NATIONAL BANK OF KUWAIT (LEBANON) SAL

FINANCIAL STATEMENTS

31 DECEMBER 2021

Building a better working world

Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800
Fax: +961 1 372 981
beirut@lb.ey.com
ey.com/mena

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 2021, 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 2021, 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 2.1 to the financial statements, the Bank did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies (IAS 29) in the financial statements for the year ended 31 December 2021. Had the Bank applied the requirements of IAS 29, many elements and disclosures in the financial statements, including the comparative financial information for the year ended 31 December 2020, would have been materially different. The effects on the financial statements arising from this departure have not been determined. Our opinion for the year ended 31 December 2020 was modified for same reason.

2- The Bank translated its monetary assets and liabilities, denominated in foreign currencies, as at 31 December 2021 and all transactions in foreign currencies that occurred during the year then ended, using the official published exchange rates as disclosed in Note 1 to the financial statements. However, during the year, other exchange rates were introduced through legal exchange mechanisms, and several exchange rates became available, depending on the source and nature of the operation or balance. As per IAS 21, when several exchange rates are available, the rate to be used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. Due to the uncertainties disclosed in Note 1 to the financial statements, management did not use the rate at which the future cash flows could have been settled. Had the Bank used the rate at which the future cashflows could have been settled, many accounts and disclosures in the financial statements would have been materially different. The effects on the financial statements from the departure of IAS 21 and the uncertainties relating to the appropriate exchange rates have not been determined.

3- As at 31 December 2021, the Bank holds assets with the Central Bank of Lebanon amounting to LL 161,530 million (2020: LL 152,385 million) and a portfolio of Lebanese government eurobonds amounting to LL 17,408 million (2020: the same) which represent 53.45% of the Bank's total assets as at 31 December 2021 (2020: 45%).

   As disclosed in Note 1, the financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amounts of the above assets and to many related accounts and disclosures that would result from resolution of the uncertainties described in Note 1.

   Also, as disclosed in Note 29.2, management did not produce information about the fair value of these assets and other financial assets concentrated in Lebanon and these financial statements consequently 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 as at 31 December 2021 and 2020 would have been materially different. The effects of the resolution of these uncertainties on the financial statements have not been determined. Our opinion for the year ended 31 December 2020 was modified for the same reasons.

Building a better
working world

Basis for adverse opinion (continued)

4- The events and conditions in Note 1 and the matters described in paragraphs 1, 2 and 3 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 2020 was modified for the same reasons.

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 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 2021. 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 those charged with governance 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.

Those charged with governance 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.

EY
Building a better
working world

Auditors' responsibilities for the audit of the financial statements (continued)
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.

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

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

From the matters communicated with those charged with governance, 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
Ernst & Young

26 May 2022
Beirut, Lebanon

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	*2021* *LL million*	*2020* *LL million*
Interest and similar income	3	**4,076**	7,528
Interest and similar expense	4	**(434)**	(1,904)
Net interest income		**3,642**	5,624
Fee and commission income		**1,917**	1,933
Fee and commission expenses		**(447)**	(638)
Net fee and commission income	5	**1,470**	1,295
Loss on sale of financial instruments at amortized cost	15	**-**	(2,249)
Net loss on derivative financial instruments	25	**-**	(1,210)
Net gain from foreign exchange	6	**108**	159
Other operating income	7	**705**	302
Total operating income		**5,925**	3,921
Net impairment loss on financial assets	28	**-**	(17,073)
Net operating income (loss)		**5,925**	(13,152)
Personnel expenses	8	**(7,789)**	(8,173)
Administrative and other operating expenses	9	**(4,103)**	(4,513)
Depreciation of property and equipment	16	**(641)**	(670)
Total operating expenses		**(12,533)**	(13,356)
Loss before tax		**(6,608)**	(26,508)
Income tax expense	10	**-**	-
Net loss for the year		**(6,608)**	(26,508)
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(6,608)**	(26,508)

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	***2021 LL million***	*2020 LL million*
Assets			
Cash and balances with the Central Bank of Lebanon	11	**168,917**	158,093
Due from banks and financial institutions	12	**84,375**	116,097
Due from head office, branches and affiliates	13	**25,963**	27,838
Loans and advances to customers at amortized cost	14	**23,787**	41,126
Loans and advances to related parties at amortized cost	25	**26**	65
Financial assets at amortized cost	15	**20,402**	20,391
Property and equipment	16	**10,158**	10,695
Other assets	17	**1,151**	1,353
Total assets		**334,779**	375,658
Liabilities and shareholders' equity			
Liabilities			
Due to the Central Bank of Lebanon	11	**1,055**	1,357
Due to head office, branches and affiliates	13	**61**	15,166
Customers' deposits at amortized cost	18	**253,592**	266,879
Related parties' deposits at amortized cost	25	**3,559**	4,067
Other liabilities	19	**3,884**	8,317
Provisions for risks and charges	20	**3,034**	3,670
Total liabilities		**265,185**	299,456
Shareholders' equity			
Share capital – common shares	21	**40,020**	40,020
Cash contribution by a shareholder	21	**17,819**	17,819
Non-distributable reserves (legal and obligatory)	22	**10,543**	10,543
Distributable reserves	23	**34,328**	34,328
Accumulated losses		**(26,508)**	-
Net results of the financial year – loss		**(6,608)**	(26,508)
Total shareholders' equity		**69,594**	76,202
Total liabilities and shareholders' equity		**334,779**	375,658

The financial statements were authorized for issuance by the Board of Directors on 24 May 2022.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

			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*	*Net results of the financial year – loss LL million*	*Total LL million*
Balance at 1 January 2021	40,020	17,819	5,083	3,419	2,041	10,543	34,328	-	(26,508)	76,202
Net loss for the year	-	-	-	-	-	-	-	-	(6,608)	(6,608)
Total comprehensive loss for the year	-	-	-	-	-	-	-	-	(6,608)	(6,608)
Appropriation of 2020 loss	-	-	-	-	-	-	-	(26,508)	26,508	-
Balance at 31 December 2021	**40,020**	**17,819**	**5,083**	**3,419**	**2,041**	**10,543**	**34,328**	**(26,508)**	**(6,608)**	**69,594**
Balance at 1 January 2020	40,020	8,909	4,989	3,419	5,021	13,429	33,478	-	944	96,780
Net loss for the year	-	-	-	-	-	-	-	-	(26,508)	(26,508)
Total comprehensive loss for the year	-	-	-	-	-	-	-	-	(26,508)	(26,508)
Appropriation of 2019 profit	-	-	94	-	-	94	850	-	(944)	-
Non-distributable general reserves used for ECL (note 22)	-	-	-	-	(2,980)	(2,980)	-	-	-	(2,980)
Cash contribution during the year (note 21)	-	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

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 LL million	2020 LL million
OPERATING ACTIVITIES			
Net loss before income tax		**(6,608)**	(26,508)
Adjustments for:			
Depreciation of property and equipment	16	**641**	670
Write-back of provision for retirement benefits obligation	20	**(626)**	(68)
Net impairment loss on financial assets		**-**	17,073
Net provision for risks and charges	20	**27**	27
Loss on sale of financial assets at amortized cost		**-**	2,249
Loss on sale of property and equipment		**5**	3
		(6,561)	(6,554)
Working capital changes:			
Balances with the Central Bank of Lebanon		**-**	251
Financial assets at amortized cost		**(11)**	7,185
Loans and advances to customers at amortized cost		**17,162**	41,439
Loans and advances to related parties at amortized cost		**46**	919
Other assets		**163**	38
Customers' deposits at amortized cost		**(13,287)**	(59,701)
Related parties' deposits at amortized cost		**(508)**	623
Other liabilities		**(3,823)**	3,667
Cash used in operations		**(6,819)**	(12,133)
Provisions for risks and charges paid	20	**(37)**	(515)
Taxes paid	10	**-**	(241)
Net cash used in operating activities		**(6,856)**	(12,889)
INVESTING ACTIVITIES			
Purchase of property and equipment	16	**(109)**	(312)
Proceeds from sale of financial assets at amortized cost		**-**	6,796
Net cash (used in) from investing activities		**(109)**	6,484
FINANCING ACTIVITIES			
Cash contribution by a shareholder		**-**	8,910
Due to the Central Bank		**(302)**	1,357
Due to head office, branches and affiliated – maturities of more than 3 months		**(15,098)**	(22,725)
Net cash used in financing activities		**(15,400)**	(12,458)
DECREASE IN CASH AND CASH EQUIVALENTS		**(22,365)**	(18,863)
Cash and cash equivalents at 1 January		**289,041**	307,904
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**266,676**	289,041
OPERATING CASH FLOWS			
Interest received		**4,112**	7,592
Interest paid		**497**	2,385

The attached notes 1 to 32 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 crisis 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 Dollar 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 of 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 led 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 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 Lebanese people's purchasing power, 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$/LL (the official exchange rate). During 2021, this subsidy was lifted.
(b) introduced the Platform Rate, currently at 3,900 US$ / 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. During 2021, this subsidy was lifted.
(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.

During May 2021, the Central Bank of Lebanon introduced the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. The Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon.

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 accounts", 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).

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. A new government was formed on 10 September 2021. However, 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 and impairment of assets held at the Central Bank of Lebanon; the impact of the economic crisis and the impairment of banks' loans portfolio; and the government debt restructuring and impairment of the government securities portfolio.

An Asset Quality Review will be conducted to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalisation 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 obligations with no or limited interest.

Banks will be asked to propose to authorities and relevant supervisory bodies business plans and restructuring/recapitalisation 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 reorganised 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 the 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 capitalisation and settlement of government debt to BDL.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

International Monetary Fund (IMF)
Following the end of the IMF virtual mission from 24 January to 11 February with the Lebanese authorities on the framework and policies of an economic reform program that can be supported by the Fund, the IMF issued a release on Lebanon, saying that the unprecedented and complex nature of the Lebanese crisis requires a comprehensive economic and financial reform program to stabilize the economy, address deep-seated challenges, and lay the ground for sustainable and strong growth. On 7 April 2022, the IMF concluded a two-week mission to Beirut with an announcement of a staff level agreement for a US$ 3bn, 46-month Extended Fund Facility (EFF), This agreement is subject to the approval by IMF management and the Executive Board; timely implementation of all prior actions and confirmation of international partners financial support is required before formal approval by the Executive Board. Prior actions include:

(i) Cabinet/ parliamentary approval of a bank restructuring strategy enabling legislation in conjunction with an audit of the 14 largest banks;
(ii) Parliamentary approval of a reformed bank secrecy law;
(iii) Completion of the Central Bank of Lebanon's audit;
(iv) A restructuring of the outstanding commercial debt (including Eurobonds);
(v) Parliamentary approval of the 2022 budget; and
(vi) Unification by the Central Bank of Lebanon of the exchange rates for authorized current account transactions.

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. The World Bank estimated the direct and indirect damages to the Lebanese economy as a result of the Beirut Port explosion at circa USD 8 billion.

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 150 issued on 9 April 2020 and 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 and 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 and requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for 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 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 the COVID-19 pandemic, 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.
  - Changing 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, but must be rebuilt, progressively, starting 2022, by at 0.75% each year, to reach the minimum required of 2.5% by end of 2024.
  - Preparing and presenting to the Central Bank of Lebanon, a comprehensive plan, for rectifying non-compliances with 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, and 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 and 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.

- Basic Circular 157 issued on 10 May 2021 and setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. Banks are required to properly document each transaction and should not collect commission margins between buy and sell operations exceeding 1%.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Basic Circular 158 issued on 8 June 2021 and defining the mechanism for the gradual settlement of foreign currency deposits up to an amount equivalent to USD 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met.
  Eligible funds will be transferred to a subaccount over which banking secrecy will be lifted vis-à-vis BDL and BCC before being gradually withdrawn and remitted to the customer on a monthly basis. Customers' monthly entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

  The financing of the aforementioned process will be secured equally through (i) BDL reduction of compulsory reserves requirements from 15% to 14% as per BDL Intermediary Circular 586 and (ii) the Bank's offshore liquidity. To that end, the Bank can use its foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition it reconstitutes it by 31 December 2022.

- Basic Circular 159 issued on 17 August 2021 preventing banks from processing foreign currency funds received from customers whether in the form of cash or through offshore transfers at a value other than its face value, with the exception of transactions pertaining to the settlement of loans. It also prevented banks from purchasing foreign currencies at parallel rate with the exception of the purchase foreign currencies duly recorded on the electronic platform and resulting from offshore incoming transfers with the purpose of (i) enhancing liquidity, (ii) engaging in medium or long term investments, (iii) settling international commitments. Finally the circular prevented banks from purchasing bankers' checks and other bank's accounts in foreign currencies whether directly or indirectly.

- Intermediate Circular 600 issued on 3 November 2021 requires banks to record existing and future provisions for expected credit losses in the same currency as the related assets and off-balance sheet exposures. Banks are also required to set in place necessary measures to manage their FX position resulting from provisions recorded in foreign currencies.

- Intermediate Circular 601 issued on 8 December 2021 is an amendment to the provisions of Basic Circular 151. The circular stipulates that the Platform Rate to be applied for withdrawal cash from foreign currencies accounts is LBP 8,000 USD/LBP up to a maximum limit of USD 3,000 per month.

- Basic Circular 161 issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return banks will provide the total amount to their customers at the same Sayrafa rate against LBP at limits set by the bank until 31 May 2022.

- Intermediate Circular 616 issued on 3 March 2022 is an amendment to the provisions of Basic Circular 44. The circular prohibits banks from distributing dividends on common shares for the years 2019, 2020 and 2021.

1.3 Particular situation of the Bank

Assets and liabilities in foreign currency and transactions in foreign currency regardless of whether they are onshore or offshore, were reflected in these financial statements at the official published exchange rate as follows:

	2021		*2020*	
	Rate as at 31 December LBP	***Average rate for the year ended 31 December LBP***	*Rate as at 31 December LBP*	*Average rate for year ended 31 December LBP*
US Dollar	**1,507.5**	**1,507.5**	1,507.5	1,507.5
Euro	**1,701.52**	**1,750.63**	1,851.21	1,780.52
Swiss Franc	**1,639.48**	**1,638.23**	1,706.67	1,653.60
British Pound Sterling	**2,022.91**	**2,055.03**	2,048.54	1,969.16
Kuwaiti Dinar	**4,980.18**	**4,999.05**	4,949.11	4,927.31
Saudi Riyal	**401.53**	**401.89**	401.79	401.92
Canadian Dollar	**1,175.53**	**1,196.46**	1,178.66	1,145.17

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

The exchange rates above consist of the official exchange rates published by the Central Bank of Lebanon on a monthly basis. 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 and the Sayrafa rate that are highly volatile, the Platform Rate, estimated exchange rates detailed in the government's Financial Recovery Plan, in addition to different exchange rates adopted for commercial transactions purposes in Lebanon.

- On 21 April 2020 the Central Bank of Lebanon issued Basic Circular 151 concerning depositors who wish to withdraw amounts of cash from their "local" foreign currencies accounts as per the Platform Rate up to limits set by their bank. The limits set by the banks in Lebanon had monthly averages of US$ 3,000 per bank account. The "Platform Rate" was 1 US$ / LBP 3,900 throughout the period from the issuance of the circular and up to 30 June 2021. During December 2021, it was increased to 1 US$ / LBP 8,000.

- On 10 May 2021, the Central Bank of Lebanon issued Basic Circular 157 setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. The Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon. Foreign currency operations were executed on the Sayrafa platform at the following exchange rates:

	2021		*2020*	
	Rate as at 31 December LBP	***Average rate for the period from 10 May to 31 December LBP***	*Rate as at 31 December LBP*	*Average rate for year ended 31 December LBP*
US Dollar	**22,700**	**16,266**	N/A	N/A

  The Sayrafa platform is not available for the purchase and sale of and "local" foreign currency bank accounts which are subject to unofficial capital controls.

- On 8 June 2021, the Central Bank of Lebanon issued Basic Circular 158 defining the mechanism for the gradual settlement of foreign currency deposits up to an amount equivalent to USD 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met. Customers' monthly entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment and management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Bank uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not 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. 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 published exchange rate. 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 recognised in these financial statements once the revamping of the peg is implemented by the Lebanese government. Foreign currency mismatch is detailed in Note 31.4.2 to these financial statements.

As at 31 December 2021, 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 bank's exposure to the Central Bank of Lebanon and Lebanese Sovereign, the Bank is 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.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

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.

The financial position of the Bank, as reported in these financial statements, does not reflect the adjustments that would be required by IFRS as a result of the future government reform program, the deep recession, the currency crisis and the hyperinflation. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the Sayrafa rate, the Platform Rate and the official published exchange rate, and the lack of visibility on the government's plans with respect to: (a) the high exposures of 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 financial position.

Management anticipates that the above matters will have a materially adverse impact on the Bank's financial position and its equity.

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) enhance the quality of its private loans portfolio, deleveraging it as appropriate and downsizing its balance sheet, (c) build up its offshore liquidity and reduce its commitments and contingencies to correspondent banks and financial institutions outside Lebanon, and (d) manage 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 balance-sheet.

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
- 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.

However, a sufficient and a reasonable and credible plan can only be achieved once the uncertainties from the prevailing crisis, the multitude of exchange rates, hyperinflation, the COVID-19 pandemic, the explosion of the Beirut port, as well as the implementation of a clear national fiscal and economic recovery plan are resolved.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

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 (Refer to Note 21).

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.

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
The Bank has focused on preserving as much as possible its internal and external liquidity. This strategy will be maintained for the coming years with the aim to maintain liquidity, noting the small size of 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
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 provides the Bank with the support to overcome 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.

The financial statements are presented in Lebanese Lira (LL) which is the Bank's functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

As of 31 December 2021 and 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 753% and 224%, respectively, as of 31 December 2021 (2020: 173% and 146% respectively). 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 31 December 2021.

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.

  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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The Bank uses the official published exchange rate of 1,507.5 USD/LBP to translate balance and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Sayrafa Rate" and "Platform Rate", 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. The Bank is translating balances (assets and liabilities) and transactions in foreign currencies at the official published exchange rate (as disclosed in Note 1), which does not 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 of the financial statements.

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 (IFRSs) as issued by the International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2021. The nature and the impact of each amendment is described below:

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest,
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Bank. The Bank intends to use the practical expedients in future periods if they become applicable.

2.3 Standards issued but not yet effective

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 financial statements of the Bank.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the financial statements of the Bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

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 amendments are not expected to have a material impact on the financial statements of 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 financial statements of 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 financial statements of the Bank.

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 amendments are not expected to have a material impact on the financial statements of the Bank.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (refer to Note 1).

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange (as disclosed in Note 1) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments - classification and measurement (continued)
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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments - classification and measurement (continued)

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 of Lebanon, Due from Banks and Financial Institutions, Due from Head Office, Branches an Affiliates, 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 loss 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 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 the Central Bank of Lebanon, Due to Head Office, Branches and Affiliates, and Customers' Deposits and Related parties Deposits at amortized cost
After initial measurement, these financial liabilities 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, and Undrawn Credit Lines
The Bank issues financial guarantees 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 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 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)

De-recognition 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
The Bank computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances,
- letters of credit and financial guarantee contracts including commitments
- investment in debt securities measured at amortised cost
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of credit facilities
Credit facilities granted by the Bank consists of loans and advances, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the statement of financial position at an amount equal to the ECL under IFRS 9.

Impairment of financial assets other than credit facilities
The Bank recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

Expected credit losses
The Bank applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12 month ECL
The Bank measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired
The Bank measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired

Stage 3: Lifetime ECL – credit-impaired
The Bank measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECLs and 12 month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of Expected Credit Loss
At each reporting date, the Bank assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of 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 generally 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 unless this is rebutted.

At each reporting date, the Bank also assesses whether a financial asset or group of financial assets is credit-impaired. The Bank considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit-impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

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

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not become credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs
ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macroeconomic scenarios, etc.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

Expected credit losses (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. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

Modification of loans

Under certain circumstances, the Bank seeks to restructure loans rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When loans have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

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 off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Bank is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting (continued)

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.

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.

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 (continued)
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 of Lebanon, due from banks and other financial institutions, deposits with head office, branches and affiliates, due to the Central Bank of Lebanon, and deposits due to head office, branches and affiliates.

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:

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Property and equipment (continued)
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.

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 29.

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.

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

	2021 *LL million*	*2020* *LL million*
Loans and advances to customers at amortized cost	**2,229**	4,233
Balances with the Central Bank of Lebanon	**1,584**	2,009
Financial assets at amortized cost	**169**	610
Due from banks and financial institutions	**39**	591
Due from head office, branches and affiliates	**53**	60
Loans and advances to related parties at amortized cost	**2**	25
	4,076	7,528

Withholding taxes amounting to LL 175 million were deducted from interest and similar income (2020: LL 261 million).

4 INTEREST AND SIMILAR EXPENSE

	2021 *LL million*	*2020* *LL million*
Deposits from customers and other credit balances at amortized cost	**324**	1,218
Term loan from a related party	**110**	684
Related parties' deposits at amortized cost	**-**	2
	434	1,904

5 NET FEE AND COMMISSION INCOME

	2021 *LL million*	*2020* *LL million*
Commission income		
Loans and advances to customers	**55**	91
Credit cards	**55**	82
Commissions on real estate	**32**	29
Letters of credit, guarantees and acceptances	**27**	31
Other services	**1,748**	1,700
	1,917	1,933
Commission expenses		
Commission of clearance room and accounts management	**(213)**	(263)
Commissions and other fees	**(178)**	(324)
Credit cards	**(56)**	(51)
	(447)	(638)
Net commission income	**1,470**	1,295

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

	2021 *LL million*	*2020* *LL million*
Write-back of provision for retirement benefits obligations, net (Note 20)	**626**	68
Other income	**79**	234
	705	302

8 PERSONNEL EXPENSES

	2021 *LL million*	*2020* *LL million*
Salaries and wages	**5,558**	6,037
Social security contribution	**729**	704
Contractual employees' salaries	**298**	296
Other employees' benefits	**1,204**	1,136
	7,789	8,173

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2021 *LL million*	*2020* *LL million*
Expenses and computer services	**1,229**	1,087
Taxes and fees (*)	**524**	988
Professional fees	**366**	370
Electricity, fuel and telecommunication expenses	**366**	341
Maintenance and repairs	**350**	334
Cleaning	**230**	259
Subscriptions	**194**	177
Guarantee of deposits fee	**176**	176
Guarding fees	**171**	219
Building expenses	**86**	84
Insurance fees	**59**	54
Office supplies	**42**	45
Travel, transport and similar expenses	**32**	33
Net provision for risks and charges (Note 20)	**27**	27
Rent	**26**	80
Other expenses	**225**	239
	4,103	4,513

(*) Taxes and fees, for the year ended 31 December 2020, include income tax amounting to LL 505 million representing 2% on 2019 turnover as per Article No 20 of the Budget Law 6/2020.

10 INCOME TAX EXPENSE

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

	2021	*2020*
	LL million	*LL million*
Net loss before income tax	**(6,608)**	(26,508)
Non-deductible expenses and non-taxable income in determining taxable profit:		
Other non-deductible taxes	**180**	180
Write-back of provisions previously taxable	**(818)**	(3,950)
Other expenses non- tax deductible	**136**	323
ECL Provision	**-**	20,782
	(502)	17,335
	(7,110)	(9,173)
Deduct: brought forward losses	**(9,173)**	-
Taxable loss	**(16,283)**	(9,173)
Effective income tax rate	**17%**	17%
Income tax expense	**-**	-

The movement of income tax expense is as follows:

	2021	*2020*
	LL million	*LL million*
Balance at 1 January	**32**	273
Tax paid during the year	**-**	(241)
Balance at 31 December	**32**	32

11 CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

	2021	*2020*
	LL million	*LL million*
Cash on hand	**7,387**	5,708
Balances due from the Central Bank of Lebanon		
Current accounts	**79,735**	60,208
Time deposits	**83,997**	93,991
	163,732	154,199
Less: Allowance for expected credit losses (Note 28)	**(2,202)**	(1,814)
	161,530	152,385
	168,917	158,093
Balances due to the Central Bank of Lebanon		
Subsidised loan	**1,055**	1,357

Current accounts at the Central Bank of Lebanon include an amount of LL10,545 million (2020: LL 10,960 million) to cover the monetary regulatory reserve requirement on Lebanese Lira deposits, according to Lebanese banking laws and regulations.

11 CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON (continued)

Time deposits at the Central Bank of Lebanon 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 32,830 million. The placement matures on 19 January 2022 (2020: placement of US$ 31 million with zero interest rates to cover the regulatory reserve of 15% on foreign currency deposits and amounting to LL 35,292 million).

Subsidised Loan
As at 31 December 2021, subsidised loan consists of utilised amount on a facility granted by the Central Bank of Lebanon for the purpose of lending to a customer at subsidised rate in accordance with Decision No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customer (2020: the same).

12 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2021 ***LL million***	*2020* *LL million*
Current accounts	**10,729**	12,299
Time deposits	**73,869**	104,018
	84,598	116,317
Less: Allowance for expected credit losses (Note 28)	**(223)**	(220)
	84,375	116,097

13 HEAD OFFICE, BRANCHES AND AFFILIATES

	2021 ***LL million***	*2020* *LL million*
Due from head office, branches and affiliates		
Current accounts	**3,407**	3,765
Time deposits	**22,613**	24,120
	26,020	27,885
Less: Allowance for expected credit losses (Note 28)	**(57)**	(47)
	25,963	27,838
Due to head office, branches and affiliates		
Current accounts	**61**	68
Term loan	**-**	15,098
	61	15,166

14 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2021 ***LL million***	*2020* *LL million*
Gross commercial loans	**21,527**	25,766
Gross consumer loans	**10,730**	23,880
	32,257	49,646
Less: Allowance for expected credit losses (Note 28)	**(8,470)**	(8,520)
	23,787	41,126

15 FINANCIAL ASSETS AT AMORTIZED COST

	2021 ***LL million***	*2020* *LL million*
Lebanese sovereign		
Lebanese eurobonds – quoted	**31,658**	31,658
Other sovereign		
US treasury bills – quoted	**2,994**	2,983
Less: Allowance for expected credit losses (Note 28)	**(14,250)**	(14,250)
	20,402	20,391

During the year 2020, the Bank sold Lebanese eurobonds with a principal value of LL 9,045 million which resulted in a loss of LL 2,249 million recorded in the statement of comprehensive income.

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 2021	-	1,478	15,394	2,798	917	210	3,366	24,163
Additions	33	-	-	-	19	-	57	109
Disposals	-	-	-	(7)	(18)	-	-	(25)
At 31 December 2021	**33**	**1,478**	**15,394**	**2,791**	**918**	**210**	**3,423**	**24,247**
Depreciation:								
At 1 January 2021	-	-	7,076	2,660	887	210	2,635	13,468
Charge for the year	-	-	308	65	32	-	236	641
Relating to disposals	-	-	-	(4)	(16)	-	-	(20)
At 31 December 2021	**-**	**-**	**7,384**	**2,721**	**903**	**210**	**2,871**	**14,089**
Net carrying amount:								
At 31 December 2021	**33**	**1,478**	**8,010**	**70**	**15**	**-**	**552**	**10,158**

16 PROPERTY AND EQUIPMENT (continued)

	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

17 OTHER ASSETS

	2021 LL million	*2020 LL million*
Deferred expenses	**180**	300
Prepaid expenses	**386**	442
Staff receivables	**406**	302
Sundry debtors	**54**	145
Exchange difference on structural foreign exchange position	**156**	156
Stamps	**17**	17
	1,199	1,362
Less: Allowance for expected credit losses (Note 28)	**(48)**	(9)
	1,151	1,353

18 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2021 LL million	*2020 LL million*
Current accounts	**191,191**	198,324
Time deposits	**3,600**	5,403
Saving accounts	**58,695**	62,982
Accrued interest payable	**106**	170
	253,592	266,879

Customers' deposit accounts include blocked accounts amounting to LL 3,278 million (2020: LL 5,082 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.

19 OTHER LIABILITIES

	2021 *LL million*	*2020* *LL million*
Sundry creditors	**1,531**	5,522
Accrued expenses	**2,027**	2,493
Income tax liability (Note 10)	**32**	32
National Social Security Fund	**94**	84
Other taxes	**200**	186
	3,884	8,317

20 PROVISIONS FOR RISKS AND CHARGES

	2021 *LL million*	*2020* *LL million*
Retirement benefits obligation	**1,013**	1,676
Provision for risks and charges	**2,021**	1,994
	3,034	3,670

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

	2021 *LL million*	*2020* *LL million*
Provision at 1 January	**1,676**	2,259
Written-back during the year, net (Note 7)	**(626)**	(68)
Paid during the year	**(37)**	(515)
Provision at 31 December	**1,013**	1,676

The movement of the provisions for risks and charges included in the statement of financial position is as follows:

	2021 *LL million*	*2020* *LL million*
Provision at 1 January	**1,994**	1,967
Provided during the year (Note 9)	**27**	27
Provision at 31 December	**2,021**	1,994

21 SHARE CAPITAL

a Common shares

The authorized, issued and fully paid share capital as of 31 December 2021 comprised of 5,800,000 shares of nominal value LL 6,900 per share (2020: the same).

21 SHARE CAPITAL (continued)

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 (equivalent to LL 17,819 million) 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 8,910) 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 nil million during 2021 (2020: LL 32 million).

22 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 2019 net profit to this reserve during the year 2020.

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 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 28).

23 DISTRIBUTALBE RESERVES – GENERAL RESERVE

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

24 CASH AND CASH EQUIVALENTS

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

	2021	*2020*
	LL million	*LL million*
Cash and balances with the Central Bank of Lebanon	**156,119**	144,907
Due from banks and financial institutions	**84,598**	116,317
Due from head office, branches and affiliates	**26,020**	27,885
Due to head office, branches and affiliates	**(61)**	(68)
	266,676	289,041

Cash and balances with the Central Bank of Lebanon up to LL 32,830 million at 31 December 2021 (2020: LL 35,292 million) are in coverage of mandatory reserve deposits and balances.

Cash and cash equivalents include balances in foreign currencies that are subject to unofficial capital controls and restricted transfers outside Lebanon. Accordingly, these balances are not considered readily convertible to known amounts of cash in the denomination currency without a risk of changes in value. However, the Bank maintains their classification as cash and cash equivalents as they are freely transferrable within the Lebanese territory. These balances were as follows:

	2021	*2020*
	LL million	*LL million*
Balances with the Central Bank of Lebanon	**115,923**	95,978

25 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.

25 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.

	2021	
	Outstanding balance LL million	***Interest income (expense) LL million***
Loans and advances to related parties at amortized cost*		
Key management personnel and their family members	**26**	**2**
Due from head office, branches and affiliates		
Shareholders	**15,457**	-
Banks under common directorships	**10,563**	**53**
Due to head office, branches and affiliates		
Banks under common directorships		
Term loan	-	**(110)**
Credit balances	**61**	-
Related parties' deposits at amortized cost		
Key management personnel and their family members	**891**	-
Shareholders	**1,723**	-
Other related parties	**910**	-
Board members	**35**	-
Guarantees received		
Shareholders	**8,645**	-

	2020	
	Outstanding balance LL million	*Interest income (expense) LL million*
Loans and advances to related parties at amortized cost*		
Key management personnel and their family members	72	25
Due from head office, branches and affiliates		
Shareholders	17,319	3
Banks under common directorships	10,566	57
Due to head office, branches and affiliates		
Banks under common directorships		
Term loan	15,098	(684)
Credit balances	68	-
Related parties' deposits at amortized cost		
Key management personnel and their family members	949	(2)
Shareholders	2,023	-
Other related parties	1,087	-
Board members	8	-
Guarantees received		
Shareholders	8,645	-

*Loans and advances are stated gross of allowance for expected credit losses amounting to LL nil million as at 31 December 2021 (2020: LL 7 million) (Note 28).

Key management remunerations amounted to LL 1,463 million for the year ended 31 December 2021 (2020: LL 1,951 million).

Interest expense on cash contribution by the major shareholder amounted to LL nil million during 2021 (2020: LL 32 million).

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 the year ended 31 December 2020. The notional amount for the interest rate swap with National Bank of Kuwait SAK as at 31 December 2020 amounted to LL nil million. The interest rate swap was a fair value hedge of the treasury bills in US Dollars (Eurobonds) at amortized cost for 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 LL1,210 million for the year ended 31 December 2020 and was recognised in the statement of comprehensive income statement under "Net loss on derivative financial instruments".

26 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.

	2021 Customers LL million	*2020 Customers LL million*
Guarantees and contingent liabilities		
Financial guarantees	**787**	1,621
Commitments		
Undrawn credit lines (revocable)	**13,700**	11,975
Other commitments	**30**	30
	13,730	12,005
	14,517	13,626

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. The Bank has an established protocol for dealing with such claims, many of which are beyond its control. The extent of the impact of these matters cannot always be predicted but may materially impact the Bank's operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Bank, except as provided for in the financial statements, however they may have an impact on the foreign currency position and the offshore liquidity of the Bank.

26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Other contingencies
The Bank's books are still subject to review by the Department of Income Tax for the years 2016 to 2021 (inclusive).

The Bank's books are still subject to review by the National Social Security Fund for the period from 1 January 2002 to 31 December 2021.

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

27 ASSETS UNDER MANAGEMENT

	2021 ***LL million***	*2020* *LL million*
Lebanese treasury bills denominated in LL	**400**	643
Lebanese eurobonds	**10,477**	10,477
Financial notes	**4,280**	2,438
	15,157	13,558

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

28 EXPECTED CREDIT LOSSES

2021

	Balances with the Central Bank of Lebanon 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	1,814	220	47	8,520	7	14,250	9	-	24,867
Net impairment loss	390	3	10	(435)	(7)	-	39	-	-
Write-offs	-	-	-	(244)	-	-	-	-	(244)
Other movements	(2)	-	-	629	-	-	-	-	627
Balance as at 31 December	2,202	223	57	8,470	-	14,250	48	-	25,250

2020

	Balances with the Central Bank of Lebanon 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
Net impairment loss (*)	1,171	220	47	5,415	-	13,194	9	(3)	20,053
Balance as at 31 December	1,814	220	47	8,520	7	14,250	9	-	24,867

(*) Net impairment loss for the year ended 31 December 2020 include an amount of LL 2,980 million accounted for under "Non-distributable reserves" in the statement of changes in equity (Note 22). The remaining amount of LL 17,073 million is accounted for under "net impairment loss on financial assets" in the statement of comprehensive income for the year ended 31 December 2020.

29 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 published exchange rate as discussed in Note 1. However, in light of the high deviation between the parallel market rate, the Sayrafa rates 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 realisation of such assets or the payment of such liabilities at the date of the financial statements and 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.

29.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The Bank does not carry financial assets or financial liabilities at fair value as at 31 December 2021 and 2020.

29.2 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.

The carrying value of the other Bank's financial instruments not measured at fair value is reasonable approximation of their fair value.

30 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

31 December 2021

	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with the Central Bank of Lebanon	**153,917**	**15,000**	**168,917**
Due from banks and financial institutions	**84,375**	-	**84,375**
Due from head office, branches and affiliates	**25,963**	-	**25,963**
Loans and advances to customers at amortized cost	**11,385**	**12,402**	**23,787**
Loans and advances to related parties at amortized cost	-	**26**	**26**
Financial assets at amortized cost	-	**20,402**	**20,402**
Property and equipment	-	**10,158**	**10,158**
Other assets	**1,151**	-	**1,151**
TOTAL ASSETS	**276,791**	**57,988**	**334,779**
LIABILITIES			
Due to the Central Bank of Lebanon	-	**1,055**	**1,055**
Due to head office, branches and affiliates	**61**	-	**61**
Customers' deposits at amortized cost	**253,444**	**148**	**253,592**
Related parties' deposits at amortized cost	**3,559**	-	**3,559**
Other liabilities	**3,884**	-	**3,884**
Provisions for risks and charges	-	**3,034**	**3,034**
TOTAL LIABILITIES	**260,948**	**4,237**	**265,185**
NET	**15,843**	**53,751**	**69,594**

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 of Lebanon	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 of Lebanon	-	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	294,429	5,027	299,456
NET	8,147	68,055	76,202

31 RISK MANAGEMENT

31.1 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.

31.2 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.

31 RISK MANAGEMENT (continued)

31.2 CREDIT RISK (continued)

Assessment of expected credit losses

31.2.1 Definition of default and cure
The Bank considers a financial asset to be in default 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);
- the borrower is past due more than 90 days on any material credit obligation to the Bank;
- borrower is considered as credit-impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse

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

The Bank considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Bank considers externally-rated portfolio with ratings 'D' from S&P and Fitch, and 'C' from Moody's as defaulted.

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.

The Bank considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

• breaches of covenants
• borrower having past due liabilities to public creditors or employees
• borrower is deceased

The Bank considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Bank for consideration for classifying the facility in stage 2/stage 1.

31.2.2 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.

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.

31 RISK MANAGEMENT (continued)

31.2 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

31.2.3 Measurement of ECLs
ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc. The Bank calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of the value of eligible collaterals after applying applicable haircuts.

31.2.4 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 for assessing ratings/ scores that are leveraged for PD estimation process. The tool provides the ability to analyze a business and produce risk ratings at both the obligor and facility levels. 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 Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 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.

The Bank assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

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 a "Maximum" level to a "Minimum" one. 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 to the Central Bank of Lebanon and Lebanese Sovereign, the Bank was 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.

31.2.5 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.

31 RISK MANAGEMENT (continued)

31.2 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

31.2.6 Loss given default
Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

31.2.7 Incorporation of forward-looking information
The Bank considers various key economic variables which reflect the continuing uncertainties and effect stemming from COVID-19 and other emerging risks, which may be expected to have an impact on the credit risk and the ECL when incorporating forward looking information into the ECL models. Key economic variables include, but not limited to gross domestic product, equity price index and oil prices. Together, they provide reasonable indications and forecasts of future macro-economic conditions. The consideration of such factors increases the degree of judgement in determination of ECL. The Bank employs statistical models which incorporate the effect of macro-economic factors to adjust historical TTC PDs to arrive at the PiT PDs. The Bank considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographies and segments, and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. 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:

	2021		*2020*	
	Assets LL million	***Liabilities LL million***	*Assets LL million*	*Liabilities LL million*
Geographic region:				
Domestic (Lebanon)	**221,451**	**255,580**	228,744	266,879
Middle East countries	**86,037**	**5,614**	116,592	29,073
Europe	**14,188**	**3,967**	15,968	1,289
North America	**13,103**	**22**	14,354	1,534
Other	**-**	**2**	-	681
	334,779	**265,185**	375,658	299,456
Industry sector:				
Trading and manufacturing	**3,934**	**26,105**	14,405	41,396
Banks and financial institutions	**294,506**	**10,659**	277,832	15,598
Construction and real estate	**241**	**20,432**	1,041	32,511
Other	**36,098**	**207,989**	82,380	209,951
	334,779	**265,185**	375,658	299,456

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.

31 RISK MANAGEMENT (continued)

31.2 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.

	2021				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
Balances with the Central Bank of Lebanon	-	-	163,732	163,732	-	-	154,199	154,199
Individually impaired	-	-	*163,732*	*163,732*	-	-	*154,199*	*154,199*
Due from banks and financial institutions	84,598	-	-	84,598	116,317	-	-	116,317
High grade	*84,598*	-	-	*84,598*	*116,317*	-	-	*116,317*
Due from head office, branches and affiliates	26,020	-	-	26,020	27,885	-	-	27,885
High grade	*26,020*	-	-	*26,020*	*27,885*	-	-	*27,885*
Financial assets at amortised cost	2,994	-	31,658	34,652	2,983	-	31,658	34,641
Lebanese sovereign								
Individually impaired	-	-	*31,658*	*31,658*		-	*31,658*	*31,658*
Other sovereign								
High grade	*2,994*	-	-	*2,994*	*2,983*	-	-	*2,983*
Loans and advances to customers at amortised cost	12,338	17,467	2,452	32,257	37,154	9,027	3,465	49,646
Commercial								
Standard grade	*4,874*	*16,653*	-	*21,527*	*19,029*	*6,737*	-	*25,766*
Consumer								
Standard grade	*7,464*	*814*	-	*8,278*	*18,125*	*2,290*	-	*20,415*
Individually impaired	-	-	*2,452*	*2,452*	-	-	*3,465*	*3,465*
Loans and advances to related parties at amortised cost	-	26	-	26	-	72	-	72
Standard grade	-	*26*	-	*26*	-	*72*	-	*72*
Financial guarantees and other commitments	-	14,517	-	14,517	-	13,626	-	13,626
Financial guarantees								
Standard grade	-	*787*	-	*787*	-	*1,621*	-	*1,621*
Undrawn credit lines								
Standard grade	-	*13,700*	-	*13,700*	-	*11,975*	-	*11,975*
Other commitments								
Standard grade	-	*30*	-	*30*	-	*30*	-	*30*
Total	125,950	32,010	197,842	355,802	184,339	22,725	189,322	396,386

31 RISK MANAGEMENT (continued)

31.2 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 2021 and 2020. The Bank does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				*Impairment allowance*				*Net*
31 December 2021	***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 of Lebanon	-	-	**163,732**	**163,732**	-	-	**2,202**	**2,202**	**161,530**
Due from banks and financial institutions	**84,598**	-	-	**84,598**	**223**	-	-	**223**	**84,375**
Due from head office, banks and affiliates	**26,020**	-	-	**26,020**	**57**	-	-	**57**	**25,963**
Loans and advances to customers at amortized cost	**12,338**	**17,467**	**2,452**	**32,257**	**1,315**	**4,703**	**2,452**	**8,470**	**23,787**
Commercial	***4,874***	***16,653***	-	***21,527***	***439***	***4,446***	-	***4,885***	***16,642***
Consumer	***7,464***	***814***	***2,452***	***10,730***	***876***	***257***	***2,452***	***3,585***	***7,145***
Loans and advances to related parties at amortized cost	-	**26**	-	**26**	-	-	-	-	**26**
Financial assets at amortized cost	**2,994**	-	**31,658**	**34,652**	-	-	**14,250**	**14,250**	**20,402**
Financial guarantees and other commitments	-	**14,517**	-	**14,517**	-	-	-	-	**14,517**
Total	**125,950**	**32,010**	**197,842**	**355,802**	**1,595**	**4,703**	**18,904**	**25,202**	**330,600**

	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 of Lebanon	-	-	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	37,154	9,027	3,465	49,646	4,352	703	3,465	8,520	41,126
Commercial	*19,029*	*6,737*	-	*25,766*	*1,798*	*637*	-	*2,435*	*23,331*
Consumer	*18,125*	*2,290*	*3,465*	*23,880*	*2,554*	*66*	*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	184,339	22,725	189,322	396,386	4,619	710	19,529	24,858	371,528

31 RISK MANAGEMENT (continued)

31.2 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.

	2021						
	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 of Lebanon	161,530	-	-	-	-	-	161,530
Due from banks and financial institutions	84,375	-	-	-	-	-	84,375
Due from head office, branches and affiliates	25,963	-	-	-	-	-	25,963
Loans and advances to customers at amortized cost:	23,787	1,038	14	4,748	2,949	2,498	12,540
Commercial loans	16,642	14	-	-	2,843	2,487	11,298
Consumer loans	7,145	1,024	14	4,748	106	11	1,242
Loans and advances to related parties at amortized cost	26	-	-	-	-	-	26
Financial assets at amortized cost	20,402	-	-	-	-	-	20,402
Financial guarantees	787	-	-	-	-	-	787
Undrawn credit lines	13,700	-	-	-	-	-	13,700
Other commitments	30	-	-	-	-	-	30
Total	306,813	1,038	14	4,748	2,949	2,498	319,353
Utilized collateral		1,038	14	4,748	2,949	2,498	11,697
Surplus of collateral before undrawn credit lines		1,847	220	4,033	19,638	106	22,844
Total collateral		2,885	234	8,781	22,587	2,604	34,541

	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 of Lebanon	152,385	-	-	-	-	-	152,385
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	23,331	-	647	-	1,251	4,298	17,135
Consumer loans	17,795	1,321	-	12,705	313	3,456	-
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	371,528	1,321	647	12,705	1,564	7,754	347,537
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

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 475 million as of 31 December 2021 (2020: LL 3,070 million).

31 RISK MANAGEMENT (continued)

31.3 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 a calculation for meeting these requirements.

31 RISK MANAGEMENT (continued)

31.3 LIQUIDITY RISK (continued)

Sources of funding

Customer deposits were the main funding source of the Bank as at 31 December 2021 and 2020. 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	
	2021	*2020*
	%	%
Year-end	**12.55**	18.35
Maximum	**18.29**	28.63
Minimum	**12.55**	18.35
Average	**14.97**	25.05

31.3.1 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 as of 31 December 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. The table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2021					
	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 of Lebanon	153,917	-	-	15,000	-	168,917
Due from banks and financial institutions	84,375	-	-	-	-	84,375
Due from head office, branches, and affiliates	25,963	-	-	-	-	25,963
Loans and advances to customers at amortized cost	10,929	-	457	5,858	6,543	23,787
Loans and advances to related parties at amortized cost	-	-	-	26	-	26
Financial assets at amortized cost	-	-	9,950	7,458	2,994	20,402
Other assets	1,151	-	-	-	-	1,151
Total undiscounted financial assets	276,335	-	10,407	28,342	9,537	324,621
Financial liabilities						
Due to the Central Bank of Lebanon	-	-	-	1,055	-	1,055
Due to head office, branches and affiliates	61	-	-	-	-	61
Customer's deposits at amortized cost	215,668	16,554	21,222	148	-	253,592
Related parties' deposits at amortized cost	3,559	-	-	-	-	3,559
Total undiscounted financial liabilities	219,288	16,554	21,222	1,203	-	258,267

31 RISK MANAGEMENT (continued)

31.3 LIQUIDITY RISK (continued)

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

	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 of Lebanon	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	57	8	-	-	-	65
Financial assets at amortized cost	-	-	-	17,412	2,979	20,391
Other assets	1,353	-	-	-	-	1,353
Total undiscounted financial assets	302,319	38	254	42,423	19,929	364,963
Financial liabilities						
Due to the Central Bank of Lebanon	-	-	-	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

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

	2021						
	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	**40**	**18**	**22**	**737**	-	-	**817**
Domestic currencies to deliver	-	**45**	-	-	-	-	**45**
Undrawn credit lines	**13,700**	-	-	-	-	-	**13,700**
Total	**13,740**	**63**	**22**	737	-	-	**14,562**

	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

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

31.4 MARKET RISK

Market risk arises from fluctuations in interest rates and foreign exchanges rates. 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.

31.4.1 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 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.

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.1 INTEREST RATE RISK (continued)

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***	***2021 Net profit (loss) LL million***	*2020 Net profit (loss) LL million*
Lebanese Lira	**-100**	**(193)**	(18)
US Dollars	**-100**	**(596)**	106

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 2021

	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 of Lebanon	22,000	-	-	15,000	-	131,917	168,917
Due from banks and financial institutions	73,646	-	-	-	-	10,729	84,375
Due from head office, branches and affiliates	22,556	-	-	-	-	3,407	25,963
Loans and advances to customers at amortized cost	10,929	116	341	5,449	6,952	-	23,787
Loans and advances to related parties at amortized cost	-	-	-	26	-	-	26
Financial assets at amortized cost	-	9,950	-	7,458	2,994	-	20,402
Property and equipment	-	-	-	-	-	10,158	10,158
Other assets	-	-	-	-	-	1,151	1,151
TOTAL	129,131	10,066	341	27,933	9,946	157,362	334,779
LIABILITIES							
Due to the Central Bank of Lebanon	-	-	-	-	-	1,055	1,055
Due to head office, branches and affiliates	-	-	-	-	-	61	61
Customers' deposits at amortized cost	45,639	10,503	10,719	148	-	186,583	253,592
Related parties' deposits at amortized cost	249	-	-	-	-	3,310	3,559
Other liabilities	-	-	-	-	-	3,884	3,884
Provisions for risks and charges	-	-	-	-	-	3,034	3,034
Equity	-	-	-	-	-	69,594	69,594
TOTAL	45,888	10,503	10,719	148	-	267,521	334,779
Total interest rate sensitivity gap	83,243	(437)	(10,378)	27,785	9,946	(110,159)	-
Accumulated total interest rate sensitivity gap	83,243	82,806	72,428	100,213	110,159	-	

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.1 INTEREST RATE RISK (continued)

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 of Lebanon	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 of Lebanon	-	-	-	-	-	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	-	-	291,662	375,658
Total interest rate sensitivity gap	136,309	(12,176)	(26,619)	20,185	34,758	(152,457)	-
Accumulated total interest rate sensitivity gap	136,309	124,133	97,514	117,699	152,457	-	

31.4.2 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.

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.2 CURRENCY RISK (continued)

The following statement of financial position tables as of 31 December are detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars). Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset:

31 December 2021	***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 of Lebanon	**52,609**	**77,153**	**116,308**	**168,917**
Due from banks and financial institutions	-	**55,970**	**84,375**	**84,375**
Due from head office, branches and affiliates	-	**17,223**	**25,963**	**25,963**
Loans and advances to customers at amortized cost	**722**	**15,300**	**23,065**	**23,787**
Loans and advances to related parties at amortized cost	**26**	-	-	**26**
Financial assets at amortized cost	-	**13,534**	**20,402**	**20,402**
Property and equipment	**10,158**	-	-	**10,158**
Other assets	**1,089**	**41**	**62**	**1,151**
TOTAL ASSETS	**64,604**	**179,221**	**270,175**	**334,779**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to the Central Bank of Lebanon	-	**700**	**1,055**	**1,055**
Due to head office, branches and affiliates	-	**40**	**61**	**61**
Customers' deposits at amortized cost	**37,605**	**143,275**	**215,987**	**253,592**
Related parties' deposits at amortized cost	**26**	**2,344**	**3,533**	**3,559**
Other liabilities	**2,485**	**928**	**1,399**	**3,884**
Provisions for risks and charges	**2,402**	**419**	**632**	**3,034**
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**
Accumulated losses	**(26,508)**	-	-	**(26,508)**
Net results of the financial year - loss	**(6,608)**	-	-	**(6,608)**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**94,293**	**159,526**	**240,486**	**334,779**

31 December 2020	*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 of Lebanon	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	1,299	36	54	1,353
TOTAL ASSETS	75,613	199,034	300,045	375,658
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to the Central Bank of Lebanon	-	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
Net results of the financial year - loss	(26,508)	-	-	(26,508)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	99,664	183,080	275,994	375,658

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.2 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:

	2021		
	USD ***LL million***	***Others*** ***LL million***	***Total*** ***LL million***
ASSETS			
Cash and balances with the Central Bank of Lebanon	**112,018**	**1,703**	**113,721**
Loans and advances to customers at amortized cost	**23,065**	**-**	**23,065**
Loans and advances to related parties at amortized cost	**26**	**-**	**26**
Financial assets at amortized cost	**17,408**	**-**	**17,408**
Property and equipment	**30**	**-**	**30**
Other assets	**34**	**-**	**34**
TOTAL ASSETS	**152,581**	**1,703**	**154,284**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to the Central Bank of Lebanon	**1,055**	**-**	**1,055**
Customers' deposits at amortized cost	**206,585**	**-**	**206,585**
Related parties' deposits at amortized cost	**3,402**	**-**	**3,402**
Other liabilities	**1,399**	**-**	**1,399**
Provisions for risks and charges	**632**	**-**	**632**
Cash contribution by a shareholder	**17,819**	**-**	**17,819**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**230,892**	**-**	**230,892**

	2020		
	USD *LL million*	*Others* *LL million*	*Total* *LL million*
ASSETS			
Cash and balances with the Central Bank of Lebanon	92,367	1,799	94,166
Loans and advances to customers at amortized cost	38,107	-	38,107
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	147,974	1,831	149,805
LIABILITIES AND SHAREHOLDERS' EQUITY			
Customers' deposits at amortized cost	225,282	4,939	230,221
Related parties' deposits at amortized cost	3,123	823	3,946
Other liabilities	5,467	-	5,467
Provisions for risks and charges	2,019	-	2,019
Cash contribution by a shareholder	17,819	-	17,819
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	253,710	5,762	259,472

31 RISK MANAGEMENT (continued)

31.4 MARKET RISK (continued)

31.4.3 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.

31.5 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.

31.6 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 26) 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.

31.7 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.

32 CAPITAL MANAGEMENT

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the 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	***2021***	***2020***
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 %

32 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 Banks 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*
31 December 2021			
Minimum required capital ratios	**4.50%**	**6.00%**	**8.00%**
With the full capital conservation buffer of 2.5%	**7.00%**	**8.50%**	**10.50%**
31 December 2020			
Minimum required capital ratios	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5%	7.00%	8.50%	10.50%

	2021 *LL million*	*2020* *LL million*
Total capital	**75,906**	81,544
Risk weighted assets		
Credit risk	**143,262**	163,845
Market risk	**619**	684
Operational risk	**27,745**	27,745
Total risk weighted assets	**171,626**	192,274

32 CAPITAL MANAGEMENT (continued)

The regulatory capital as of 31 December 2021 and 31 December 2020 is as follows:

	2021	*2020*
	LBP million	*LBP million*
Tier 1 capital	**75,906**	81,544
Of which: common Tier 1	***75,906***	*81,544*
Tier 2 capital	**-**	-
Total capital	**75,906**	81,544

The capital adequacy ratio as of 31 December 2021 and 31 December 2020 is as follows:

	2021	*2020*
	%	*%*
Capital adequacy – Common Tier 1	**33.85**	33.14
Capital adequacy – Tier 1	**44.23**	42.41
Capital adequacy – Total capital	**44.23**	42.41

The capital adequacy ratios as at 31 December 2021 and 31 December 2020 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, the Sayrafa 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.