 30)	-	9

19 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2020 ***LL million***	*2019* *LL million*
Current accounts	**198,324**	237,474
Time deposits	**5,403**	8,691
Saving accounts	**62,982**	79,781
Accrued interest payable	**170**	652
	266,879	326,598

Customers' deposit accounts include blocked accounts amounting to LL 5,082 million (2019: LL 8,032 million) representing cash collateral pledged in favor of the Bank as a guarantee for the credit facilities and guarantees issued in favor of the customers.

20 OTHER LIABILITIES

	2020 ***LL million***	*2019* *LL million*
Sundry creditors	**5,522**	2,692
Accrued expenses	**2,493**	1,627
Income tax liability (Note 10)	**32**	273
National Social Security Fund	**84**	85
Other taxes	**186**	214
	8,317	4,891

21 PROVISIONS FOR RISKS AND CHARGES

	2020 ***LL million***	*2019* *LL million*
Retirement benefits obligation	**1,676**	2,259
Provision for risks and charges	**1,994**	1,967
Provision for ECL on financial guarantees and commitments	**-**	3
	3,670	4,229

21 PROVISIONS FOR RISKS AND CHARGES (continued)

The movement in the provision of retirement benefits obligation included in the statement of financial position is as follows:

	2020 ***LL million***	*2019* *LL million*
Provision at 1 January	**2,259**	3,176
Written-back during the year (Note 7)	**(68)**	(374)
Paid during the year	**(515)**	(543)
Provision at 31 December	**1,676**	2,259

The movement of the provisions for risks and charges during the year was as follows:

	2020 ***LL million***	*2019* *LL million*
Balance at 1 January	**1,967**	1,841
Additional provisions during the year (Note 9)	**27**	126
Balance at 31 December	**1,994**	1,967

22 SHARE CAPITAL

a Common shares

The authorized, issued and fully paid share capital as of 31 December 2020 comprised of 5,800,000 shares of nominal value LL 6,900 per share (2019: the same).

b Cash contribution by a shareholder

On 4 November 2019, the Central Bank of Lebanon issued Intermediary Circular 532 requiring Lebanese banks to increase its regulatory capital by 20% of the Common Equity Tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, as follows:

a) 10% by 31 December 2019
b) Another 10% by 30 June 2020

On 20 December 2019, the General Assembly approved the cash contribution contract with the major shareholder by which the Bank increased its regulatory capital by 20% through obtaining cash contribution from the major shareholder of the Bank amounting to US$ 11,820,000 to be paid in two equal installments by 21 December 21 2019 and 30 June 2020 respectively, in accordance with the following conditions:

- The shareholder is committed to retain the contribution during the lifetime of the Bank;
- The shareholder commits to cover any loss using his contribution according to the provisions of article 134 of the Money and Credit Act;
- The shareholder has the option to use this contribution in case of a capital increase; and
- The interest on contribution is based on one-year Libor, and subject to the approval of the general assembly of shareholders. The interest payment is to be made from the profits and subject to the approval of the Banking Control Commission.

The Banking Control Commission ascertained the payment of the first instalment totaling US$ 5,910,000 (equivalent to LL million 8,909) made during 2019, and the Central Bank of Lebanon gave its final approval on this contribution. The second instalment totaling US$ 5,910,000 (equivalent to LL million 8,909) was made on 23 June 2020, and was approved by the Banking Control Commission and the Central Bank of Lebanon on 19 August 2020. Interest expense on cash contribution by the major shareholder amounted to LL million 32 during 2020 (2019: nil).

23 NON-DISTRIBUTABLE RESERVES

1. Statutory reserve

As required by Article 132 of the Lebanese Code of Money and Credit, 10% of the net profit after tax should be transferred to a statutory reserve. This reserve is not distributable. The Bank appropriated LL 94 million from prior year net profit to this reserve during the current year (2019: nil).

2. General reserves

According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to General Reserves, the balance of Reserves for General Banking Risks and General Reserves for Loans and Advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Bank's equity and is not available for distribution. During the year ended 31 December 2019, and in accordance with the resolution of the ordinary general assembly of shareholders dated 24 June 2019, the Bank appropriated to this reserve the amount of LL 182 million from the results of the financial year ended 31 December 2018. Also, during the year 2019, the Bank used part of the non-distributable general reserves, amounting to LL 2,166 million, to cover the additional allowances for expected credit losses for the year ended 31 December 2019 (Note 29).

During the year 2020, the Bank used part of the non-distributable general reserves, amounting to LL 2,980 million, to cover the additional allowances for expected credit losses for the year ended 31 December 2020 (Note 29).

24 DISTRIBUTALBE RESERVES – GENERAL RESERVE

After all the transfers to non-distributable reserves, the remaining balance can be distributed.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows consist of the following:

	2020 ***LL million***	*2019* *LL million*
Cash and balances with the Central Bank	**144,907**	145,647
Due from banks and financial institutions	**116,317**	147,844
Due from head office, branches and affiliates	**27,885**	14,487
Due to head office, branches and affiliates	**(68)**	(74)
	289,041	307,904

26 RELATED PARTY TRANSACTIONS

Related parties of the Bank include subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

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

Entities under common directorship are defined as those entities over which the Bank's key management personnel have similar authority and responsibility to those they have in the Bank.

Terms and conditions of transactions with related parties

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

26 RELATED PARTY TRANSACTIONS (continued)

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

	2020	
	Outstanding balance LL million	***Interest income (expense) LL million***
Key Management Personnel and their Family members		
Net loans and advances*	**65**	**25**
Deposits	**949**	**(2)**
Banks under common directorships		
Debit balances	**10,565**	**57**
Term loan	**15,075**	**(684)**
Credit balances	**68**	-
Shareholders		
Debit balances	**17,319**	**3**
Deposits	**2,023**	-
Guarantees received	**8,645**	-
Other related parties		
Deposits	**1,087**	-
Board Members		
Deposits	**8**	-

*Included in net loans and advances allowance for expected credit losses amounting to LL 7 million as at 31 December 2020 (2019: same) (note 29).

Interest expense on cash contribution by the major shareholder amounted to LL million 32 during 2020 (2019: nil).

	2019	
	Outstanding balance LL million	*Interest income (expense) LL million*
Key Management Personnel and their Family members		
Net loans and advances*	984	39
Deposits	502	-
Banks under common directorships		
Debit balances	1,742	150
Term loan	37,823	(1,300)
Credit balances	74	-
Shareholders		
Debit balances	12,745	139
Deposits	2,082	(1)
Guarantees received	8,796	-
Other related parties		
Deposits	754	(1)
Board Members		
Deposits	88	-

The Bank entered into swap deals with NBK Kuwait, and as result the Bank paid the received fixed interest and earned the floating interest amounting to LL 567 million and LL 770 million respectively for year ended 31 December 2020 (2019: LL 3,090 million and LL 3,260 million respectively). The notional amount for the interest rate swap with National Bank of Kuwait SAK as at 31 December 2020 amounted to LL nil million (2019: LL 40,703 million).

27 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments
To meet the financial needs of customers, the Bank enters into various irrevocable commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. The letters of credit and guarantees (including the enhanced credits) and acceptances commit the Bank payments on behalf of customers if the customer fails to meet its obligations in accordance with the terms of the contract. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities.

	2020 ***Customers*** ***LL million***	*2019* *Customers* *LL million*
Guarantees and contingent liabilities		
Financial guarantees	**1,621**	898
Commitments		
Undrawn credit lines (revocable)	**11,975**	3,070
Other commitments	**30**	30
	12,005	3,100
	13,626	3,998

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Non financial guarantees provided include mainly performance guarantees and retention guarantees.

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

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any financial loss to the Bank.

Claims resulting from Judicial disputes are detailed as follows:

	2020 ***LL million***	*2019* *LL million*
Claims' value raised against the Bank	-	294

Other contingencies
The Bank's books are still subject to review by the Department of Income Tax for the years 2016 to 2020 (inclusive).

The Bank's books are still subject to review by the National Social Security Fund for the years 2002 to 2020 (inclusive).

Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

28 ASSETS UNDER MANAGEMENT

The Bank has fiduciary assets as follows:

	2020 ***LL million***	*2019* *LL million*
Lebanese treasury bills denominated in LL	**643**	1,100
Lebanese eurobonds	**10,477**	10,477
Financial notes	**2,438**	5,735
	13,558	17,312

The above Lebanese treasury bills, eurobonds and financial notes are stated at nominal value.

29 EXPECTED CREDIT LOSSES

	2020								
	Cash and balances with the Central Bank LL million	***Due from banks an financial institutions LL million***	***Due from head office, branches and affiliates LL million***	***Loans and advances to customers at amortised cost LL million***	***Loans and advances to related parties at amortised cost LL million***	***Financial assets at amortised cost LL million***	***Other assets LL million***	***Financial guarantees and other commitments LL million***	***Total LL million***
Balance as of 1 January	**643**	**-**	**-**	**3,105**	**7**	**1,056**	**-**	**3**	**4,814**
Impairment loss for the year*	**1,171**	**220**	**47**	**5,415**	**-**	**13,194**	**-**	**6**	**20,053**
Transfers	**-**	**-**	**-**	**-**	**-**	**-**	**9**	**(9)**	**-**
Balance as at 31 December	1,814	220	47	8,520	7	14,250	9	-	24,867

	2019					
	Cash and balances with the Central Bank LL million	*Loans and advances to customers at amortised cost LL million*	*Loans and advances to related parties at amortised cost LL million*	*Financial assets at amortised cost LL million*	*Financial guarantees and other commitments LL million*	*Total LL million*
Balance as of 1 January	322	1,368	9	911	6	2,616
Impairment loss for the year*	321	1,705	-	145	-	2,171
Recoveries for the year*	-	-	(2)	-	(3)	(5)
Write-offs	-	32	-	-	-	32
Balance as at 31 December	643	3,105	7	1,056	3	4,814

*Net impairment loss of provision for allowance ECL amounting to LL 2,980 million are accounted for under "Non-distributable reserves" in the statement of changes in equity for the year ended 31 December 2020 (Note 23).

30 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amount indicates the volume of transactions outstanding at year-end and is not indicative of either the market risk or credit risk.

	2020			*2019*		
	Positive fair values LL million	***Negative fair value LL million***	***Total Notional amount LL million***	*Positive fair values LL million*	*Negative fair value LL million*	*Total Notional amount LL million*
Derivatives used for hedging purposes:						
Interest rate swaps	-	-	-	-	9	40,703

30 DERIVATIVES (continued)

Derivative Financial Instruments Held for Hedging Purposes
The Bank uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transaction, as well as strategic hedging against overall financial position exposures.

Swaps are contractual agreements between two parties to exchange streams of payments over time based on a specified notional amount, in relation to movements in a specified underlying index such as an interest rate or foreign currency rate. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency.

The Bank has entered into the above interest rate swaps to hedge the treasury bills in US Dollars (Eurobonds) at amortized cost and revalued at fair value to hedge interest rate risk. During the year ended 31 December 2020, the relationship no longer met the hedge effectiveness criteria, and accordingly the Bank discontinued the hedge accounting. Hedge ineffectiveness amounted to LL (000) 1,210 for the year ended 31 December 2020 and was recognised in the statement of comprehensive income statement under "Net loss on derivative financial instruments". During the year ended 31 December 2019, no ineffectiveness from these hedges was recognised in profit or loss as the hedging instrument and the hedged item were closely aligned. There were no accumulated amounts of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Bank as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1
Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2
Financial instruments classified as Level 2 have been valued using models whose most significant inputs are derived directly or indirectly from observable market data. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

Valuation technique using significant unobservable inputs – Level 3
Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

Effects of exchange rates on the fair value measurements:
The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Pound in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Pounds at the official exchange rate of 1,507.5 US$ / LL in accordance with IAS 21, due to the lack of an alternative legal exchange mechanism. However, in light of the high deviation between the parallel market rate and the official exchange rates, management estimates that the amounts reported in this note in LL do not reflect a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated from the realization of such assets or the payment of such liabilities at the date of the financial statements. In the absence of an alternative legal exchange mechanism, management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2. Classification within Levels 1 and 2 do not take into consideration the "lack of observability" of the exchange rate.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

Fair value measurement hierarchy of the Bank's financial assets and liabilities carried at fair value:

	2020 *Level 2* *LL million*	*2019* *Level 2* *LL million*
Financial liabilities		
Derivative financial instruments		
Interest rate swaps	-	10

No transfers between levels were made during the years 2020 and 2019.

Valuation techniques used for material classes of financial assets and liabilities categorized within Level 2:

Derivatives
Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at the fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like swaps, that use only observable market data and require little management judgement and estimation. Availability of observable market prices and inputs varies depending on products and markets and is prone to changes based on specific events and general conditions in the financial markets.

31.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

Comparison of carrying and fair values for financial assets and liabilities not held at fair value:
The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Bank financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

Financial assets and liabilities concentrated in Lebanon
These assets consist of balances with the Central Bank of Lebanon, Lebanese government securities, loans and advances to customers and related parties and customer deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in Note 1 and the unprecedent levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities. Accordingly, the table below does not include fair value disclosures for these assets and liabilities.

Fair value measurement hierarchy of the Bank's financial assets and liabilities for which fair value is disclosed:

31 December 2020

	Nominal Amount	*Fair Value*			
	LL million	*Level 1 LL million*	*Level 2 LL million*	*Level 3 LL million*	*Total LL million*
Financial Assets					
Cash and balances with the Central Bank	**5,708**	**5,708**	-	-	**5,708**
Due from banks and financial institutions	**116,097**	-	**116,097**	-	**116,097**
Due from head office, branches and affiliates	**27,838**	-	**27,838**	-	**27,838**
Loans & advances to customers at amortized cost	**41,126**	-	**38,827**	-	**38,827**
Loans & advances to related parties at amortized cost	**65**	-	**65**	-	**65**
Financial assets at amortized cost	**20,391**	**4,074**	-	**4,257**	**8,331**
	211,225	**9,782**	**182,827**	**4,257**	**196,866**
Financial liabilities					
Due to head offices, branches and affiliates	**15,166**	-	**15,166**	-	**15,166**
Customers' deposits at amortized cost	**266,879**	-	**266,879**	-	**266,879**
Related parties deposits at amortized cost	**4,067**	-	**4,067**	-	**4,067**
	286,112	-	**286,112**	-	**286,112**

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE (continued)

Fair value measurement hierarchy of the Bank's financial assets and liabilities for which fair value is disclosed (continued):

31 December 2019

	Nominal Amount	*Fair Value*			
	LL million	*Level 1 LL million*	*Level 2 LL million*	*Level 3 LL million*	*Total LL million*
Financial Assets					
Cash and balances with the Central Bank	6,478	6,478	-	-	6,478
Due from banks and financial institutions	147,838	-	147,838	-	147,838
Due from head office, branches and affiliates	14,487	-	14,487	-	14,487
Loans & advances to customers at amortized cost	27,093	-	-	20,703	20,703
Loans & advances to related parties at amortized cost	1	-	-	-	-
Financial assets at amortized cost	2,904	2,904	-	-	2,904
	198,801	9,382	162,325	20,703	192,410
Financial liabilities					
Due to head offices, branches and affiliates	37,897	-	37,897	-	37,897
Customers' deposits at amortized cost	225,941	-	221,355	-	221,355
Related parties deposits at amortized cost	195	-	195	-	195
	264,033	-	259,447	-	259,447

Valuation techniques used for material classes of financial assets and liabilities categorized within Level 2 and Level 3:

Deposits with banks, the Central Bank, and with the Head office, branches and affiliates
For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

Government bonds
The Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities and credit spreads.

Loans and advances to customers
For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during 2019 with similar remaining maturities and to counterparties with similar credit quality.

Deposits from banks and customers
In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities.

32 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarizes the maturity profile of the Bank's assets and liabilities based on contractual arrangements. The contractual maturities of the effective maturities relating to current customer deposits accounts amounting to LL 202,792 million (2019: LL 241,190 million) could differ.

31 December 2020

	Less than One year LL million	*More than One year LL million*	*Total LL million*
ASSETS			
Cash and balances with the Central Bank	**143,093**	**15,000**	**158,093**
Due from banks and financial institutions	**116,097**	**-**	**116,097**
Due from head office, branches and affiliates	**27,838**	**-**	**27,838**
Loans and advances to customers at amortized cost	**14,165**	**26,961**	**41,126**
Loans and advances to related parties at amortized cost	**30**	**35**	**65**
Financial assets at amortized cost	**-**	**20,391**	**20,391**
Property and equipment	**-**	**10,695**	**10,695**
Other assets	**1,353**	**-**	**1,353**
TOTAL ASSETS	**302,576**	**73,082**	**375,658**
LIABILITIES			
Due to the Central Bank	**-**	**1,357**	**1,357**
Due to head office, branches and affiliates	**15,166**	**-**	**15,166**
Customers' deposits at amortized cost	**266,879**	**-**	**266,879**
Related parties' deposits at amortized cost	**4,067**	**-**	**4,067**
Other liabilities	**8,317**	**-**	**8,317**
Provisions for risks and charges	**3,670**	**-**	**3,670**
TOTAL LIABILITIES	**298,099**	**1,357**	**299,456**
NET	**4,477**	**71,725**	**76,202**

31 December 2019

	Less than One year LL million	*More than One year LL million*	*Total LL million*
ASSETS			
Cash and balances with the Central Bank	145,049	15,206	160,255
Due from banks and financial institutions	147,838	-	147,838
Due from head office, branches and affiliates	14,487	-	14,487
Loans and advances to customers at amortized cost	57,208	30,765	87,973
Loans and advances to related parties at amortized cost	100	948	1,048
Financial assets at amortized cost	15,999	33,816	49,815
Property and equipment	-	11,056	11,056
Other assets	1,415	-	1,415
TOTAL ASSETS	382,096	91,791	473,887
LIABILITIES			
Due to head office, branches and affiliates	37,897	-	37,897
Customers' deposits at amortized cost	326,270	328	326,598
Related parties' deposits at amortized cost	3,426	-	3,426
Other liabilities	4,891	-	4,891
Provisions for risks and charges	4,229	-	4,229
TOTAL LIABILITIES	376,713	328	377,041
NET	5,383	91,463	96,846

33 RISK MANAGEMENT

33.1 INTRODUCTION

The Bank manages its business activities within risk management guidelines as set by the board of directors. The Bank recognizes the role of the board of directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that the ultimate responsibility for establishment of an effective risk management culture and practices lies within the Board of Directors as does the setting up of Bank's risk appetite and tolerance levels. The Board of Directors delegates through its Country Risk Committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank to the head of risk management, who is directly appointed by the board of directors, in coordination with executive management at the Bank.

The Bank is exposed to credit risk, liquidity risk, market risk, operational risks and other risks such as concentration risk, reputation risk, political risk and business/strategic risk.

The Country Risk Committee has the mission to periodically (1) review and assess the risk management function of the Bank, (2) review the adequacy of the Bank's capital and its allocation and (3) review risk limits and reports and make recommendations to the board of directors.

The Country Risk Committee undertakes its responsibilities and helps executive management in controlling and actively managing the Bank overall risk. The Committee mainly ensures that:

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

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

In respect of Basel 2 capital adequacy ratio calculations, risk management started, since December 2004, to issue internal reports to executive management and the board revealing multiple scenarios of capital adequacy calculations for credit and market risks under the standardized approaches and for operational risk under the basic indicator approach.

33.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. In addition, the Bank obtains securities where appropriate.

Credit risk is monitored by the credit risk department of the Bank's Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

The Bank has also established authorization structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measured by his internal rating. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross–settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honors its obligation but the counterparty fails to deliver the counter–value.

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

Credit–related commitments and financial guarantee risks
The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Bank to similar risks as loans and are mitigated by the same assessment processes and policies.

Impairment assessment
The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies*.

33.2.1 Definition of default and cure
The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

Any credit impaired or stressed facility that has been restructured would also be considered in default.

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

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

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

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

As a part of a qualitative assessment of whether a customer is in default, the Bank carefully considers whether the events listed above should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

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

33.2.2 The Bank's internal rating and PD estimation process
In managing its portfolio, the Bank utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Bank uses industry-standard rating tools. The tool provides the ability to analyze a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Bank also uses external ratings by recognised rating agencies for externally-rated portfolios.

The standard requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Bank's estimate of the future asset quality. The through the cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Bank converts the TTC PDs to a point-in-time (PIT) PD term structures using appropriate models and techniques.

Loans
With respect to the retail portfolio, and in view of low historical defaults and low transition in flow rates for this portfolio, Probability of Default (PD) and Loss Given Default (LGD) have not been assessed separately, and a single loss rate has been assessed through a normalized non-seasonal weighted average provision index with ECL calculated for each facility.

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

Impairment assessment (continued)

33.2.2 The Bank's internal rating and PD estimation process (continued)

Central Banks and Sovereigns
For central banks, sovereigns and financial institutions' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. With respect to exposures to Central Bank of Lebanon and Lebanese Sovereign, Intermediate Circular 567 issued on 26 August 2020 altered the directives for the determination of expected credit losses, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% loss rates respectively). The circular however changed the requirement for the recognition of expected credit losses in the banks' financial statements from applying at a "Maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "Minimum". Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese Sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures and accordingly, as applicable, the loss rates mentioned in Intermediate Circular 567 were adopted by the Bank for recording ECL on exposures to Lebanese Sovereign and to the Central Bank of Lebanon.

33.2.3 Exposure at default
Exposure at default (EAD) represents the amount which the obligor will owe to the Bank at the time of default. The Bank considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate repayment assumptions whereas for credit portfolio, credit conversion factors are applied to estimate the future drawdowns.

33.2.4 Loss given default
LGD is the magnitude of the likely loss if there is a default. The LGD assessment is based on the history of recovery rates of claims against defaulted counterparties. It considers the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

33.2.5 Significant increase in credit risk
The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Bank assesses as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk. Retail facilities however, migrate to stage 2 based on days pat due movement and the IFRS 9 presumption of 30 days past due is rebuttable but not rebutted. The Bank considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Bank applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

Incorporation of forward-looking information

The Bank considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. Key economic variables include, but not limited to gross domestic product and unemployment rate. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgement in determination of ECL. The Bank employs statistical models to incorporate macro-economic factors on historical default rates. The Bank considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The ECL estimates have been assessed for sensitivity to changes to forecasts of macro-variables and also together with changes to the weights assigned to the scenarios. The impact of ECL is not material. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Geographical location analysis

The Bank controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location. The distribution of assets, liabilities and off-financial position items by geographic region and industry sector as of 31 December was as follows:

	2020		*2019*	
	Assets LL million	***Liabilities LL million***	*Assets LL million*	*Liabilities LL million*
Geographic region:				
Domestic (Lebanon)	**248,628**	**167,860**	297,978	234,428
Middle East countries	**94,552**	**128,092**	138,879	135,421
Europe	**14,596**	**1,289**	16,463	2,168
North America	**17,882**	**1,534**	20,510	3,171
Other	**-**	**681**	-	1,862
	375,658	**299,456**	473,830	377,050
Industry sector:				
Trading and manufacturing	**14,405**	**41,396**	49,163	56,373
Banks and financial institutions	**277,832**	**15,598**	372,395	37,897
Construction and real estate	**1,041**	**32,511**	1,376	37,178
Other	**82,380**	**209,951**	50,896	245,602
	375,658	**299,456**	473,830	377,050

Analysis of risk concentrations

Credit Quality and Maximum Exposure to Credit Risk Analysis

In managing its portfolio, the Bank utilizes rating and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not "impaired". The ultimate risk of possible financial loss on "Standard" quality is assessed to be higher than that for the exposures classified within the "High" quality range.

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

Analysis of risk concentrations (continued)

Credit Quality and Maximum Exposure to Credit Risk Analysis (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Balances with the Central Bank	-	-	**154,199**	**154,199**	-	154,415	-	154,415
Standard grade	-	-	-	-	-	*154,415*	-	*154,415*
Individually impaired	-	-	***154,199***	***154,199***	-	-	-	-
Due from banks and financial institutions	**116,317**	-	-	**116,317**	147,776	-	-	147,776
High grade	*116,317*	-	-	*116,317*	*126,966*	-	-	*126,966*
Standard grade	-	-	-	-	*20,810*	-	-	*20,810*
Due from head office, branches and affiliates	**27,885**	-	-	**27,885**	14,487	-	-	14,487
High grade	*27,885*	-	-	*27,885*	*14,487*	-	-	*14,487*
Financial assets at amortised cost	**2,983**	-	**31,658**	**34,641**	2,907	47,964	-	50,871
Lebanese sovereign								
Standard grade	-	-	-	-	-	*47,964*		*47,964*
Individually impaired		-	*31,658*	*31,658*	-		-	
Other sovereign								
High grade	*2,983*	-	-	*2,983*	*2,907*	-	-	*2,907*
Loans and advances to customers at amortised cost	-	**46,181**	**3,465**	**49,646**	-	88,987	2,566	91,553
Commercial	-							
Standard grade	-	*25,766*	-	*25,766*	-	*48,133*	-	*48,133*
Consumer								
Standard grade	-	*20,415*	-	*20,415*	-	*40,854*	-	*40,854*
Individually impaired	-	-	*3,465*	*3,465*	-	-	*2,566*	*2,566*
Loans and advances to related parties at amortised cost	-	**72**	-	**72**	-	991	-	991
Standard grade	-	*72*	-	*72*	-	*991*	-	*991*
Financial guarantees and other commitments	-	**13,626**	-	**13,626**	-	3,998	-	3,998
Financial guarantees								
Standard grade	-	*1,621*	-	*1,621*	-	*898*	-	*898*
Undrawn credit lines								
Standard grade	-	*11,975*	-	*11,975*	-	*3,070*	-	*3,070*
Other commitments								
Standard grade	-	*30*	-	*30*	-	*30*	-	*30*
Total	**147,185**	**59,879**	**189,322**	**396,386**	165,170	296,355	2,566	**464,091**

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

Financial Assets and ECLs by stage

The tables below presents an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2020 and 2019. The Bank does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				*Impairment allowance*				*Net*
31 December 2020	***Stage 1 LL million***	***Stage 2 LL million***	***Stage 3 LL million***	***Total LL million***	***Stage 1 LL million***	***Stage 2 LL million***	***Stage 3 LL million***	***Total LL million***	***exposure LL million***
Balances with the Central Bank	-	-	**154,199**	**154,199**	-	-	**1,814**	**1,814**	**152,385**
Due from banks and financial institutions	**116,317**	-		**116,317**	**220**	-	-	**220**	**116,097**
Due from head office, banks and affiliates	**27,885**	-	-	**27,885**	**47**	-	-	**47**	**27,838**
Loans and advances to customers at amortized cost	-	**46,181**	**3,465**	**49,646**	-	**5,055**	**3,465**	**8,520**	**41,126**
Commercial	-	***25,766***	-	***25,766***	-	***2,435***	-	***2,435***	***23,331***
Consumer	-	***20,415***	***3,465***	***23,880***	-	***2,620***	***3,465***	***6,085***	***17,795***
Loans and advances to related parties at amortized cost	-	72	-	72	-	7	-	7	65
Financial assets at amortized cost	**2,983**	-	**31,658**	**34,641**	-	-	**14,250**	**14,250**	**20,391**
Financial guarantees and other commitments	-	**13,626**	-	**13,626**	-	-	-	-	**13,626**
Total	**147,185**	**59,879**	**189,322**	**396,386**	**267**	**5,062**	**19,529**	**24,858**	**371,528**

	Gross exposure				*Impairment allowance*				*Net*
31 December 2019	*Stage 1 LL million*	*Stage 2 LL million*	*Stage 3 LL million*	*Total LL million*	*Stage 1 LL million*	*Stage 2 LL million*	*Stage 3 LL million*	*Total LL million*	*exposure LL million*
Balances with the Central Bank	-	154,415	-	154,415	-	643	-	643	153,772
Due from banks and financial institutions	147,776	-	-	147,776	-	-	-	-	147,776
Due from head office, banks and affiliates	14,487	-	-	14,487	-	-	-	-	14,487
Loans and advances to customers at amortized cost	-	88,987	2,566	91,553	-	650	2,455	3,105	88,448
Commercial	-	*48,133*	-	*48,133*	-	*280*	-	*280*	*47,853*
Consumer	-	*40,854*	*2,566*	*43,420*	-	*370*	*2,455*	*2,825*	*40,595*
Loans and advances to related parties at amortized cost	-	991	-	991	-	7	-	7	984
Financial assets at amortized cost	2,907	47,964	-	50,871	3	1,053	-	1,056	49,815
Financial guarantees and other commitments	-	3,998	-	3,998	-	3	-	3	3,995
Total	165,170	296,355	2,566	464,091	3	2,356	2,455	4,814	459,277

33 RISK MANAGEMENT (continued)

33.2 CREDIT RISK (continued)

Collateral and other credit enhancements

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

Management monitors the market value of collateral in order to request additional collateral in case of a decline in market value and to estimate the recoverable amount during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

Letters of credit / guarantees:

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

Real estate

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

Analysis of maximum exposure to credit risk and collateral and other credit enhancements

The following table shows maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2020						
	Maximum exposure LL million	*Cash collateral and margins LL million*	*Letters of guarantees LL million*	*Real estate guarantees LL million*	*Personal guarantees LL million*	*Other guarantees LL million*	*Net credit exposure LL million*
Balances with the Central Bank	**158,093**	-	-	-	-	-	**158,093**
Due from banks and financial institutions	**116,097**	-	-	-	-	-	**116,097**
Due from head office, branches and affiliates	**27,838**	-	-	-	-	-	**27,838**
Loans and advances to customers at amortized cost:	**41,126**	**1,321**	**647**	**12,705**	**1,564**	**7,754**	**17,135**
Commercial loans	**23,103**	-	**647**	-	**1251**	**4,070**	**17,135**
Consumer loans	**18,023**	**1,321**	-	**12,705**	**313**	**3,684**	-
Loans and advances to related parties at amortized cost	**65**	-	-	-	-	-	**65**
Financial assets at amortized cost	**20,391**	-	-	-	-	-	**20,391**
Financial guarantees	**1,621**	-	-	-	-	-	**1,621**
Undrawn credit lines	**11,975**	-	-	-	-	-	**11,975**
Other commitments	**30**	-	-	-	-	-	**30**
Total	**377,236**	**1,321**	**647**	**12,705**	**1,564**	**7,754**	**353,245**
Utilized collateral		**1,321**	**647**	**12,705**	**1,564**	**7,754**	**23,991**
Surplus of collateral before undrawn credit lines		**2,564**	**6,815**	**10,999**	**20,533**	**10,106**	**51,017**
Total collateral		**3,885**	**7,462**	**23,704**	**22,097**	**17,860**	**75,008**

	2019						
	Maximum exposure LL million	*Cash collateral and margins LL million*	*Letters of guarantees LL million*	*Real estate guarantees LL million*	*Personal guarantees LL million*	*Other guarantees LL million*	*Net credit exposure LL million*
Balances with the Central Bank	160,255	-	-	-	-	-	160,255
Due from banks and financial institutions	147,838	-	-	-	-	-	147,838
Due from head office, branches and affiliates	14,487	-	-	-	-	-	14,487
Loans and advances to customers at amortized cost:	87,980	3,359	7,598	32,002	11,576	7,813	25,632
Commercial loans	47,536	-	7,598	2,653	9,954	3,310	24,021
Consumer loans	40,444	3,359	-	29,349	1,622	4,503	1,611
Loans and advances to related parties at amortized cost	984	-	-	683	-	99	202
Financial assets at amortized cost	49,815	-	-	-	-	-	49,815
Financial guarantees	898	-	-	-	-	-	898
Undrawn credit lines	3,070	-	-	-	-	-	3,070
Other commitments	30	-	-	-	-	-	30
Total	465,357	3,359	7,598	32,685	11,576	7,912	402,227
Utilized collateral		3,359	7,598	32,685	11,576	7,912	63,130
Surplus of collateral before undrawn credit lines		1,857	-	11,133	26,524	11,353	50,867
Total collateral		5,216	7,598	43,818	38,100	19,265	113,997

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL3,070 million as of 31 December 2020 (2019: LL 25,603 million).

33 RISK MANAGEMENT (continued)

33.3 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

Monitoring process

Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets, specially balances in foreign currencies with banks outside Lebanon, along with the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Bank's activities. On a daily basis, the Bank's Treasury prepares the report of highly liquid assets showing the change in the position compared to the previous day, and submits it to the management in Lebanon and Kuwait. Also, the Bank Treasury monitors daily the inflows and outflows in the main currencies used by the Bank.

Monthly

The Bank's Treasury prepares a monthly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Lebanon. Also, the Financial Controller prepares tables indicating compliance with internal and regulatory liquidity ratios for the Bank and submits them to the management in Lebanon.

Quarterly

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for the Bank on at least a quarterly basis.

Periodic

The liquidity position is assessed under various scenarios, including simulation of Bank-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

Moreover, annually, the bank carries out liquidity stress testing in its ICAAP with the support of the Group Risk in Kuwait.

As part of the Bank's procedures for monitoring and managing liquidity risk, there is a Bank funding crisis contingency plan, which sets out a response in the event of liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the management.

Liquidity ratios

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Bank. In Lebanon and since October 2019 events, the Bank monitors on a daily basis the ratio of available international foreign currency liquidity to international commitments over various time horizons.

The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Bank submitted to the regulators an adjusted calculation for meeting these requirements. The approval of the regulators for meeting this ratio is pending as of the date of these financial statements.

33 RISK MANAGEMENT (continued)

33.3 LIQUIDITY RISK (continued)

Sources of funding

Customer deposits were the main funding source of the Bank as at 31 December 2020 and 2019. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors.

The Bank stresses the importance of customers' deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of client's deposits.

	Loans to Deposits	
	2020	*2019*
	%	%
Year-end	**18.35**	30.63
Maximum	**28.63**	38.72
Minimum	**18.35**	30.63
Average	**25.05**	35.86

33.3.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations. As the special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities.

Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2020					
	Up to 1 month LL million	*1 to 3 months* LL million	*3 to 12 months* LL million	*1 to 5 years* LL million	*Over 5 years* LL million	*Total* LL million
Financial assets						
Cash and balances with the Central bank	**143,093**	-	-	**15,000**	-	**158,093**
Due from banks and financial institutions	**116,097**	-	-	-	-	**116,097**
Due from head office, branches, and affiliates	**27,838**	-	-	-	-	**27,838**
Loans and advances to customers at amortized cost	**13,881**	**30**	**254**	**10,011**	**16,950**	**41,126**
Loans and advances to related parties at amortized cost	**22**	**8**	-	-	-	**30**
Financial assets at amortized cost	-	-	-	**17,412**	**2,979**	**20,391**
Other assets	**1,353**	-	-	-	-	**1,353**
Total undiscounted financial assets	**302,284**	**38**	**254**	**42,423**	**19,929**	**364,928**
Financial liabilities						
Due to the Central Bank	-	-	-	**1,357**	-	**1,357**
Due to head office, branches and affiliates	**91**	-	**15,075**	-	-	**15,166**
Customer's deposits at amortized cost	**227,348**	**15,630**	**23,901**	-	-	**266,879**
Related parties' deposits at amortized cost	**4,067**	-	-	-	-	**4,067**
Total undiscounted financial liabilities	**231,506**	**15,630**	**38,976**	**1,357**	-	**287,469**

33 RISK MANAGEMENT (continued)

33.3 LIQUIDITY RISK (continued)

33.3.1 Analysis of financial assets and liabilities by remaining contractual maturities (continued)

	2019					
	Up to 1 month *LL million*	*1 to 3 months* *LL million*	*3 to 12 months* *LL million*	*1 to 5 years* *LL million*	*Over 5 years* *LL million*	*Total* *LL million*
Financial assets						
Cash and balances with the Central bank	145,150	202	909	19,580	-	165,841
Due from banks and financial institutions	147,838	-	-	-	-	147,838
Due from head office, branches, and affiliates	14,487	-	-	-	-	14,487
Loans and advances to customers at amortized cost	44,496	6,521	11,883	20,097	21,885	104,882
Loans and advances to related parties at amortized cost	231	20	89	473	296	1,109
Financial assets at amortized cost	256	2,493	15,875	35,686	3,668	57,978
Other assets	1,415	-	-	-	-	1,415
Total undiscounted financial assets	353,873	9,236	28,756	75,836	25,849	493,550
Financial liabilities						
Due to head office, branches and affiliates	91	182	38,542	-	-	38,815
Customer's deposits at amortized cost	267,903	29,877	29,092	344	-	327,216
Related parties' deposits at amortized cost	3,426	-	-	-	-	3,426
Total undiscounted financial liabilities	271,420	30,059	67,634	344	-	369,457

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	2020						
	On demand ***LL million***	***Up to 1 month*** ***LL million***	***1 to 3 months*** ***LL million***	***3 to 12 months*** ***LL million***	***1 to 5 years*** ***LL million***	***Over 5 years*** ***LL million***	***Total*** ***LL million***
Guarantees given to customers	**802**	**20**	**27**	**657**	**145**	-	**1,651**
Domestic currencies to deliver	-	**151**	-	-	-	-	**151**
Undrawn credit lines	**11,975**	-	-	-	-	-	**11,975**
Total	**12,777**	**171**	**27**	657	145	-	13,777

	2019						
	On demand *LL million*	*Up to 1 month* *LL million*	*1 to 3 months* *LL million*	*3 to 12 months* *LL million*	*1 to 5 years* *LL million*	*Over 5 years* *LL million*	*Total* *LL million*
Guarantees given to customers	142	14	23	678	71	-	928
Domestic currencies to deliver	-	303	-	-	-	-	303
Undrawn credit lines	3,070	-	-	-	-	-	3,070
Total	3,212	317	23	678	71	-	4,301

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

33.4 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchanges rates and equity prices. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a monthly basis by the Assets and Liabilities Committee in Kuwait.

33.5 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets, liabilities and financial instruments presented as off-financial position items. The Bank has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The Bank employs hedging activities, utilising derivative instruments to ensure positions are maintained within the established limits. The details of the Bank's hedging activities are disclosed in Note 30.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

33 RISK MANAGEMENT (continued)

33.5 INTEREST RATE RISK (continued)

IBOR Risk

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the Bank's management in Lebanon and Kuwait and is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations and Technology. The project is in progress and not finished yet due to the recent circumstances.

Interest Rate Sensitivity

The table below shows the sensitivity of interest income to 1% parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Bank expects the low interest rates environment to potentially prevail in Lebanon during 2021. The Bank is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through its various intermediate circulars. The change in interest income is calculated over a 1-year period.

Currency	*Changes in basis points*	*2020 Net profit (loss) LL million*	*2019 Net profit (loss) LL million*
Lebanese Lira	+10	18	80
US Dollars	+10	(106)	(80)

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

31 December 2020

	Up to 3 months LL million	*3 to 6 Months LL million*	*6 months to 1 year LL million*	*1 to 3 years LL million*	*Over 3 years LL million*	*Non interest Bearing Items LL million*	*Total LL million*
ASSETS							
Cash and balances with the Central Bank	32,000	-	-	-	15,000	111,093	158,093
Due from banks and financial institutions	103,798	-	-	-	-	12,299	116,097
Due from head office, branches and affiliates	24,073	-	-	-	-	3,765	27,838
Loans and advances to customers at amortized cost	21,429	88	92	2,773	16,744	-	41,126
Loans and advances to related parties at amortized cost	30	-	-	-	35	-	65
Financial assets at amortized cost	-	-	-	17,412	2,979	-	20,391
Property and equipment	-	-	-	-	-	10,695	10,695
Other assets	-	-	-	-	-	1,353	1,353
TOTAL	181,330	88	92	20,185	34,758	139,205	375,658
LIABILITIES							
Due to the Central Bank	-	-	-	-	1,357	-	1,357
Due to head office, branches and affiliates	-	-	15,075	-	-	91	15,166
Customers' deposits at amortized cost	44,763	12,264	11,610	-	-	198,242	266,879
Related parties' deposits at amortized cost	258	-	26	-	-	3,783	4,067
Other liabilities	-	-	-	-	-	8,317	8,317
Provisions for risks and charges	-	-	-	-	-	3,670	3,670
Equity	-	-	-	-	-	76,202	76,202
TOTAL	45,021	12,264	26,711	-	1,357	290,305	375,658
Total interest rate sensitivity gap	136,309	(12,176)	(26,619)	20,185	33,401	(151,100)	-
Accumulated total interest rate sensitivity gap	136,309	124,133	97,514	117,699	151,100	-	

33 RISK MANAGEMENT (continued)

33.5 INTEREST RATE RISK (continued)

31 December 2019

	Up to 3 months *LL million*	*3 to 6 Months* *LL million*	*6 months to 1 year* *LL million*	*1 to 3 years* *LL million*	*Over 3 years* *LL million*	*Non interest bearing items* *LL million*	*Total* *LL million*
ASSETS							
Cash and balances with the Central Bank	119,379	-	-	-	15,206	25,670	160,255
Due from banks and financial institutions	132,722	-	-	-	-	15,116	147,838
Due from head office, branches and affiliates	9,046	-	-	-	-	5,441	14,487
Loans and advances to customers at amortized cost	42,634	395	7,429	12,864	24,658	-	87,980
Loans and advances to related parties at amortized cost	99	11	-	29	845	-	984
Financial assets at amortized cost	812	9,063	5,110	31,926	2,904	-	49,815
Property and equipment	-	-	-	-	-	11,056	11,056
Other assets	-	-	-	-	-	1,415	1,415
TOTAL	304,692	9,469	12,539	44,819	43,613	58,698	473,830
LIABILITIES							
Due to head office, branches and affiliates	-	-	37,822	-	-	75	37,897
Derivative financial instruments	-	-	-	-	-	9	9
Customers' deposits at amortized cost	81,637	13,308	15,009	140	-	216,504	326,598
Related parties' deposits at amortized cost	1,732	-	-	-	-	1,694	3,426
Other liabilities	-	-	-	-	-	4,891	4,891
Provisions for risks and charges	-	-	-	-	-	4,229	4,229
Equity	-	-	-	-	-	96,780	96,780
TOTAL	83,369	13,308	52,831	140	-	324,182	473,830
Total interest rate sensitivity gap	221,323	(3,839)	(40,292)	44,679	43,613	(265,484)	-
Accumulated total interest rate sensitivity gap	221,323	217,484	177,192	221,871	265,484	-	

33.6 CURRENCY RISK

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices, fluctuations in interest rates and exchange rate volatility in general.

The Bank views itself as a Lebanese entity with the Lebanese Lira as its functional currency.

As disclosed in Note 1, the Bank;s assets and liabilities in foreign currencies are valued at the official exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency market, this does not always represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognised in the financial statements once the change in the official exchange rate and /or a legal exchange mechanism is implemented by the Lebanese government.

33 RISK MANAGEMENT (continued)

33.6 CURRENCY RISK (continued)

The following statement of financial position as of 31 December 2020 is detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars):

	Lebanese Lira	*Foreign currencies*		
	LL million	*In US Dollars (000)*	*Equivalent to LL million*	*Total in LL million*
ASSETS				
Cash and balances with the Central Bank	**60,565**	**64,695**	**97,528**	**158,093**
Due from banks and financial institutions	**-**	**77,013**	**116,097**	**116,097**
Due from head office, branches and affiliates	**-**	**18,466**	**27,838**	**27,838**
Loans and advances to customers at amortized cost	**3,019**	**25,278**	**38,107**	**41,126**
Loans and advances to related parties at amortized cost	**35**	**20**	**30**	**65**
Financial assets at amortized cost	**-**	**13,526**	**20,391**	**20,391**
Property and equipment	**10,695**	**-**	**-**	**10,695**
Other assets	**1,263**	**36**	**54**	**1,317**
TOTAL ASSETS	**75,577**	**199,034**	**300,045**	**375,622**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to the Central Bank	**-**	**900**	**1,357**	**1,357**
Due to head office, branches and affiliates	**-**	**10,060**	**15,166**	**15,166**
Customers' deposits at amortized cost	**36,725**	**152,673**	**230,154**	**266,879**
Related parties' deposits at amortized cost	**55**	**2,661**	**4,012**	**4,067**
Other liabilities	**2,850**	**3,627**	**5,467**	**8,317**
Provisions for risks and charges	**1,651**	**1,339**	**2,019**	**3,670**
Share capital – common shares	**40,020**	**-**	**-**	**40,020**
Cash contribution by a shareholder	**-**	**11,820**	**17,819**	**17,819**
Non-distributable reserves (legal and obligatory)	**10,543**	**-**	**-**	**10,543**
Distributable reserves	**34,328**	**-**	**-**	**34,328**
Results of the financial year - profit	**(26,508)**	**-**	**-**	**(26,508)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**99,664**	**183,080**	**275,994**	**375,658**

The following statement of financial position as of 31 December 2019 is detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars):

	Lebanese Lira	*Foreign currencies*		
	LL million	*In US Dollars (000)*	*Equivalent to LL million*	*Total in LL million*
ASSETS				
Cash and balances with the Central Bank	61,440	65,549	98,815	160,255
Due from banks and financial institutions	-	98,068	147,838	147,838
Due from head office, branches and affiliates	-	9,610	14,487	14,487
Loans and advances to customers at amortized cost	6,847	53,820	81,133	87,980
Loans and advances to related parties at amortized cost	-	653	984	984
Financial assets at amortized cost	6,936	28,444	42,879	49,815
Property and equipment	11,056	-	-	11,056
Other assets	1,284	88	131	1,415
TOTAL ASSETS	87,563	256,232	386,267	473,830
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to head office, branches and affiliates	-	25,139	37,897	37,897
Derivative financial instruments	-	6	9	9
Customers' deposits at amortized cost	35,208	193,294	291,390	326,598
Related parties' deposits at amortized cost	38	2,247	3,388	3,426
Other liabilities	1,560	2,210	3,331	4,891
Provisions for risks and charges	2,841	921	1,388	4,229
Share capital – common shares	40,020	-	-	40,020
Cash contribution by a shareholder	-	5,910	8,909	8,909
Non-distributable reserves (legal and obligatory)	10,081	2,222	3,348	13,429
Distributable reserves	33,478	-	-	33,478
Results of the financial year - profit	944	-	-	944
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	124,170	231,949	349,660	473,830

33 RISK MANAGEMENT (continued)

33.6 CURRENCY RISK (continued)

Assets and liabilities in foreign currencies presented in the tables above include onshore assets and liabilities in foreign currencies, that are subject to unofficial capital controls, which is further explained in Note 1. These are held by entities operating in Lebanon and will be realized / settled without recourse to foreign currency cash and / or foreign bank accounts outside Lebanon ("fresh funds"). Hence these cannot be perceived to have an economic value equivalent to that of offshore foreign currency assets and liabilities and should be viewed and managed separately. The tables below detail onshore assets and liabilities in foreign currencies:

	2020		
	USD LL million	***Others LL million***	***Total LL million***
ASSETS			
Cash and balances with the Central Bank	**92,367**	**1,799**	**94,166**
Due from banks and financial institutions	-	-	-
Due from head office, branches and affiliates	-	-	-
Loans and advances to customers at amortized cost	**24,026**	-	**24,026**
Loans and advances to related parties at amortized cost	**65**	-	**65**
Financial assets at amortized cost	**17,412**	-	**17,412**
Property and equipment	-	-	-
Other assets	**23**	**32**	**55**
TOTAL ASSETS	**133,893**	**1,831**	**135,724**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to head office, branches and affiliates	-	-	-
Derivative financial instruments	-	-	-
Customers' deposits at amortized cost	**225,282**	**4,939**	**230,221**
Related parties' deposits at amortized cost	**3,123**	**823**	**3,946**
Other liabilities	**5,466**	-	**5,466**
Provisions for risks and charges	**2,019**	-	**2,019**
Share capital – common shares	-	-	-
Cash contribution by a shareholder	**17,819**	-	**17,819**
Non-distributable reserves (legal and obligatory)	-	-	-
Distributable reserves	-	-	-
Results of the financial year - profit	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**253,709**	**5,762**	**259,471**

	2019		
	USD LL million	*Others LL million*	*Total LL million*
ASSETS			
Cash and balances with the Central Bank	87,490	7,461	94,951
Due from banks and financial institutions	-	-	-
Due from head office, branches and affiliates	-	-	-
Loans and advances to customers at amortized cost	55,174	-	55,174
Loans and advances to related parties at amortized cost	984	-	984
Financial assets at amortized cost	39,975	-	39,975
Property and equipment	-	-	-
Other assets	102	29	131
TOTAL ASSETS	183,725	7,490	191,215
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to head office, branches and affiliates	-	-	-
Derivative financial instruments	-	-	-
Customers' deposits at amortized cost	280,320	11,224	291,544
Related parties' deposits at amortized cost	2,380	854	3,234
Other liabilities	3,342	-	3,342
Provisions for risks and charges	1,779	-	1,779
Share capital – common shares	-	-	-
Cash contribution by a shareholder	8,909	-	8,909
Non-distributable reserves (legal and obligatory)	-	-	-
Distributable reserves	-	-	-
Results of the financial year - profit	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	296,730	12,078	308,808

33 RISK MANAGEMENT (continued)

33.7 PREPAYMENT RISK

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

33.8 OPERATIONAL RISK

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

33.9 LITIGATION RISK

The Bank may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Bank (Note 27) and in the event that legal issues are not properly dealt with by the Bank. Since 17 October 2019, the Bank has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Bank in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Bank.

33.10 POLITICAL RISK

External factors which are beyond the control of the Bank, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Bank, its strategy and prospects. Other important political risk factors include government intervention on the Bank's activities and social developments in the countries in which the Bank operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Bank recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Bank's activities, operating results and position.

34 CAPITAL MANAGEMENT

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Lebanon, which is the lead supervisor of the Bank.

Central Bank of Lebanon's Intermediate circular 567 issued on 26 August 2020, partly alters the directives for the determination of expected credit losses and regulatory capital calculation and ratios previously set in Intermediate Circular 543 issued on 3 February 2020 and sets the following capital related measures:

- Raising the regulatory expected credit loss level for Lebanese Government securities in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45%. Regulatory ECL for other exposures remain unchanged.

Type of financial instrument	*2020*	*2019*
Exposures to Central Bank of Lebanon in foreign currencies	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0 %	0 %
Lebanese Government securities in foreign currencies	45 %*	9.45 %
Lebanese Government securities in Lebanese Pounds	0 %	0 %

34 CAPITAL MANAGEMENT (continued)

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier one capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020, but was later extended for the banking sector to 28 February 2021. Central Bank of Lebanon's Central Council may exceptionally approve a bank to complete 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction.

- Inclusion of 100% of revaluations gain of owned real estate properties (excluding ones acquired in settlement of bad debt as per Article 154 of Code Money & Credit) in Common Equity Tier I, instead of 50% of this gain in Tier II as previously was the case. The regulatory deadline for completing the reappraisal process for such properties was set on 31 December 2021.

- Exceptionally during 2020 and 2021, allowing banks to drawn down the 2.5% capital conservation buffer on condition of rebuilding it progressively starting 2022 by 0.75% each year, to reach the minimum required level of 2.5% by the end of 2024.

- Prohibiting Lebanese banks from distributing dividends on common shares for the financial years 2019 and 2020, as well as prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).

  Exceptionally for 2020 and 2021, allowing Bank to include provisions for expected credit losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to Credit Risk Weighted Assets). Such provisions included under CET 1 should be amortized over a period of 3 years starting 2022 and ending in 2024 by 25% yearly.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 capital ratio	*Tier 1 capital ratio*	*Total capital ratio*
For the year ended 31 December 2020	7.00%	8.50%	10.50%
For the year ended 31 December 2019	7.00%	8.50%	10.50%

	2020 LL million	*2019 LL million*
Total capital	**81,544**	87,923

	2020 LL million	*2019 LL million*
Risk weighted assets		
Credit risk	**163,845**	246,535
Market risk	**684**	336
Operational risk	**27,745**	33,286
Total risk weighted assets	**192,274**	280,157

34 CAPITAL MANAGEMENT (continued)

The regulatory capital including net loss for the year as of 31 December is as follows:

	2020 ***LBP million***	*2019* *LBP million*
Tier 1 capital	**81,544**	87,923
Of which: common Tier 1		
Tier 2 capital	-	-
Total capital	**81,544**	87,923

The capital adequacy ratio including net loss for the year as of 31 December is as follows:

	2020 *%*	*2019* *%*
Capital adequacy – Common Tier 1	**33.14**	27.98
Capital adequacy – Tier 1	**42.41**	31.16
Capital adequacy – Total capital	**42.41**	31.38

The capital adequacy ratios as at 31 December 2020 and 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that may result from the resolution of the uncertainties reflected in Note 1. Due to the high levels of uncertainties, the lack of observable reliable indicators, the high gap between the currency parallel market rates, the Platform Rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of Lebanese banks with the Central Bank of Lebanon, (b) the Lebanese sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its Bank's capital adequacy. Management has concerns about the effects that the above matters will have on the capital of the Bank and the recapitalisation needs that may arise once the necessary adjustments are determined and recorded.