

BANQUE BEMO S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021



BDO, Semaan, Gholam & Co.
Gholam Building, Sioufi Street
Beirut
P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon
C.R. 570

Tel: (01) 323676 Fax: (01) 204142
bdo@bdo-lb.com
www.bdo-lb.com



A member firm of DFK International

Fiduciaire du Moyen-Orient p.c.c.
Sin El Fil - Fouad Chehab Blvd.
Geahchan Bldg., 1st floor
P.O.Box: 110-167
Beirut - Lebanon

Tel: (961.1) 480917
(961.1) 480723
Fax: (961.1) 496682

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANQUE BEMO S.A.L.

Adverse Opinion

We have audited the consolidated financial statements of Banque Bemo S.A.L. (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

- 1- As disclosed in Note 2.1 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29") in the accompanying consolidated financial statements for the year ended 31 December 2021. Had the Group applied the requirements of IAS 29, many elements and disclosures in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2020, would have been materially different. The effects on the consolidated financial statements arising from this departure have not been determined. The opinion for the year ended 31 December 2020 was modified for the same reasons.
- 2- The Group translated its monetary assets and liabilities denominated in foreign currencies as at 31 December 2021, as well as 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 consolidated financial statements. However, during the year, other exchange rate were introduced through legal exchange mechanisms, and several exchange rates became available, depending on the source and nature of the transaction 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 consolidated financial statements, Management did not use the rate at which the future cash flows could have been settled. Had the Group used the rate at which the future cash flows could have been settled, many accounts and disclosures in the consolidated financial statements would have been materially different. The effects on the consolidated financial statements from the departure of IAS 21 and the uncertainties relating to the appropriate exchange rates have not been determined.

Basis for Adverse Opinion (continued)

- 3- Cash and deposits with the Central Bank of Lebanon, which are carried in the consolidated statement of financial position at LBP.2,218 billion, include deposits of LBP.2,158 billion (2020: LBP.2,220 billion, include deposits of 2,095 billion). Investment securities, which are carried in the consolidated statement of financial position at LBP.376 billion, include Lebanese government debt securities and certificates of deposit issued by the Central Bank of Lebanon of LBP.113 billion and LBP.263 billion respectively (2020: LBP.431 billion, include Lebanese Government debt securities and certificates of deposit issued by the Central Bank of Lebanon of LBP.138 billion and LBP.265 billion respectively). Management has not stated deposits with the Central Bank of Lebanon, Lebanese government debt securities and certificates of deposit issued by the Central Bank of Lebanon net of allowances for expected credit losses which take into account the significant deterioration in credit quality since initial recognition which has arisen as a result of the continuing economic crisis in Lebanon and the government default on Eurobonds, which constitutes a departure from IFRS. We were unable to determine the adjustments necessary to these amounts. The opinion in the prior year was also modified in respect of deposits with Central Bank of Lebanon denominated in foreign currencies, Lebanese government debt securities and certificates of deposit denominated in US Dollars issued by the Central Bank of Lebanon.
- 4- Deposits with banks and financial institutions, which are carried in the consolidated statement of financial position at LBP.116 billion, include deposits with local banks of LBP.24 billion (2020: LBP.30 billion). Investment securities, which are carried in the consolidated statement of financial position at LBP.376 billion include investment debt securities originated by the Lebanese private sector of LBP.1 billion (2020: LBP.4 billion). Management has not stated deposits with local banks and investment debt securities originated by the Lebanese private sector net of allowances for expected credit losses which take into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRS. We were unable to determine the adjustments necessary to these amounts. The opinion in the prior year was also modified in respect of this matter.
- 5- Financial assets at fair value through profit or loss, which are carried in the consolidated statement of financial position at LBP.4 billion include Lebanese treasury bills, Lebanese government debt securities, shares and corporate bonds domiciled in Lebanon of LBP.238 million, LBP.17 million and LBP.3 billion respectively (2020: LBP.240 million, LBP.22 million, LBP.10 billion respectively). Investment securities, which are carried in the consolidated statement of financial position at LBP.376 billion, include financial assets at fair value through other comprehensive income of LBP.2 billion domiciled in Lebanon (2020: LBP.667 million of financial assets at fair value through other comprehensive income domiciled in Lebanon). Management has stated the aforementioned Group's financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing in Lebanon at the reporting date, which constitutes a departure from IFRS. We were unable to determine the adjustments necessary to this amount. The opinion in the prior year was also modified in respect of this matter.
- 6- Note 43 to the consolidated financial statements discloses the fair value of the Group's financial assets and financial liabilities measured at amortized cost. The inputs used by Management to determine the fair value of the Group's financial assets and financial liabilities disclosed in this note are not indicative of economic reality and market conditions existing at the reporting date, which constitutes a departure from IFRS. We were unable to determine the adjustments necessary to the amounts disclosed in Note 43.

Basis for Adverse Opinion (continued)

- 7- Loans and advances to customers and related parties which are carried in the consolidated statement of financial position at LBP.635 billion represent loans and advances where the credit risk is predominantly concentrated in Lebanon and is affected as a result of the monetary and economic crisis that the country is facing since the last quarter of 2019. Certain loans and advances have not been stated net of an allowance for expected credit losses which takes into account all circumstances and available information at the reporting date, which constitutes a departure from IFRS. The opinion in the prior year was also modified in respect of this matter.
- 8- Cumulative change in fair value of investment securities is carried in the consolidated statement of financial position at LBP.1 billion. Management has stated cumulative changes in fair value of investment at a portion of a previously recognized regulatory deferred liability and not at the difference between the fair value of investments through other comprehensive income and the cost of those investments, which constitutes a departure from IFRS. The Group's records indicate that had management stated the cumulative change in fair value of investment securities at the difference between the fair value of investments through other comprehensive income and the cost of those investments, an amount of LBP.1 billion would have been required to reduce cumulative change in fair value of investment securities. Accordingly, retained earnings would have been increased by LBP.1 billion.

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 Consolidated Financial Statements" section of our report. We are independent of the Group 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 consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. Except for the matters described in the "Basis for Adverse Opinion" section of our report, 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

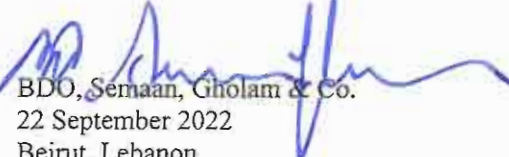
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Other important matters

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by Deloitte & Touche and DFK Fiduciaire du Moyen Orient, who expressed an adverse opinion on those statements on 15 September 2021.


BDO, Semaan, Gholam & Co.
22 September 2022
Beirut, Lebanon


DFK Fiduciaire du-Moyen Orient

BANQUE BEMO S.A.L.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2021

	Notes	2021 LBP000	2020 LBP000
ASSETS			
Cash and deposits with central banks	4	2,217,950,824	2,219,931,948
Deposits with banks and financial institutions	5	116,338,255	108,444,168
Financial assets at fair value through profit or loss	6	3,589,322	10,881,435
Loans and advances to customers and related parties	8	634,875,475	595,021,738
Investments securities	9	402,098,319	430,655,222
Customer's liability under acceptances	11	8,439,539	11,557,983
Assets acquired in satisfaction of loans	12	3,445,186	2,907,009
Property and equipment	13	82,938,914	77,295,897
Right-of-use assets	7	1,401,562	1,963,010
Intangible assets	14	509,788	709,660
Other assets	15	36,753,932	24,472,076
TOTAL ASSETS		3,508,341,116	3,483,840,146
FINANCIAL INSTRUMENTS WITH OFF-FINANCIAL POSITION RISK:			
Documentary and commercial letters of credit		-	308,913
Guarantees and standby letters of credit		39,980,097	47,915,113
Forward exchange contracts		85,725,684	277,074,262
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	39	8,319,297	11,333,877
LIABILITIES			
Deposits and borrowings from banks and financial institutions	16	487,335,140	411,367,297
Customers and related parties accounts at amortized cost	17	2,576,483,764	2,602,624,632
Liability under acceptances	11	10,549,424	11,584,624
Other term borrowings	18	15,510,555	21,886,586
Lease liability	7	2,415,319	2,446,066
Other liabilities	19	42,536,921	42,181,375
Provisions	20	6,391,471	4,886,130
		3,141,222,594	3,096,976,710
Subordinated bonds	21	54,624,366	91,589,918
TOTAL LIABILITIES		3,195,846,960	3,188,566,628
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	22	77,810,000	77,810,000
Treasury shares	22	(3,654,740)	(3,654,740)
Preferred shares	23	52,641,854	52,641,854
Shareholders' cash contribution to capital	24	70,267,271	50,767,759
Reserves	25	70,576,624	70,623,239
Retained earnings		21,979,529	21,286,200
Revaluation surplus (net)	13	16,914,064	16,914,064
Change in fair value of financial assets at fair value through other comprehensive income	26	1,296,558	7,232,339
Profit for the year		398,338	1,652,337
		308,229,498	295,273,052
NON-CONTROLLING INTERESTS		4,264,658	466
TOTAL EQUITY		312,494,156	295,273,518
TOTAL LIABILITIES AND EQUITY		3,508,341,116	3,483,840,146

The attached notes 1 to 53 form part of these financial statements.

BANQUE BEMO S.A.L.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	2021 LBP000	2020 LBP000
Interest income	27	120,435,929	139,677,865
Tax on interest	27	(9,653,312)	(10,677,089)
Interest income (net of tax)		110,782,617	129,000,776
Interest expense	28	(25,828,125)	(65,934,689)
Net interest income		84,954,492	63,066,087
Fee and commission income	29	48,737,780	20,353,748
Fee and commission expense	30	(874,368)	(776,847)
Net fee and commission income		47,863,412	19,576,901
Net interest and other gains on financial assets at fair value through profit or loss	31	2,227,896	628,570
Gain from derecognition of securities at amortized cost	33	21,045	-
(Loss) gain on exchange	34	(38,427,881)	655,813
Other operating income (net)	32	5,108,468	6,111,074
Total operating income		101,747,432	90,038,445
Provision for credit losses, (net)	35	(45,226,802)	(32,967,177)
Net operating income		56,520,630	57,071,268
Staff costs	36	(31,295,852)	(27,426,027)
Administrative expenses	37	(22,153,797)	(16,205,119)
Tax on revenues	19	-	(4,115,000)
Depreciation and amortisation	13-14	(2,589,263)	(2,500,216)
Depreciation of right-of-use assets	7	(561,448)	(1,280,018)
Other income (net)	13-15	1,725,310	1,843,724
		(54,875,050)	(49,682,656)
Profit before income tax		1,645,580	7,388,612
Income tax expense		(1,048,214)	(5,736,272)
Profit for the year		597,366	1,652,340
Other comprehensive income: Items that may be reclassified subsequently to profit or loss:			
Change in fair value of investment securities	26	1,296,558	7,232,339
Net other comprehensive income for the year		1,296,558	7,232,339
Total comprehensive income for the year		1,893,924	8,884,679
Attributable to:			
Equity holders of the parent		1,262,915	8,884,676
Non-controlling interests		631,009	3
		1,893,924	8,884,679

The attached notes 1 to 53 form part of these financial statements.

BANQUE BEMO S.A.L.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Treasury shares		Preferred shares		Shareholders' cash contribution		Legal and other reserve	Revaluation real estate	Change in fair value of investment securities	Retained earnings	Profit for the year	Total attributable to the equity holders of the Bank	Non-controlling interests	Total
	LBP000	(3,654,740)	LBP000	52,641,854	LBP000	50,767,759								
Balance at 1 January 2021	77,810,000	(3,654,740)	-	52,641,854	50,767,759	70,623,239	16,914,064	1,296,558	21,286,200	2,050,675	289,735,609	19,499,512	295,273,518	
Profit for the year	-	-	-	-	19,499,512	-	-	-	1,652,337	(1,652,337)	1,652,337	398,338	466	
Other comprehensive income (loss)	-	-	-	-	-	(46,615)	-	-	-	(959,008)	(1,005,623)	4,065,164	597,366	
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Cash contribution to capital (note 37)	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loss of significant influence of the Group	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balance at 31 December 2021	77,810,000	(3,654,740)	-	52,641,854	70,267,271	70,576,624	16,914,064	1,296,558	21,979,529	398,338	308,229,498	4,264,658	312,494,156	
Balance at 1 January 2020	77,810,000	(3,679,126)	-	52,641,854	29,104,984	70,440,239	16,914,064	(30,942,448)	47,889,535	(12,352,792)	247,826,310	463	247,826,773	
Profit for the year	-	-	-	-	-	-	-	-	-	1,652,337	1,652,337	3	1,652,340	
Other comprehensive income	-	-	-	-	-	-	-	7,232,339	-	-	7,232,339	-	7,232,339	
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	
Capital increase (Note 27)	-	-	-	-	21,662,775	-	-	(23,710,109)	47,889,535	(10,700,455)	256,710,986	466	256,711,452	
Disposal in treasury shares	-	24,386	-	-	-	-	-	-	-	-	21,662,775	-	21,662,775	
Appropriation of losses	-	-	-	-	-	183,000	-	-	(12,535,792)	12,352,792	24,386	-	24,386	
Change in fair value of financial assets through other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loss of significant influence of the Group over the associate	-	-	-	-	-	-	-	30,942,448	-	-	30,942,448	-	30,942,448	
Reversal of deferred liability	-	-	-	-	-	-	-	-	(23,890,169)	-	(23,890,169)	-	(23,890,169)	
Reversal of provision for impairment of investment in an associate	-	-	-	-	-	-	-	-	16,875,457	-	16,875,457	-	16,875,457	
Balance at 31 December 2020	77,810,000	(3,654,740)	-	52,641,854	50,767,759	70,623,239	16,914,064	7,232,339	21,286,200	1,652,337	295,273,052	466	295,273,518	

Reserves: Allocation to reserves from the result of year 2020, is booked in year 2022.

Retained earnings: This account includes an amount of LBP.16,875,457 resulting from reversal of reserve related to foreign currency translation which is non-distributable reserve.

BANQUE BEMO S.A.L.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	<i>Notes</i>	<i>2021</i> <i>LBP000</i>	<i>2020</i> <i>LBP000</i>
Cash flows from operating activities			
Profit before tax		1,645,580	7,388,612
Adjustments for:			
Depreciation and amortisation		2,589,263	2,500,216
Depreciation right of use		561,448	1,280,018
Interest expense – Finance lease liability		149,311	195,027
Provisions for contingencies		-	625,613
Write back of provision for contingencies		(250,622)	(2,229,825)
Assets acquired in satisfaction of loans		(538,177)	1,314,414
Provision for expected credit losses, (net)		45,226,802	32,967,177
Non-controlling interests		199,028	-
Provision for employees' end-of- service indemnities		1,461,958	1,275,399
Unrealized gain on financial assets at fair value through profit or loss		(2,173,716)	(596,152)
Loss from sale of property and equipment		2,373	2,987
Increase (decrease) in deposits with central banks, banks and financial institutions		(118,807,762)	64,319,807
Decrease in trading assets at fair value through profit or loss		9,465,829	60,242,792
(Increase) decrease in loans and advances to customers and related parties		(52,996,131)	186,246,049
Increase in other assets		(12,383,115)	(8,319,170)
Decrease (increase) in non-interest earning compulsory reserve		1,846,745	(15,608,033)
Increase in due to banks and financial institutions		75,967,843	78,729,176
Decrease (increase) in other borrowings		(6,376,031)	8,495,081
Decrease (increase) in customers' and related parties deposits at amortised cost		(26,140,868)	773,269,681
Increase in other liabilities		355,546	21,735,376
Settlement of employees' end-of-services indemnity		(172,934)	(148,437)
Taxes paid		(3,994,357)	(2,512,919)
Net cash (used in) generated by operating activities		(84,361,987)	1,211,172,889
Net cash from investing activities			
Investment securities		2,572,698	74,569,568
Acquisition of property and equipment		(7,951,762)	(4,160,778)
Proceeds from sale of property and equipment		-	354,535
Intangible assets		(83,019)	(326,723)
Net cash (used in) generated by investing activities		(5,462,083)	70,436,602
Cash flows from financing activities			
Acquisition of treasury shares (net)		-	24,386
Settlement of lease liability		(180,058)	(860,646)
Shareholders' cash contribution to capital		19,499,512	21,662,775
Subordinated bonds		(36,965,552)	1,139,918
Net cash (used in) generated by financing activities		(17,646,098)	21,966,433
Net (decrease) increase in cash and cash equivalents		(107,470,168)	1,303,575,924
Cash and cash equivalents - Beginning of year		1,730,795,702	427,219,778
Cash and cash equivalents - End of year	41	<u>1,623,325,534</u>	<u>1,730,795,702</u>

The attached notes 1 to 53 form part of these financial statements.

1 CORPORATE INFORMATION

Banque Bemo SAL (the “Bank”) is a Lebanese joint-stock company listed on the Beirut Stock Exchange and registered in the Commercial Registry under number 17837 and on the list of banks published by the Central Bank of Lebanon under number 93. The Bank’s headquarters are located in Beirut.

Banque Bemo S.A.L. is owned by Sharikat Al Istismarat Al Oropia Lil Shareq Al Aousat (Holding) SAL to the extent of 61.06%.

The Bank, together with its subsidiaries (collectively the “Group”), provides a wide range of commercial, corporate and private banking activities, through its headquarters and branches in Lebanon and its presence in Europe and Middle East.

The Bank’s Board of Directors resolved in their meeting held on 28 February 2022 the cessation of activities of Limassol – Cyprus branch and to close it permanently pursuant to the decision of the Central Council of the Central Bank of Lebanon number 172 m.m/3 dated 11 March 2022. The closure and liquidation procedure are in process.

The consolidated financial statements were authorised for issue on 23 January 2023 by the Board of Directors.

The consolidated subsidiaries consist of the following as at 31 December 2021 and 2020:

	<i>Ownership</i>		<i>Country of incorporation</i>	<i>Business activity</i>
	<i>2021</i>	<i>2020</i>		
Bemo Securitization S.A.L	39.57%	96.00%	Lebanon	Securitization & Structured Finance
Depository & Custody Company S.A.L	51.62%	99.90%	Lebanon	Depository and Custody of securities
Bemo Investment Firm S.A.L	39.57%	100.00%	Dubaï	Investment

1.1. Macroeconomic environment

The Group’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 unprecedented 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, significantly reduced credit lines to companies and withdrawals 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 unprecedented 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 USD/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Lira, 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:

1 CORPORATE INFORMATION (continued)**1.1 Macroeconomic environment (continued)**

- (a) Subsidised imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 USD/LL (the official exchange rate). During 2021, this subsidy was lifted.
- (b) Introduced the Platform Rate, currently at 8,000 USD/LL, to be used only in specific circumstances.
- (c) Subsidised 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 LL, as well as operations from/to foreign currencies external accounts against LL. 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 (subject to unofficial capital controls), 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 government reform measures 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 new terms in the Lebanese market, such as “local Dollars” to designate local US Dollars bank accounts that are subject to unofficial capital controls, and “fresh funds/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).

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; an ambitious anti-corruption strategy; an 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, to date 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 recapitalization needs will be determined on a bank-by-bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank-by-bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

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

Alternative Plan submitted by Association of Banks in Lebanon

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

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

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

The ABL approach deploys five strategic priorities allowing a prompt and sustainable economic and financial recovery in the wake of expected IMF (or 'the Fund') Balance of Payments ('BoP') support requested on May 1st by the Government:

- I. A debt restructuring process that minimizes the damaging consequences to the nearly 3 million domestic bank depositors and to the economy as a whole, while priming the economy for a faster recovery and higher medium-term potential growth
- II. A sustainable medium-term fiscal strategy leaving a significant fiscal space to finance much-needed social measures, including an Expanded Social Safety Net to fight poverty and concrete steps against social exclusion
- III. A monetary and exchange rate unification policy that addresses the massive external imbalances while containing considerable inflationary pressures and avoiding hyperinflation
- IV. A financial sector restructuring based on an orderly banking sector approach on a case-by-case basis when needed, upgrading regulatory matters to international standards
- V. A strong diversification strategy of the economy as well as much-needed structural reforms including anticorruption measures, a lower cost of doing business in the country as well as reforms that reduce the size of the informal sector

International Monetary Fund (IMF)

Following the end of the IMF virtual mission from 24 January to 11 February 2022 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\$ 3 billion, 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:

1 CORPORATE INFORMATION (continued)**1.1 Macroeconomic environment (continued)**

- (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 and capital position.

1.2 Regulatory environment

During 2020 and up to the date of the authorization of issue of these consolidated 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 the 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% 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 the 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 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 their 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 1 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 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 2), 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 may be drawn down during 2020 and 2021, but must be rebuilt, progressively, starting 2022, by at least 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 mainly introduced 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 USD 500,000 or their equivalent in other foreign currencies, to deposit in a 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 from banks to maintain a 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 from 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 Lira based on the official exchange rate of LL 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.
 - The housing loans granted to the client should not exceed USD 800,000 while the aggregate amount of retail loans should not exceed USD 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 31 December 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 LL, as well as operations from/to foreign currencies external accounts against LL. 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 LL equivalent to USD 400 and converted at a rate USD/LL 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 LL 8,000 USD/LL 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 LL at limits set by the bank until 31 July 2022.
- Intermediate Circular 616 issued on 3 March 2022 prohibiting banks from distributing dividends to ordinary shareholders from results of financial years 2019, 2020 and 2021.

31 December 2021

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group

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

	2021		2020	
	Year-end Rate	Average Rate	Year-end Rate	Average Rate
	LBP	LBP	LBP	LBP
US Dollar	1507.5	1507.5	1,507.5	1,507.5
Euro	1,701.52	1,786.92	1,851.21	1,724.88

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 one: 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 USD 3,000 per bank account. The "Platform Rate" was 1 USD / LL 3,900 throughout the period from the issuance of the circular. During December 2021, it was increased to 1 USD / LL 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 LL, as well as operations from/to foreign currencies external accounts against LL. 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	Average rate for the	Rate as at	Average rate for the
	31 December	period from 10 May to 31 December	31 December	year ended 31 December
	LL	LL	LL	LL
US Dollar	22,700	16,266	N/A	N/A

The Sayrafa platform is not available for the purchase and sale of "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 LL equivalent to USD 400 and converted at a rate USD/LL 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

1 CORPORATE INFORMATION (continued)**1.3 Particular Situation of the Group (continued)**

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 Group 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 Lira 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 consolidated financial statements. We are unable to estimate the effects on these consolidated financial statements and these consolidated 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 consolidated financial statements once the revamping of the peg is implemented by the Lebanese government. Foreign currency mismatch is detailed in Note 43 to these consolidated financial statements.

These consolidated financial statements do not include adjustments to the carrying amounts of the Group's assets with the Central Bank of Lebanon, the Parent Bank and the Lebanese Treasury to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the Lebanese government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon, the Parent Bank and Lebanese government and the recognized loss allowances, as well as their staging are detailed in Note 40 to these consolidated financial statements.

The financial position of the Group, as reported in these consolidated 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 consolidated financial position.

Litigations and claims

Until the above uncertainties are resolved, the Group 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 Group to litigations that are dealt with on a case-by-case basis when they occur. The Group has been subject to increased litigations as a result of these restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Lira. Management is carefully considering the impact of these litigations and claims. 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. However due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, Management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency exposure (refer to Note 48 – Currency Risk). The amount cannot be determined presently.

Meanwhile, the Group is exerting extended efforts to (a) strengthen its capitalisation, (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.

1 CORPORATE INFORMATION (continued)**1.3 Particular Situation of the Group (continued)***Litigations and claims (continued)*

Once the above uncertainties are resolved, a pro-forma statement of financial position of the Group 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, the effects of the restructuring of the Central Bank of Lebanon balance sheet and the effects on its private loan portfolio.

On 1 October 2020, 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 a roadmap that sets out the following:

- The Bank's overall strategy for the years 2020 – 2024
- 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 yet 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, when existing
- The Bank's strategy with respect to its investments in foreign banks and branches
- The mechanism to rectify any non-compliance with regulatory requirements
- 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 liquidity onshore and offshore commitments

The roadmap was submitted to the Central Bank of Lebanon on 25 February 2021. However, a reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

The Bank is unable to predict the response of the Central Bank of Lebanon on its submitted roadmap, as well as the level of its adherence with the banking regulations and its planned actions, nor it is able to predict the measures that might be taken by the regulator in that regard. Once the Bank receives an official feedback from the Central Bank of Lebanon, Management will therefore be able to assess its impact on the consolidated financial statements.

The Bank is also uncertain whether the measures set out in its roadmap above would be sufficient to cover all its commitments as they become due and restore the activities of the Bank to normal pre-crisis levels. Such sufficiency 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.

The Lebanese crisis which was set off during the last quarter of 2019, has imposed severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar, resulted into several practices and transactions that would not qualify as normal course of business in a non-crisis environment, and for which there are no directly observable prices or a governing legal/regulatory framework. Such practices and transactions expose the Bank to increased litigation and regulatory risks and negatively impact the financial position of the Bank, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the Bank's financial position, future cash flows, results of operations, regulatory ratios and covenants. The Bank's realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

1 CORPORATE INFORMATION (continued)

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of land and buildings acquired prior to 1999 are measured at their revalued amounts based on market prices prevailing during 1999 as permitted by local regulations, to compensate for the inflationary effects prevailing in the earlier years, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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

As of 31 December 2021 and 2020, all conditions have been met for the Bank's consolidated financial statements to incorporate the inflation adjustment provided under IAS 29 "Financial Reporting in Hyperinflationary Economies". IFRS requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy be restated into the current purchasing power at the end of the reporting period. Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyperinflationary economy to apply the standard at the same date. In order to achieve uniformity as to the identification of an economic environment of this kind, IAS 29 provides certain guidelines: a cumulative three-year inflation rate exceeding 100% is a strong indicator of hyperinflation, but also qualitative factors, such as analysing the behaviour of population, prices, interest rates and wages should also be considered.

The Lebanese Central Administration of Statistics reported 3-year and 12-month cumulative rates of inflation of 753% and 224%, respectively as at 31 December 2021 (31 December 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 on or after 31 December 2021.

Therefore, entities whose functional currency is the Lebanese Liras, 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 has always been hyperinflationary; using a general price index that reflects the changes in the currency's purchasing power.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 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 consolidatedly, and compare them again, but with the restated amounts.
 - v. At the beginning of the first year of application of the restatement method of consolidated 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 consolidated financial statements, for the reasons described below, Management is temporarily unable to apply the above-mentioned standard nor is it able to quantify the effect that the application of IAS 29 would have on the presented consolidated financial statements.

The Group uses the official exchange rate of 1,507.5 LL/USD to translate balances 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 the "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 Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official published exchange rate as disclosed in Note 1.3, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the consolidated financial statements.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 Group is currently assessing the date at which it will apply IAS 29. The application of IAS 29 is very complex and requires the Group to develop new accounting software and processes, internal controls and governance framework. Based on the Group'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 Group has postponed the application of IAS 29 and incurring costs for developing accounting processes and a governance framework until the Group is comfortable that such application would provide the users with more relevant information.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 Group presents its consolidated 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 to the consolidated financial statements.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements; therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expenses will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2 ACCOUNTING POLICIES (continued)

2.2. Basis of Consolidation

The consolidated financial statements comprise the financial statements of Banque BEMO S.A.L. and its subsidiaries as at 31 December 2021. Details of the principal subsidiaries are given in Note 1.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee.
- The relevant activities and how decisions about those activities are made, and whether the Group can direct those activities.
- Contractual arrangements such as call rights, put rights and liquidation rights.
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognised in profit or loss. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognised in other comprehensive income are transferred to consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.2. Basis of Consolidation (continued)

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.3 New and Amended Standards and Interpretations

The Group 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
- Provide temporary relief to entities from having to meet the consolidatedly identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

2.4 Standards issued but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments and interpretations are as follows:

2 ACCOUNTING POLICIES (continued)**2.4 Standards issued but not yet effective (continued)*****IFRS 17 Insurance Contracts***

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have a material impact on the Group.

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 Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

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 consolidatedly.

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.

The amendments are not expected to have a material impact on the Group.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

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 Group.

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 Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Group.

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 Group 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 Group.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

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 Group.

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 Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

2.5 Summary of significant accounting policies

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured until it is finally settled within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Business Combinations and Goodwill (continued)**

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 "Operating Segments".

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Foreign currencies

The consolidated financial statements are presented in Lebanese Lira (LL) which is also the Group's functional currency.

(i) Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction (as disclosed in 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 date of the statement of financial position. All differences are taken to "net trading (loss) gain" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)*****(ii) Group Companies***

On consolidation, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date (as disclosed in Note 1), and their income statements are translated at the monthly average exchange rates for the year (as disclosed in Note 1). Exchange differences arising on translation are recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date (as disclosed in Note 1).

Financial instruments – initial recognition***(i) Date of recognition***

All financial assets and liabilities are initially recognised on the settlement date. This includes "regular way trades": 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 case of a 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 Group 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 Group immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated 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 consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets – classification and measurement

On initial recognition, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:

- (i) The business model within which financial assets are measured; and
- (ii) Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI)).

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)

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

On initial recognition, the Group may 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 recognising the gains and losses on them on different bases. The Group is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business model

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

The Group'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 Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

The Group'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 Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group's business model for managing those financial assets changes, the Group is required to reclassify financial assets.

The SPPI test

As a second step of its classification process the Group 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 Group 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 through profit and loss.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Financial assets – classification and measurement (continued)***Financial assets at amortised cost*

Balances with Central Bank, due from Banks and financial institutions, loans and advances to customers and to related parties at amortised cost and Financial assets 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 consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in “Net impairment loss on financial assets”. Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under “Net gain (loss) on derecognition of financial assets at amortised cost” in the consolidated income statement.

Financial assets at fair value through profit or loss

Included in this category are those debt instruments that do not meet the conditions in “*financial assets at amortised cost*” and “*financial assets at fair value through other comprehensive income*” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. 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.

Debt instruments at fair value through profit or loss

These financial assets are recorded in the consolidated statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognised as revenue or expense when the instrument is initially recognised. Changes in fair value and interest income are recorded under “net trading (loss) gain” in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under “net trading (loss) gain” in the consolidated income statement, showing separately those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity instruments at fair value through profit or loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under “Net trading (loss) gain” in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net trading (loss) gain” in the consolidated income statement.

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – 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 Group 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;
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – classification and measurement (continued)

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- Doing so results in more relevant information, because it either 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 recognising the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit or loss due to changes in the Group's own credit risk. Such changes in fair value are recognised in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit or loss is accrued in interest expense using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument.

Debt issued and other borrowed funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under “Debt issued and other borrowed funds” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised 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.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to Central Bank, Banks and financial institutions and Customers' and related parties' deposits

After initial measurement, due to Central Bank, banks and financial institutions, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised 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. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a) Its value changes in response to the change in 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 in the case of a non-financial variable that the variable is not specific to a party to the contract (also known as the “underlying”).
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include currency 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. Changes in the fair value of derivatives are recognised in “Net trading (loss) gain” in the consolidated income statement, unless hedge accounting is applied, which is discussed in under “hedge accounting policy” below.

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 cause 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 consolidated 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 consolidated 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 recognised in profit or loss.

Financial guarantees, letters of credit and undrawn loan commitments

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated income statement, and an expected credit losses ECL provision. The premium received is recognised in the income statement in “Net fees and commission income” on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group 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, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Reclassification of financial assets

The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent and are determined by the Group's Senior Management as a result of external or internal changes when significant to the Group'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 recognised 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 recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

Derecognition 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 Group 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 Group 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 Group 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

(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 Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- The Group 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 Group 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 Group 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 Group cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group 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 Group has transferred substantially all the risks and rewards of the asset; or
- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group 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 Group 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 Group's continuing involvement, in which case, the Group 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 Group 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 Group 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 Group 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.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Derecognition of financial assets and financial liabilities (continued)*****Financial liabilities***

A financial liability is derecognised 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 recognised in the consolidated income statement, as “Other operating income” or “Other operating expenses”.

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.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction’s economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group properly discloses this fact in the notes.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position within “Loans to banks and financial institutions and reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “Financial liabilities at fair value through profit or loss” and measured at fair value with any gains or losses included in “Net trading (loss) gain” in the consolidated income statement.

Impairment of financial assets***(i) Overview of the ECL principles***

The Group records allowance for expected credit losses based on a forward-looking approach for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as “financial instruments”. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which cases, the allowance is based on the 12 months’ expected credit loss (12mECL). The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Impairment of financial assets (continued)***(ii) Measurement of ECLs*

The Group measures ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

The key inputs into the measurements of ECL are:

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

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

The Group measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For these instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage, the allowance for credit losses captures the lifetime expected credit losses similar to Stage 2.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(iii) *Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit impaired” when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

(iv) *Write offs*

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

(v) *Collateral repossessed*

The Group 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 consolidated statement of comprehensive income 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement

The Group measures financial instruments, such as financial assets at fair value through profit or loss, at fair value at each statement of financial position 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are 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 Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. The Group makes use of derivative instruments to manage exposures to foreign currency risk and interest rate fluctuations. The process starts with identifying the hedging instrument and hedged item and preparing hedge documentation detailing the risk management strategy and objective.

Setting the Risk Management Strategy and Objectives

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

The risk management strategy is established at the level of Executive Management and identifies the risks to which the Group is exposed and whether and how the risk management activities should address those risks. The strategy is typically maintained for a relatively long period of time. However, it may include some flexibility to react to changes in circumstances. The risk management strategy is set out in general documentation and is cascaded down through policies containing more specific guidelines.

The Group sets risk management objectives at the level of individual hedging relationships and defines how a particular hedging instrument is designated to hedge a particular hedged item. As such, a risk management strategy would usually be supported by many risk management objectives.

Qualifying Hedging Relationships

The Group applies hedge accounting for qualifying hedging relationships. A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the hedge effectiveness requirements.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and semi-annually on an ongoing basis. A hedge is expected to be highly effective if:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Hedge ineffectiveness is recognised in the consolidated statement of comprehensive income in "Net trading (loss) gain".

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

When the Group separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:

- (a) An entity shall distinguish the time value of options by the type of hedged item that the option hedges:
 - (i) A transaction related hedged item; or
 - (ii) A time-period related hedged item.
- (b) The change in fair value of the time value shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a consolidated component of equity. The cumulative change in fair value shall be accounted for as follows:
 - (i) If the hedged item subsequently results in the recognition of a non-financial asset or a non-financial liability, or a firm commitment for a non-financial asset or a non-financial liability for which fair value hedge accounting is applied, the entity shall remove the amount from the consolidated component of equity and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence does not affect other comprehensive income;
 - (ii) For hedging relationships other than those covered by (i), the amount shall be reclassified from the consolidated component of equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss;
 - (iii) However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment.
- (c) The change in fair value of the time value of an option that hedges a time-period related hedged item shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option's intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (i.e. including cumulative amortisation) that has been accumulated in the consolidated component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see IAS 1).

When the Group separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract, or when an entity separates the foreign currency basis spread from a financial instrument and excludes it from the designation of that financial instrument as the hedging instrument, the entity may account for the forward element of the forward contract or for the foreign currency basis spread in the same manner as for the time value of an option.

(i) *Fair value hedges*

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated statement of comprehensive income under "Net gain on financial assets at fair value through profit or loss". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated statement of comprehensive income also under "Net trading (loss) gain".

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group 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. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of comprehensive income.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Hedge accounting (continued)***(i) Fair value hedges (continued)*

For fair value hedge relationships where the hedged item is not measured at amortised cost, such as debt instruments at fair value through other comprehensive income, changes in fair value that were recorded in the consolidated income statement whilst hedge accounting was in place are amortised in a similar way to amortised cost instruments using the EIR method. However, as these instruments are measured at their fair values in the consolidated statement of financial position, the fair value hedge adjustments are transferred from the consolidated income statement to other comprehensive income.

(ii) Cash flow hedges

For qualifying cash flow hedge, a consolidated component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- a) The cumulative gain or loss on the hedging instrument from inception of the hedge; and
- b) The cumulative change in fair value (present value) of the hedged item from inception of the hedge.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated statement of comprehensive income. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

- a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
- b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. 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 consolidated income statement.

(iii) Hedge of net investments

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of comprehensive income. On disposal or partial disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in the foreign currency translation reserve is transferred to the consolidated income statement as a reclassification adjustment.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within “property, equipment and right-of-use assets” on the consolidated financial statements and are subject to impairment in line with the Group’s policy, as described under “impairment of non-financial assets”.

Depreciation charge for right-of-use assets is presented within “depreciation of property, equipment and right-of-use assets” in the consolidated financial statements.

(ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group’s lease liabilities are included under “other liabilities”. Moreover, the interest charge on lease liabilities is presented within “interest and similar expenses” in the consolidated financial statements.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. Other rental expenses (including non-lease components paid to landlords) are presented within other operating expenses in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Leases (continued)***Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with Central Bank and due from banks and financial institutions.

Property and equipment

Property and equipment except for buildings acquired prior to 1999, is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Buildings acquired prior to 1999 are stated at their revalued amounts based on market prices prevailing during 1999 less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using straight line method to write down the cost of property and equipment to their residual value over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	40 years
• Freehold improvements	5 years
• Leasehold improvements	5 -10 years
• Motor vehicles	5 – 8.33 years
• Office machinery and computer hardware	5 - 8 years
• Office equipment and furniture	12 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in “Net gain from disposal of property and equipment” in the year the asset is derecognised.

The assets’ residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of comprehensive income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

The Group does not have intangible assets with indefinite economic life.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software 5 years

Assets obtained in settlement of debt, assets held for sale and discontinued operations

Assets obtained in settlement of debt and assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, Management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a consolidated major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a consolidated major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Assets obtained in settlement of debt, assets held for sale and discontinued operations (continued)

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported *separately* from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the loss of control. The resulting profit or loss (after taxes) is reported *separately* in the statement of comprehensive income.

Provision for termination indemnity

End of service indemnity subscriptions paid and due to the National Social Security Fund are calculated on the basis of 8.5% of the staff salaries. The final termination indemnities due to employees after completing 20 years of service or at the retirement age or if the employee leaves permanently the employment, are calculated based on the last salary times the number of years of service; the Company is liable to pay to the National Social Security Fund the difference between the subscriptions paid at the rate of 8% and the total indemnity due to employees.

Provisions for risks and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement.

Taxes

Taxes are provided for in accordance with regulations and laws that are effective in the country where the Group operates.

(i) Current Tax

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 reporting date.

The income tax rate is 17%.

(ii) Deferred Tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred Tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised 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 recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense

The effective interest rate (EIR)

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

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the 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.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Revenue recognition (continued)****(i) Interest and similar income and expense**

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.

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 Group 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 consolidated statement of comprehensive income includes interest on financial assets at amortised cost.

Interest expense presented in the consolidated statement of comprehensive income includes financial liabilities measured at amortised cost.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under "Net gain on financial assets at fair value through profit or loss" in the consolidated statement of comprehensive income.

(ii) Fee and commission income

The Group 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 and advisory fees.

Fee Income Providing Transaction Services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

(iv) *Net trading (loss) gain*

Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss and, also non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends and foreign exchange differences.

Assets under management and assets held in custody and under administration

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or under custody or under administration, are not treated as assets of the Group and, accordingly, are recorded as off-balance sheet items.

Customers' acceptances

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

Segment reporting

The Group's segmental reporting is based on the following operating segments: corporate and commercial banking, retail and personal banking, treasury and capital markets and group functions and head office.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

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

Going concern

Notwithstanding the events and conditions disclosed in Note 1, these consolidated 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 Group and continue its operations in the current business and economic environment.

Business model

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Judgments (continued)***Contractual cash flows of financial assets*

The Group exercises judgment 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 amortised cost measurement. In making the assessment the Group 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.

Deferred tax assets

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

Determining the lease term of contracts with renewal and termination options

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

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

The Group included the renewal period as part of the lease term for leases of head office and branches due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on the Group's operations if a replacement is not readily available.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment losses on financial assets

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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**Estimates and assumptions (continued)**

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

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

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

Determining the number and relative weight of scenarios, the outlook for each type of product market, and the identification of future information relevant to each scenario:

When measuring the expected credit loss, the Group uses reasonable and supported future information based on the assumptions of the future movement of the various economic drivers and the manner in which they affect each other.

Probability of default "PD"

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

Loss given default "LGD"

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Leases - estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 CASH AND DEPOSITS WITH CENTRAL BANKS

	2021 <i>LBP 000</i>	2020 <i>LBP 000</i>
Cash on hand	31,521,517	36,083,885
Current accounts with Central Bank of Lebanon (of which compulsory reserves LBP.32.99 billion in 2021 and LBP.34.84 billion in 2020)	1,348,920,290	1,285,449,537
Current accounts with other central banks	9,515,994	70,415,839
Term placements with Central Bank of Lebanon	832,950,065	827,987,970
Accrued interest receivable	18,733,323	18,195,813
	<u>2,241,641,189</u>	<u>2,238,133,044</u>
Provision for expected credit losses (Note 35)	(23,690,365)	(18,201,096)
	<u><u>2,217,950,824</u></u>	<u><u>2,219,931,948</u></u>

Compulsory deposits with central banks are not available for use in the Bank's day-to-day operations.

Cash compulsory reserves with Central Bank of Lebanon represent non-interest earning deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions in accordance with the local banking regulations.

Current accounts with other central banks include an amount of EUR.5 million (C/V LBP.9 billion) as at 31 December 2021 (EUR.37 million C/V LBP.68.5 billion as at 31 December 2020) deposited by the Bank's branch in Limassol with the Central Bank of Cyprus upon the latter's request. During 2020, the Central Bank of Cyprus requested from the Bank's branch in Limassol to place and maintain at all times, with the Central Bank of Cyprus an amount equal to the total customers' guaranteed deposits held by the branch including accrued interest.

Current accounts with other central banks include as well an amount of EUR.68,848 (C/V LBP.117 million) as at 31 December 2021 (EUR.628,638 C/V LBP.1.16 billion as at 31 December 2020) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory deposits in Euro to the extent of 1 % (1 % as at 31 December 2020) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of EUR.100,000.

Term placements with the Central Bank of Lebanon include an amount of LBP.385 billion as at 31 December 2021 (LBP.388 billion as at 31 December 2020) representing the equivalent in foreign currencies of amounts deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 14% as per BDL amendment on circular No.86 dated 8 June 2021 (15% as at 31 December 2020) of customers' deposits in foreign currencies, certificates of deposit and borrowings obtained from non-resident financial institutions.

5 DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	2021 <i>LBP 000</i>	2020 <i>LBP 000</i>
Checks in course of collection	17,931,328	22,306,100
Current accounts	63,798,693	68,161,723
Current accounts - related parties	20,330,640	1,450,476
Term placements	57,089	2,875,289
Margin accounts	14,293,153	13,956,781
Accrued interest receivable	937	1,708
	<u>116,411,840</u>	<u>108,752,077</u>
Provision for expected credit losses (Note 35)	(73,585)	(307,909)
	<u><u>116,338,255</u></u>	<u><u>108,444,168</u></u>

31 December 2021

5 DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS (continued)

Deposits with banks and financial institutions include deposits in the amount of LBP.3.7 billion subject to right of set-off by the related correspondents against trade finance and other facilities at 31 December 2021 (LBP.26.04 billion against trade finance and other facilities as at 31 December 2020).

Margin accounts and pledged deposits are blocked against trade finance and treasury transactions and banking facilities (refer to Note 42).

Deposits with banks and financial institutions (excluding accrued interest receivable) are distributed between resident and non-resident as follows:

	2021	2020
	<i>LBP000</i>	<i>LBP000</i>
Resident	23,116,805	29,463,945
Non-resident	93,294,098	79,286,424
	<u>116,410,903</u>	<u>108,750,369</u>

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31 December 2021</u>			<u>31 December 2020</u>		
	<i>LBP</i> <i>Base</i> <i>accounts</i> <i>LBP000</i>	<i>Foreign</i> <i>currencies</i> <i>Base</i> <i>accounts</i> <i>LBP000</i>	<i>Total</i> <i>LBP000</i>	<i>LBP</i> <i>Base</i> <i>accounts</i> <i>LBP000</i>	<i>Foreign</i> <i>currencies</i> <i>Base</i> <i>accounts</i> <i>LBP000</i>	<i>Total</i> <i>LBP000</i>
Quoted equity securities	-	2,855,280	2,855,280	-	10,533,857	10,533,857
Lebanese treasury bills	238,120	-	238,120	239,666	-	239,666
Lebanese Government bonds	-	16,534	16,534	-	21,594	21,594
Corporate bonds	-	473,131	473,131	-	67,838	67,838
Accrued interest receivable	6,257	-	6,257	6,204	12,276	18,480
	<u>244,377</u>	<u>3,344,945</u>	<u>3,589,322</u>	<u>245,870</u>	<u>10,635,565</u>	<u>10,881,435</u>

The positive change in fair value of financial assets at fair value through profit or loss in the amount of LBP.1,801 million (LBP.596 million in 2020) is recorded under "Net interest and other gains on financial assets at fair value through profit or loss" (Note 31) in the statement of comprehensive income.

Profit on disposal of financial assets at FVTPL amounting to LBP.485 million is recorded under "Net interest and other gains on financial assets at fair value through profit or loss" in the statement of comprehensive income (Note 31).

7 RIGHT OF USE OF ASSETS/LEASE LIABILITY

	<i>Right of use</i> <i>LBP000</i>	<i>Lease liability</i> <i>LBP000</i>
Balance as at 1 January 2020	3,182,393	3,066,667
New lease	60,635	45,018
Depreciation expense	(1,280,018)	-
Interest expense	-	195,027
Settlements	-	(860,646)
Balance as at 31 December 2020	<u>1,963,010</u>	<u>2,446,066</u>
Depreciation expense	(561,448)	-
Interest expense	-	149,311
Settlements	-	(180,058)
Balance as at 31 December 2021	<u>1,401,562</u>	<u>2,415,319</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

8 LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

	31 December 2021			31 December 2020		
	<i>Carrying amount LBP000</i>	<i>Provision for expected credit losses LBP000</i>	<i>Net carrying amount LBP000</i>	<i>Carrying Amount LBP000</i>	<i>Provision for expected credit losses LBP000</i>	<i>Net carrying amount LBP000</i>
Performing retail customers – Stages 1 & 2						
Housing loans	21,513,158	(227,755)	21,285,403	38,113,314	(209,835)	37,903,479
Personal loans	9,874,466	(209,738)	9,664,728	7,810,916	(155,000)	7,655,916
Overdrafts	20,642,243	(386,697)	20,255,546	21,437,466	(341,880)	21,095,586
Other	3,208,854	(78,962)	3,129,892	674,267	(3,289)	670,978
Performing corporate customers – Stages 1 & 2						
Large enterprises	379,132,113	(11,836,742)	367,295,371	316,973,020	(10,408,037)	306,564,983
Small and medium enterprises	152,736,080	(6,569,803)	146,166,277	158,448,219	(9,271,908)	149,176,311
Non-performing loans Stage 3						
Substandard	93,617,270	(31,869,726)	61,747,544	89,181,311	(27,435,259)	61,746,052
Bad and doubtful	29,800,843	(24,815,909)	4,984,934	25,092,851	(15,027,730)	10,065,121
Accrued interest receivable	345,780	-	345,780	143,312	-	143,312
	<u>710,870,807</u>	<u>(75,995,332)</u>	<u>634,875,475</u>	<u>657,874,676</u>	<u>(62,852,938)</u>	<u>595,021,738</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

8 LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES (continued)

The allocation of provision for expected credit losses by grade to their respective stage is presented as follows:

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12 month	Lifetime	Lifetime		12 month	Lifetime	Lifetime	
	ECL	ECL	ECL		ECL	ECL	ECL	
LBP000	LBP000	LBP000	LBP000		LBP000	LBP000	LBP000	
Excellent and strong (A+)	1,610,171	-	-	1,610,171	133,196	-	-	133,196
Good and satisfactory (A)	3,035,813	-	-	3,035,813	758,359	-	-	758,359
Adequate (A-)	4,369,739	-	-	4,369,739	157,620	-	-	157,620
Marginal and vulnerable (B&B-)	-	10,293,974	-	10,293,974	-	19,340,774	-	19,340,774
Substandard and doubtful (C,D&E)	-	-	56,685,635	56,685,635	-	-	42,462,989	42,462,989
Total gross carrying amount	9,015,723	10,293,974	56,685,635	75,995,332	1,049,175	19,340,774	42,462,989	62,852,938

The movement of the provision for expected credit loss for the credit impaired loans and advances during 2021 and 2020 is as follows:

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12 month	Lifetime	Lifetime		12 month	Lifetime	Lifetime	
	ECL	ECL	ECL		ECL	ECL	ECL	
LBP000	LBP000	LBP000	LBP000		LBP000	LBP000	LBP000	
Balance at 1 January	1,049,175	19,340,774	42,462,989	62,852,938	1,908,920	7,057,467	28,007,502	36,973,889
Transfer to Stage 2	(27,513)	27,513	-	-	(73,569)	73,569	-	-
Transfer to Stage 3	-	-	-	-	(6,699)	(2,633,960)	2,640,659	-
Movement due to changes in balance and credit risk within the same stage	(2,194,932)	(12,558,244)	14,753,176	-	-	-	-	-
	9,557,099	3,483,931	(530,530)	12,510,500	(882,351)	14,843,698	11,814,828	25,776,175
New financial assets originated or purchased	631,894	-	-	631,894	102,874	-	-	102,874
Balance at 31 December	9,015,723	10,293,974	56,685,635	75,995,332	1,049,175	19,340,774	42,462,989	62,852,938

The changes in the carrying amounts of loans and advances to customers that contributed to changes in loss allowances are detailed as follows (excluding accrued interest):

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12 month	Lifetime	Lifetime		12 month	Lifetime	Lifetime	
	ECL	ECL	ECL		ECL	ECL	ECL	
LBP000	LBP000	LBP000	LBP000		LBP000	LBP000	LBP000	
Balance at 1 January	454,852,981	88,606,430	114,271,953	657,731,364	655,488,243	104,976,014	82,012,772	842,477,029
Changes in gross carrying amount:								
Transfer to Stage 2	(11,926,364)	11,926,364	-	-	(31,848,115)	31,848,115	-	-
Transfer to Stage 3	(46,279,011)	(11,196,704)	57,475,715	-	(2,900,056)	(48,025,128)	50,925,184	-
Financial assets that have been derecognised	78,570,494	(33,446,199)	(48,329,555)	(3,205,260)	(210,421,419)	(192,571)	(18,666,003)	(229,279,993)
New financial assets originated or purchased	55,998,923	-	-	55,998,923	44,534,328	-	-	44,534,328
Balance at 31 December	531,217,023	55,889,891	123,418,113	710,525,027	454,852,981	88,606,430	114,271,953	657,731,364

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

9 INVESTMENT SECURITIES

	31 December 2021		31 December 2020		
	LBP LBP000	foreign currency LBP000	Total LBP000	foreign currency LBP000	Total LBP000
Financial assets at amortised cost (A)	96,116,098	320,638,838	416,754,936	101,044,029	424,912,113
Accrued interest receivable	3,483,621	1,842,209	5,325,830	2,021,289	3,798,476
Provision for expected credit losses	-	(33,990)	(33,990)	(7,275)	(303,133)
Provision for expected credit losses on Lebanese Government Bonds recorded in LBP	-	(37,560,586)	(37,560,586)	(6,774,733)	(13,557,797)
Provision for expected credit losses on Certificates of deposit denominated in foreign currency recorded in LBP	-	(3,585,668)	(3,585,668)	(2,331,729)	(3,495,764)
	<u>99,599,719</u>	<u>281,300,803</u>	<u>380,900,522</u>	<u>93,951,581</u>	<u>411,353,895</u>
Financial assets at fair value through other comprehensive income (B)	615,120	20,582,677	21,197,797	615,120	19,301,327
	<u>615,120</u>	<u>20,582,677</u>	<u>21,197,797</u>	<u>615,120</u>	<u>19,301,327</u>
	<u>100,214,839</u>	<u>301,883,480</u>	<u>402,098,319</u>	<u>94,566,701</u>	<u>430,655,222</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost:

	31 December 2021				31 December 2020			
	Amortized cost LBP000	LBP Base Accounts Provision for expected credit losses LBP000	Net carrying value LBP000	Accrued interest receivable LBP000	Amortized cost LBP000	Provision for expected credit losses LBP000	Net carrying value LBP000	Accrued interest receivable LBP000
Lebanese treasury bills	29,648,259	-	29,648,259	1,482,661	118,924,484	-	81,363,898	-
Lebanese Government bonds	-	-	-	-	-	-	-	-
Provision for expected credit losses on Lebanese Government Bonds recorded in LBP	-	-	-	-	-	(37,560,586)	-	-
Certificates of deposit issued by Central Bank of Lebanon	66,467,839	-	66,467,839	2,000,960	200,292,021	(3,585,668)	196,706,353	1,732,690
Provision for expected credit losses on certificates of deposit denominated in foreign currency recorded in LBP	-	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	1,422,333	(33,990)	1,388,343	109,519
	96,116,098	-	96,116,098	3,483,621	320,638,838	(41,180,244)	279,458,594	1,842,209

	31 December 2021				31 December 2020			
	Amortized cost LBP000	LBP Base Accounts Provision for expected credit losses LBP000	Net carrying value LBP000	Accrued interest receivable LBP000	Amortized cost LBP000	Provision for expected credit losses LBP000	Net carrying value LBP000	Accrued interest receivable LBP000
Lebanese treasury bills	32,550,562	-	32,550,562	-	118,924,484	(6,783,064)	112,141,420	-
Lebanese Government bonds	-	-	-	-	-	-	-	-
Provision for expected credit losses on Lebanese Government Bonds recorded in LBP	-	(6,774,733)	(6,774,733)	-	-	(1,164,035)	199,466,012	1,641,670
Certificates of deposit issued by Central Bank of Lebanon	68,340,422	-	68,340,422	2,020,362	200,630,047	-	-	-
Provision for expected credit losses on certificates of deposit denominated in foreign currency recorded in LBP	-	(2,331,729)	(2,331,729)	-	-	(295,858)	4,017,695	135,517
Corporate bonds	153,045	(7,275)	145,770	927	4,313,553	-	-	-
	101,044,029	(9,113,737)	91,930,292	2,021,289	323,868,084	(8,242,957)	315,625,127	1,777,187

31 December 2021

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost (continued)

The remaining periods to maturity of financial assets at amortized cost, denominated in Lebanese Pounds excluding accrued interest, are as follows:

	<i>31 December 2021</i>			
	<i>LBP Base Accounts</i>			
	<i>Nominal value LBP000</i>	<i>Amortized cost LBP000</i>	<i>Provision for expected credit losses LBP000</i>	<i>Net carrying amount LBP000</i>
Lebanese treasury bills:				
Up to one year	10,280,500	10,304,947	-	10,304,947
1 to 3 years	10,377,550	11,068,220	-	11,068,220
3 to 5 years	6,842,500	8,275,092	-	8,275,092
	<u>27,500,550</u>	<u>29,648,259</u>	<u>-</u>	<u>29,648,259</u>
Certificates of deposit issued by the Central Bank of Lebanon:				
1 to 3 years	10,000,000	10,145,037	-	10,145,037
3 to 5 years	53,000,000	56,322,802	-	56,322,802
	<u>63,000,000</u>	<u>66,467,839</u>	<u>-</u>	<u>66,467,839</u>
	<u>90,500,550</u>	<u>96,116,098</u>	<u>-</u>	<u>96,116,098</u>

31 December 2021

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost (continued)

	31 December 2020			
	LBP Base Accounts			
	Nominal value LBP000	Amortized cost LBP000	Provision for expected credit losses LBP000	Net carrying amount LBP000
Lebanese treasury bills:				
Up to one year	2,277,000	2,268,141	-	2,268,141
1 to 3 years	14,121,850	14,188,324	-	14,188,324
3 to 5 years	13,378,700	16,094,097	-	16,094,097
	<u>29,777,550</u>	<u>32,550,562</u>	<u>-</u>	<u>32,550,562</u>
Certificates of deposit issued by the Central Bank of Lebanon:				
1 to 3 years	1,000,000	1,000,623	-	1,000,623
3 to 5 years	10,000,000	10,263,410	-	10,263,410
5 to 10 years	53,000,000	57,076,389	-	57,076,389
	<u>64,000,000</u>	<u>68,340,422</u>	<u>-</u>	<u>68,340,422</u>
Corporate bonds:				
1 to 3 years	1,500,000	153,045	(7,275)	145,770
	<u>1,500,000</u>	<u>153,045</u>	<u>(7,275)</u>	<u>145,770</u>
Provision for expected credit losses:				
Provision for expected credit losses recorded in LBP on Lebanese Government bonds	-	-	(6,774,733)	(6,774,733)
Provision for expected credit losses recorded in LBP on Certificates of deposit denominated in foreign currency	-	-	(2,331,729)	(2,331,729)
	<u>-</u>	<u>-</u>	<u>(9,106,462)</u>	<u>(9,106,462)</u>
	<u>95,277,550</u>	<u>101,044,029</u>	<u>(9,113,737)</u>	<u>91,930,292</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost (continued)

The remaining periods to maturity of financial assets at amortized cost, denominated in foreign currencies excluding accrued interest, are as follows:

	<i>31 December 2021</i>			
	<i>Foreign currencies Base Accounts</i>			
<i>Contractual maturity</i>	<i>Nominal value</i>	<i>Amortized cost</i>	<i>Provision for expected credit losses</i>	<i>Net carrying amount</i>
	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>
Lebanese Government bonds:				
Up to 1 year	6,877,215	6,624,538	(2,002,658)	4,621,880
1 to 3 years	42,451,200	39,687,342	(12,361,867)	27,325,475
3 to 5 years	23,667,750	23,546,017	(6,892,092)	16,653,925
5 to 10 years	55,988,550	49,066,587	(16,303,969)	32,762,618
	<u>128,984,715</u>	<u>118,924,484</u>	<u>(37,560,586)</u>	<u>81,363,898</u>
Certificates of deposit issued by the Central Bank of Lebanon:				
Up to 1 year	63,315,000	63,292,752	(1,139,168)	62,153,584
1 to 3 years	113,364,000	114,299,075	(2,039,654)	112,259,421
5 to 10 years	7,537,500	7,625,194	(135,615)	7,489,579
More than 10 years	15,075,000	15,075,000	(271,231)	14,803,769
	<u>199,291,500</u>	<u>200,292,021</u>	<u>(3,585,668)</u>	<u>196,706,353</u>
Corporate bonds:				
Up to 1 year	65,583	65,583	(6,297)	59,286
3 to 5 years	1,356,750	1,356,750	(27,693)	1,329,057
	<u>1,422,333</u>	<u>1,422,333</u>	<u>(33,990)</u>	<u>1,388,343</u>
	<u>329,698,548</u>	<u>320,638,838</u>	<u>(41,180,244)</u>	<u>279,458,594</u>

31 December 2021

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost (continued)

Contractual maturity	31 December 2020			
	Foreign currencies Base Accounts			
	Nominal value LBP000	Amortized cost LBP000	Provision for expected credit losses LBP000	Net carrying amount LBP000
Lebanese Government bonds:				
Up to 1 year	6,783,750	6,532,110	(372,570)	6,159,540
1 to 3 years	6,138,540	6,201,349	(353,705)	5,847,644
3 to 5 years	60,073,875	57,124,438	(3,258,191)	53,866,247
5 to 10 years	53,878,050	47,136,082	(2,688,488)	44,447,594
More than 10 years	2,110,500	1,930,505	(110,110)	1,820,395
	<u>128,984,715</u>	<u>118,924,484</u>	<u>(6,783,064)</u>	<u>112,141,420</u>
Certificates of deposit issued by the Central Bank of Lebanon:				
1 to 3 years	123,615,000	123,574,955	(716,969)	122,857,986
3 to 5 years	53,064,000	54,344,442	(315,301)	54,029,141
5 to 10 years	7,537,500	7,635,651	(44,301)	7,591,350
More than 10 years	15,075,000	15,075,000	(87,464)	14,987,536
	<u>199,291,500</u>	<u>200,630,048</u>	<u>(1,164,035)</u>	<u>199,466,013</u>
Corporate bonds:				
Up to 1 year	1,638,325	1,631,945	(111,932)	1,520,013
3 to 5 years	1,356,750	1,356,750	(93,057)	1,263,693
5 to 10 years	1,348,849	1,324,858	(90,869)	1,233,989
	<u>4,343,924</u>	<u>4,313,553</u>	<u>(295,858)</u>	<u>4,017,695</u>
	<u>332,620,139</u>	<u>323,868,085</u>	<u>(8,242,957)</u>	<u>315,625,128</u>

31 December 2021

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost (continued)

The movement of financial assets at amortized cost, denominated in Lebanese Pounds excluding accrued interest, is summarized as follows:

	2021				
	<i>Lebanese Treasury bills</i>	<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	<i>Corporate bonds</i>	<i>Lebanese Government bonds</i>	<i>Total</i>
	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>
Balance at 1 January	32,550,562	68,340,423	145,770	(6,774,733)	94,262,022
Redemption	(2,277,000)	(1,000,000)	(145,770)	-	(3,422,770)
Net variation in premium	(625,303)	(872,584)	-	-	(1,497,887)
Transfer of LBP provision for expected credit losses to foreign currencies	-	-	-	6,774,733	6,774,733
Balance at 31 December	29,648,259	66,467,839	-	-	96,116,098
	2020				
	<i>Lebanese Treasury bills</i>	<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	<i>Corporate bonds</i>	<i>Lebanese Government bonds</i>	<i>Total</i>
	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>	<i>LBP000</i>
Balance at 1 January	84,700,917	67,280,810	1,490,127	(3,243,870)	150,227,984
Redemption	(53,680,000)	-	(1,337,082)	-	(55,017,082)
Net variation in premium	1,529,645	(885,754)	-	-	643,891
Provision for expected credit losses	-	-	(7,275)	-	(7,275)
Provision for expected credit losses recorded in LBP on Lebanese Government bonds	-	-	-	(3,530,863)	(3,530,863)
Provision for expected credit losses recorded in LBP on Certificate of deposit denominated in Fey	-	(386,363)	-	-	(386,363)
Balance at 31 December	32,550,562	66,008,693	145,770	(6,774,733)	91,930,292

9 INVESTMENT SECURITIES (continued)

A- Financial assets at amortised cost (continued)

The movement of financial assets at amortized cost, denominated in foreign currencies excluding accrued interest, is summarized as follows:

	<i>2021</i>			
	<i>Lebanese Government bonds LBP000</i>	<i>Certificates of deposit issued by the Central Bank of Lebanon LBP000</i>	<i>Corporate bonds LBP000</i>	<i>Total LBP000</i>
Balance at 1 January	112,141,420	199,466,012	4,017,695	315,625,127
Redemption	-	-	(2,921,591)	(2,921,591)
Net variation in premium	-	(338,026)	30,371	(307,655)
Provision for expected credit losses	(30,777,522)	(2,421,633)	261,868	(32,937,287)
Balance at 31 December	<u>81,363,898</u>	<u>196,706,353</u>	<u>1,388,343</u>	<u>279,458,594</u>
	<i>2020</i>			
	<i>Lebanese Government bonds LBP000</i>	<i>Certificates of deposit issued by the Central Bank of Lebanon LBP000</i>	<i>Corporate bonds LBP000</i>	<i>Total LBP000</i>
Balance at 1 January	93,341,281	154,029,976	18,845,914	266,217,171
Reclassification from financial assets at fair value through other comprehensive income	17,057,017	45,929,404	1,589,040	64,575,461
Redemption	-	-	(16,397,521)	(16,397,521)
Net variation in premium	2,243,132	(338,953)	26,332	1,930,511
Provision for expected credit losses	(500,010)	(154,415)	(46,070)	(700,495)
Balance at 31 December	<u>112,141,420</u>	<u>199,466,012</u>	<u>4,017,695</u>	<u>315,625,127</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

9 INVESTMENT SECURITIES (continued)

B- Financial assets at fair value through other comprehensive income are broken down as follows:

	31 December 2021			
	LBP Base Accounts		C/V of F/Cv Base Accounts	
	Cost LBP000	Fair value LBP000	Cost LBP000	Fair value LBP000
Unquoted equity securities	615,120	615,120	25,739,038	18,604,083
Quoted equity securities	-	-	7,914,375	1,978,594
	<u>615,120</u>	<u>615,120</u>	<u>33,653,413</u>	<u>20,582,677</u>

	31 December 2020			
	LBP Base Accounts		C/V of F/Cv Base Accounts	
	Cost LBP000	Fair value LBP000	Cost LBP000	Fair value LBP000
Unquoted equity securities	615,120	615,120	25,739,038	18,686,207

During 2021, preferred shares classified at fair value through profit or loss amounting to LBP000.7,914,375 were transferred to fair value through other comprehensive income. Change in fair value for the above securities classified at fair value through other comprehensive income amounting to LBP000.5,935,781 booked under change in fair value of financial assets at fair value through other comprehensive income (Note 26).

The movement of financial assets at fair value through other comprehensive income, denominated in foreign currencies excluding accrued interest, is summarized as follows:

	2021					
	Lebanese Government bonds LBP000	Certificates of deposit issued by the Central Bank of Lebanon LBP000	Corporate bonds LBP000	Unquoted equity securities LBP000	Quoted equity securities LBP000	Total LBP000
Balance at 1 January	-	-	-	18,686,207	-	18,686,207
Reclassification from financial assets at FVTPL	-	-	-	-	7,914,375	7,914,375
Effect of exchange rates changes	-	-	-	(82,124)	-	(82,124)
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(5,935,781)	(5,935,781)
Balance at 31 December	-	-	-	18,604,083	1,978,594	20,582,677

	2020					
	Lebanese Government bonds LBP000	Certificates of deposit issued by the Central Bank of Lebanon LBP000	Corporate bonds LBP000	Unquoted equity securities LBP000	Quoted equity securities LBP000	Total LBP000
Balance at 1 January	8,235,335	23,576,396	4,172,709	950,714	-	36,935,154
Reclassification to financial assets at amortised cost	(17,057,017)	(45,929,404)	(1,589,040)	-	-	(64,575,461)
Transfer from investment in an associate	-	-	-	17,645,343	-	17,645,343
Sales	-	-	(2,583,669)	-	-	(2,583,669)
Effect of exchange rates changes	-	-	-	90,151	-	90,151
Reversal of change in fair value of financial assets at fair value through other comprehensive income	8,570,220	22,198,593	-	-	-	30,768,813
Reclassification of provision for expected credit losses to financial assets at amortised cost	251,462	154,415	-	-	-	405,877
Balance at 31 December	-	-	-	18,686,208	-	18,686,208

10 ASSETS UNDER LEVERAGE ARRANGEMENTS WITH THE CENTRAL BANK OF LEBANON

	<i>2021</i> <i>LBP000</i>	<i>2020</i> <i>LBP000</i>
Assets under leverage arrangements:		
Term placements with the Central Bank of Lebanon	382,717,000	386,940,000
Lebanese Treasury bills at amortized cost	64,822,850	64,821,975
	<u>447,539,850</u>	<u>451,761,975</u>
<u>Less/- Leverage arrangements</u>	<u>(447,539,850)</u>	<u>(451,761,975)</u>
	<u>-</u>	<u>-</u>

Assets under leverage arrangement consisting of term placements in LBP with the Central Bank of Lebanon and Lebanese Treasury bills (earning 10% interest) originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing 2% interest), purpose of which is to provide yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities in foreign currency. The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	<i>2021</i> <i>LBP000</i>	<i>2020</i> <i>LBP000</i>
Term placements with the Central Bank of Lebanon	297,731,250	301,123,125
Lebanese Government bonds at amortized cost	60,781,040	60,781,040
	<u>358,512,290</u>	<u>361,904,165</u>

During 2019, the Bank signed with the Central Bank of Lebanon a netting agreement allowing to offset the "assets under leverage arrangement" versus the borrowing from the Central Bank. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. As such the Bank has presented "term deposits with the Central Bank of Lebanon" and term borrowing from Central Bank of Lebanon" on a net basis for the years ended 31 December 2021 and 2020.

11 CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Bank has committed to settle on behalf of its customers against commitments by those customers (acceptances) in the gross amount of LBP.10.5 billion, and allowance for expected credit losses in the amount of LBP.2.1 billion (LBP.11.5 billion, and allowance for expected credit losses of LBP.27 million as at 31 December 2020). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same gross amount.

31 December 2021

12 ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through foreclosure of security over loans and advances.

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these assets are to be liquidated within 2 years from acquisition. In case of default of liquidation, a regulatory reserve is to be appropriated from the yearly net profits. This regulatory reserve is reflected under equity. An amount of LBP.172 million was appropriated in 2021 from 2020 result, which is booked in year 2022.

The movement of assets acquired in satisfaction of loans during 2021 and 2020 is detailed as follows:

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Balance at 1 January	4,221,423	2,907,009
Disposals	(1,314,414)	1,314,414
Balance at 31 December	<u>2,907,009</u>	<u>4,221,423</u>
Additions	538,177	(1,314,414)
Balance at 31 December	<u><u>3,445,186</u></u>	<u><u>2,907,009</u></u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

13 PROPERTY AND EQUIPMENT

	<i>Land</i> <i>LBP000</i>	<i>Buildings</i> <i>LBP000</i>	<i>Furniture</i> <i>LBP000</i>	<i>Computer</i> <i>equipment</i> <i>LBP000</i>	<i>Vehicles</i> <i>LBP000</i>	<i>Installations</i> <i>and</i> <i>leasehold</i> <i>improvement</i> <i>LBP000</i>	<i>Advances</i> <i>on capital</i> <i>expenditure</i> <i>LBP000</i>	<i>Total</i> <i>LBP000</i>
Gross amount								
Balance at 1 January 2020	15,141,331	18,361,036	2,836,715	7,738,057	632,309	11,650,870	40,872,389	97,232,707
Additions	-	-	244,443	996,763	-	214,234	2,705,338	4,160,778
Disposals	-	-	(8,597)	(265,707)	-	(2,524,461)	(292,111)	(3,090,876)
Balance at 31 December 2020	15,141,331	18,361,036	3,072,561	8,469,113	632,309	9,340,643	43,285,616	98,302,609
Additions	-	-	273,091	875,399	-	2,877,554	3,925,718	7,951,762
Disposals	-	-	(8,597)	(5,868)	-	(442,245)	-	(456,710)
Balance at 31 December 2021	15,141,331	18,361,036	3,337,055	9,338,644	632,309	11,775,952	47,211,334	105,797,661
Accumulated depreciation								
Balance at 1 January 2020	-	2,907,530	2,242,515	6,163,578	365,297	9,907,128	-	21,586,048
Additions	-	712,093	71,921	528,099	63,946	777,959	-	2,154,018
Disposals	-	-	(616)	(225,450)	-	(2,507,288)	-	(2,733,354)
Balance at 31 December 2020	-	3,619,623	2,313,820	6,466,227	429,243	8,177,799	-	21,006,712
Additions	-	710,138	112,927	598,947	63,795	820,565	-	2,306,372
Disposals	-	-	(8,595)	(5,122)	-	(440,620)	-	(454,337)
Balance at 31 December 2021	-	4,329,761	2,418,152	7,060,052	493,038	8,557,744	-	22,858,747
Carrying amounts								
31 December 2021	15,141,331	14,031,275	918,903	2,278,592	139,271	3,218,208	47,211,334	82,938,914
31 December 2020	15,141,331	14,741,413	758,741	2,002,886	203,066	1,162,844	43,285,616	77,295,897

13 PROPERTY AND EQUIPMENT (continued)

The Bank's Board of Directors approved on July 20, 2016 the acquisition of 5,307m² of property located on plot number 660 located in Medawar for a total consideration of USD.20,945,000 (C/V LBP.32 billion) for the purpose of establishing the Bank's head quarters.

Additions to advances on capital expenditures during 2021 include an amount of LBP.3.3billion related to works performed on plot 660 located in Medawar. Moreover, additions include an amount of LBP.150.6 million related to works performed on the leased premises in Achrafieh used to accommodate the personnel of the Bank's branch of Gemmayzé which was severely damaged following the Beirut Sea Port explosion on 4 August 2020.

Additions to computer equipment and equipment in the amount of LBP.965 million represents the Group's purchase during 2021 of laptops, ups, storage solutions and generators.

Additions to leasehold improvement during the year 2021, include mainly an amount of LBP.1.6 billion related to works in Verdun new branch, and 700 million in Achrafieh head office.

During 2021, the Group evacuated the leased branch in Sin El Fil. Accordingly, the Group wrote off property and equipment with a net book value of LBP.2 million included under "Other income" in profit or loss statement.

The addition to advances on capital expenditures during the year 2021 in the amount of LBP.4 billion, represents the 8th payment amounting to USD.1,693,123 (C/V LBP.2.55 billion) on plot number 660 as per acquisition contract. This caption comprises as well advances on construction works during 2021 for the amount of USD.912,106 million (C/V LBP.1.45 billion).

The Group revalued land and buildings during 2019 for an amount of LBP000.7,494,444 and LBP000.9,419,620 respectively, net of tax for a total of LBP000.16,914,064.

14 INTANGIBLE ASSETS

	<i>Purchased software LBP000</i>
Cost	
Balance at 1 January 2020	6,498,131
Acquisitions	326,723
Balance at 31 December 2020	<u>6,824,854</u>
Acquisitions	83,019
Balance at 31 December 2021	<u>6,907,873</u>
Amortization	
Balance at 1 January 2020	5,768,996
Amortization of the year	346,198
Balance at 31 December 2020	<u>6,115,194</u>
Amortization of the year	282,891
Balance at 31 December 2021	<u>6,398,085</u>
Carrying amount	
31 December 2021	<u>509,788</u>
31 December 2020	<u><u>709,660</u></u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

15 OTHER ASSETS

	2021	2020
	<i>LBP000</i>	<i>LBP000</i>
Exchange difference on fixed exchange position	231,654	231,654
Interbranch accounts	1,415,952	-
Stamps	160,662	87,888
Receivables from an associate and a related party bank	2,410,427	2,722,190
Prepayments	3,766,364	3,464,631
Receivables from sale of subsidiary shares (a)	4,002,613	-
Receivables from the Central Bank of Lebanon (b)	9,204,944	3,683,873
Receivables from a financial institution – credit and operations	8,822,277	5,559,190
Receivables from the National Security Social Fund	2,978,818	2,466,501
Advances to employees	336,288	2,279,033
Sundry accounts receivable	4,580,192	5,032,116
	<u>37,910,191</u>	<u>25,527,076</u>
Provision for expected credit losses (Note 35)	<u>(1,156,259)</u>	<u>(1,055,000)</u>
	<u>36,753,932</u>	<u>24,472,076</u>

Provision of LBP.100 million was set up during 2021 against receivables from the National Social Security Fund (LBP.108 million for the year 2020). Total provision as at 31 December 2021 amounts to LBP.1,156 million (LBP.1,055 million as at 31 December 2020).

Receivables from an associate and a related party bank represent amounts paid by the Group on behalf of these related entities. The outstanding receivables are subject to interest at the annual rates of 6.5% and 4.5% respectively. Interest income for the year 2021 amounted to LBP.99 million booked in year 2022 (2020: LBP.122 million) recorded under interest income in the statement of comprehensive income.

- (a) Receivables from sale of 40,457 BSEC shares for an amount of LBP000.4,749,207 resulting a profit of LBP000.1,727,683 under “Other income” in statement of comprehensive income.
- (b) Receivables from the Central Bank of Lebanon represents the aggregate amount due to the Group as a result of the conversion by customers of restricted foreign currency deposits into LBP at the platform rate of LBP.8,000 in accordance with BDL Circular # 151 dated 21 April 2020, circular 158 dated 8 June 2021 and circular 161 dated 16 December 2021.

16 DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

	2021	2020
	<i>LBP000</i>	<i>LBP000</i>
Current deposits of banks and financial institutions	119,279,702	15,946,146
Current deposits - Related parties	320,936,100	343,858,137
Money market deposits	5,000,000	16,304,450
Money market deposits - Related parties	40,877,667	33,937,654
Accrued interest payable	1,241,671	1,320,910
	<u>487,335,140</u>	<u>411,367,297</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

17 CUSTOMERS AND RELATED PARTIES ACCOUNTS AT AMORTIZED COST

	2021 LBP000	2020 LBP000
Deposits from customers		
Current and demand deposits	2,052,820,166	1,334,543,963
Current and demand deposits – related parties	43,912,342	32,069,917
Term deposits – related parties	962,121	3,400,509
Term deposits	450,463,250	1,173,034,434
Cash collateral	8,412,866	17,705,092
Margins and other accounts		
Margins for irrevocable import letters of credit	9,817	2,205
Margins on letters of guarantee	4,802,022	5,652,409
Other margins	12,748,789	10,667,005
Margins on trading transactions	90,450	1,802,761
Escrow accounts – advance on cash contribution to capital	-	19,499,512
Accrued interest payable	2,261,941	4,246,825
Total	<u>2,576,483,764</u>	<u>2,602,624,632</u>

Deposits from customers are allocated by brackets of deposits as follows:

	2021			2020		
	Total deposits LBP000	% to total deposits LBP000	% to total No. of customers LBP000	Total deposits LBP000	% to total deposits LBP000	% to total No. of customers LBP000
Less than LBP.200 million	287,954,197	11.18	66.78	311,990,625	11.99	63.45
From LBP.200 million to LBP.1.5 billion	1,199,199,854	46.54	29.89	1,165,448,439	44.78	32.85
Over LBP.1.5 billion	1,089,329,713	42.28	3.33	1,125,185,568	43.23	3.70
	<u>2,576,483,764</u>	<u>100.00</u>	<u>100.00</u>	<u>2,602,624,632</u>	<u>100.00</u>	<u>100.00</u>

Term deposits as at 31 December 2021 include fiduciary deposits received from a non-resident related party bank in the amount of LBP.1.1 billion (LBP.1.1 billion as at 31 December 2020).

The average balances of customers' deposits at amortized cost, including related party deposits, and related cost of funds over the last 3 years were as follows:

	<u>LBP Base Accounts</u>		<u>Foreign currency Base Accounts</u>		Cost of funds LBP000
	Average balance of deposits LBP000	Average interest rate LBP000	Average balance of deposits LBP000	Average interest rate LBP000	
2021	168,333,874	1.42	2,391,494,096	0.57	15,924,513
2020	167,634,337	4.85	1,991,915,527	2.11	49,940,727
2019	152,693,430	9.02	1,538,211,438	5.03	101,056,845

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

18 OTHER TERM BORROWINGS

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Other term borrowings	15,510,555	21,886,586

Other term borrowings, represent borrowing from Central Bank of Lebanon in LBP being facilities in accordance with Central Bank of Lebanon Basic Decision No. 6116 of 7 March 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Group has granted, at its own risk, to its customers, pursuant to certain conditions, rules and mechanism.

The movement of other term borrowings, excluding accrued interest, during 2021 and 2020 is summarized as follows:

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Balance 1 January	21,886,586	13,391,505
Net (settlements)/additions	(6,376,031)	8,495,081
Balance 31 December	<u>15,510,555</u>	<u>21,886,586</u>

19 OTHER LIABILITIES

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Fair value of forward exchange contracts	256,498	6,753,495
Current tax liability (a)	69,661	4,371,853
Withheld tax on salaries	900,957	819,615
Withheld tax on interest	102,909	3,494,127
Lumpsum tax on turn over	-	4,115,000
Due to the National Social Security Fund	505,862	352,722
Checks and incoming payment orders in course of settlement	4,259	705,084
Clients prefunded accounts (b)	14,976,630	3,884,909
Accrued interest payable – cash contribution to capital	2,867,805	1,136,672
Sundry accounts payable (c)	8,510,828	6,213,743
Accrued expenses	5,991,334	3,907,991
Other taxes payable (d)	7,229,834	6,426,164
Position (circulars 151 – 158 – 161)	1,120,344	-
	<u>42,536,921</u>	<u>42,181,375</u>

31 December 2021

19 OTHER LIABILITIES (continued)

(a) The determination of income tax of the Group is presented as follows:

	2021 LBP000	2020 LBP000
Profit before income tax	1,977,371	11,503,612
Add: Non-deductible expenses/losses	11,576,949	23,533,745
Less:		
- Non-taxable revenues/gains	(16,996,613)	(673,661)
- (Loss) of Cyprus branch	(711,326)	(1,010,753)
Taxable income for the year	(4,153,619)	33,352,943
Enacted tax rate in Lebanon	17%	17%
	-	5,670,000
<u>Add: Income tax provision – Branches and subsidiaries</u>	<u>69,661</u>	<u>66,272</u>
Income tax expense	69,661	5,736,272
<u>Less: Cyprus income tax paid during the year</u>	<u>-</u>	<u>(1,371,789)</u>
	-	4,364,483
Brought forward balance from non-resident branch	-	7,370
Current tax liability	<u>69,661</u>	<u>4,371,853</u>

(b) Clients prefunded accounts include amounts deposited by clients related to their debit cards, kept within the banks accounts.

The increase is due to excessive use of cards due to shortage of cash in Lebanese Pounds.

(c) Sundry accounts payable include dormant customers' accounts in the Limassol Branch with aggregate balances of LBP.2.5billion (USD.1,425,196 and EUR.182,950) transferred to Beirut during 2020 to be settled in transferrable funds when claimed by the related customers.

(d) Other taxes payable include the 10% taxes payable by the Group on credit interest accounts. The rate of 7% will be reapplied starting 1st August 2022.

The Group's tax returns for fiscal years 2016 to 2021 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

The Social Security department reviewed the Group accounts till September 2021 inclusive.

20 PROVISIONS

Provisions consist of the following:

	2021 LBP000	2020 LBP000
Provision for employees' end-of-service indemnities	5,387,845	4,098,820
Provision for contingencies	147,975	398,597
Provision for loss on foreign currency position	285,654	285,654
Provision for expected credit losses (Note 35)	569,997	103,059
	<u>6,391,471</u>	<u>4,886,130</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

20 PROVISIONS (continued)

The movement of provision for staff end-of-service indemnity was as follows:

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Balance at 1 January	4,098,820	2,967,570
Additions (Note 36)	1,466,384	1,275,399
Settlements	(172,933)	(148,437)
Exchange difference	(4,426)	4,288
Balance at 31 December	<u>5,387,845</u>	<u>4,098,820</u>

The movement of provision for contingencies was as follows:

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Balance at 1 January	398,597	2,002,809
Additions	-	625,613
Write-back	(250,622)	(2,229,825)
Balance at 31 December	<u>147,975</u>	<u>398,597</u>

21 SUBORDINATED BONDS

This caption consists of the following:

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Subordinated bonds	52,762,500	90,450,000
Accrued interest	1,861,866	1,139,918
	<u>54,624,366</u>	<u>91,589,918</u>

The exceptional general assembly of shareholders approved in its meeting held on 5 September 2017 the issuance of subordinated bonds in the amount of USD.35million divided into 3,500 bonds of USD.10,000 nominal value each. These bonds were issued on 7 December 2017, mature on 4 January 2024, and are subject to an annual interest of 7% payable on 30 June and 31 December of each year.

The exceptional general assembly of shareholders approved in its meeting held on 24 October 2014 the issuance of subordinated bonds in the amount of USD.25million divided into 2,500 bonds of USD.10,000 nominal value each. These bonds were issued on 15 December 2014 and mature on 4 January 2021 and are subject to an annual interest rate of 6% payable on 31 December and 30 June of each year.

Interest expense on subordinated bonds for the year ended 31 December 2021 amounting to LBP.3.77 billion is recorded under "Interest expense" in the statement of profit or loss (LBP.5.97 billion for the year ended 31 December 2020) (Note 28).

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be amortized over a period of 5 years till maturity.

22 SHARE CAPITAL

In its meeting held on June 25, 2019 the Board of Directors ratified the increase of the Bank's capital as resolved by the Extraordinary General Assembly of Shareholders in their meeting held on 6 May 2019 whereby the Bank's capital increased by LBP.15,562,000,000 from LBP.62,248,000,000 to LBP.77,810,000,000 and thus by transferring the equivalent amount of the increase from the retained earnings account to the capital and by issuing 15,500,000 nominal shares of LBP.1,004 each, distributed to the shareholders each according to their percentage of ownership in the Bank's capital.

Pursuant to the issuing of Central Bank of Lebanon Intermediate Circular No. 532 on November 4, 2019, the general assembly held on 2 March 2020 approved the increase of the Bank's capital by 10% of Common Equity Tier One calculated as of 31 December 2018 through cash contributions in US Dollars in the amount of USD.14,370,000. During 2021, a second increase of USD.12,935,000 representing cash contribution, for a total of 20%.

The Bank's capital as at 31 December 2021 and 2020 is composed of 77,500,000 issued shares of LBP.1,004 each authorized and fully paid and divided as follows:

- Listed shares : 51,400,000
- Unlisted shares : 26,100,000

The movement of treasury shares during 2021 and 2020 was as follows:

	<u>2021</u>		<u>2020</u>	
	<i>Number of shares</i>	<i>Amount LBP000</i>	<i>Number of shares</i>	<i>Amount LBP000</i>
Balance at 1 January	1,303,558	3,654,740	1,315,415	3,679,126
(Disposal)/acquisition, net	-	-	(11,857)	(24,386)
Distribution at 31 December	(107,800)	-	-	-
Balance at 31 December	<u>1,195,758</u>	<u>3,654,740</u>	<u>1,303,558</u>	<u>3,654,740</u>

During 2021, Management decided to distribute treasury shares for the bank employees as per decisions from BOD held on 19 December 2019 and 17 December 2020.

23 PREFERRED SHARES

On 19 December 2013, the Bank issued Non-cumulative Perpetual Preferred Shares in the amount of USD.35million (LBP.52billion) on the basis of 350,000 shares at USD.100. The Bank offered discounts to preferred shares subscribers for the aggregate amount of USD.80,960 (LBP.122 million). These preferred shares generate dividends at an annual rate of 7%.

24 SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital for the amount of LBP.29 billion (USD.19,306,788) as at 31 December 2019 represents cash injections made by the shareholders in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Bank's share capital. Effective 2011, the General Assembly of shareholders approved to call-off interest on the above cash contribution to capital.

During 2020, the Bank followed the requirements of the Central Bank of Lebanon regarding the increase in common equity Tier I as at 31 December 2018 by 20% in foreign currencies by 31 December 2020 which was later extended to 28 February 2021. The Bank's Extraordinary General Assembly of shareholders held on 2 March 2020 called the first payment of cash contribution from shareholders in the amount of USD.14,370,000 (C/V LBP.21.67 billion) subject to a yearly interest rate 7% payable from unrestricted profits after securing the approval of the Central Bank of Lebanon. The Bank accrued for the interest on the new cash contribution in the amount of LBP.2.87 billion as at 31 December 2021 (LBP.1.13 billion as at 31 December 2020) recorded under other liabilities (Note 19).

24 SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL (continued)

On 30 November 2020, the Bank's Extraordinary General Assembly of shareholders called the second payment of cash contribution from shareholders in the amount of USD.12,935,000 (C/V LBP.19billion) subject to a yearly interest rate 3% payable from unrestricted profits after securing the approval of the Central Bank of Lebanon.

Cash contribution to capital amounted of LBP.70 billion as at 31 December 2021 (LBP.51 billion as at 31 December 2020).

This sort of financial instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation. According to local banking regulations, cash contribution to share capital is considered as Tier I capital.

25 RESERVES

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Legal reserve (a)	14,363,956	14,380,571
Non-distributable reserve	44,210,825	44,210,825
Reserve for assets acquired in satisfaction of loans (Note 12)	1,411,166	1,441,166
Free reserves	10,590,677	10,590,677
	<u>70,576,624</u>	<u>70,623,239</u>

- (a) In accordance with the requirements of the Lebanese Money and Credit Law, the Bank transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution.

26 CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
At 1 January	7,232,339	30,942,448
Net changes in fair values during the year	(5,935,781)	(23,710,109)
Balance at 31 December	<u>1,296,558</u>	<u>7,232,339</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

27 INTEREST INCOME

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Interest income from:		
Term deposits with central banks (Note 4)	62,968,788	63,796,880
Deposits with banks and financial institutions	138,285	4,535,597
Deposits with related party banks and financial institutions	882,007	793,924
Financial assets at amortized cost	24,164,930	24,905,791
Financial assets at fair value through others comprehensive income	124,390	3,569,167
Loans and advances to customers	29,117,668	40,868,867
Loans and advances to related parties	36,612	21,938
Interest realized on impaired loans and advances to customers (Note 8)	3,003,249	1,185,701
	<u>120,435,929</u>	<u>139,677,865</u>
Less: Withheld taxes	(9,653,312)	(10,677,089)
	<u><u>110,782,617</u></u>	<u><u>129,000,776</u></u>

28 INTEREST EXPENSE

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Interest expense on:		
Borrowing from Central Bank of Lebanon (Note 18)	1,582,061	396,223
Deposits and borrowings from banks and financial institutions	388,798	3,890,655
Deposits and borrowings from related party banks and financial institutions	2,200,486	4,278,149
Customers' accounts at amortized cost	15,776,835	49,833,552
Related parties' accounts at amortized cost	33,241	107,175
Shareholders' cash contribution to capital	1,923,480	1,262,969
Subordinated bonds (Note 21)	3,773,913	5,970,939
Interest expense-lease liability (Note 7)	149,311	195,027
	<u>25,828,125</u>	<u>65,934,689</u>

29 FEE AND COMMISSION INCOME

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Commission on documentary credits	1,746	420,736
Commission on letters of guarantee	894,572	1,310,455
Commission on other customers' transactions *	35,073,044	11,011,382
Service fees on customers' transactions	10,684,482	7,223,573
Other	2,083,936	387,602
	<u>48,737,780</u>	<u>20,353,748</u>

(*) Commission on other customers' transactions for the year 2021 in the amount of LBP.35 billion, represents commissions earned on clients' cash and foreign currency transactions for debt settlement and other purposes.

30 FEE AND COMMISSION EXPENSE

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Commission on transactions with banks	397,621	228,980
Commission on transactions with related party banks	-	34,256
Other	476,747	513,611
	<u>874,368</u>	<u>776,847</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

31	NET INTEREST AND OTHER GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	<i>2021</i>	<i>2020</i>
		<i>LBP000</i>	<i>LBP000</i>
Dividends received on equity securities		51,807	3,770
Interest received on debt securities		28,629	40,866
Unrealized gain, net (Note 6)		2,173,716	596,152
Realized (loss)		(26,256)	(12,218)
		<u>2,227,896</u>	<u>628,570</u>
		<u><u>2,227,896</u></u>	<u><u>628,570</u></u>
32	OTHER OPERATING INCOME, (NET)	<i>2021</i>	<i>2020</i>
		<i>LBP000</i>	<i>LBP000</i>
Revenues and commissions from securitization operations		2,821,808	5,983,426
Others		2,286,660	127,648
		<u>5,108,468</u>	<u>6,111,074</u>
		<u><u>5,108,468</u></u>	<u><u>6,111,074</u></u>
33	GAIN FROM DERECOGNITION OF SECURITIES AT AMORTIZED COST	<i>2021</i>	<i>2020</i>
		<i>LBP000</i>	<i>LBP000</i>
Income from securities redemption		21,045	-
		<u>21,045</u>	<u>-</u>
		<u><u>21,045</u></u>	<u><u>-</u></u>
34	(LOSS) GAIN ON EXCHANGE, NET	<i>2021</i>	<i>2020</i>
		<i>LBP000</i>	<i>LBP000</i>
Mark-up commission *		(36,498,372)	-
BDL circular number 151 for Bank's accounts		(4,810,609)	-
Other customers operations, net		2,881,100	655,813
		<u>(38,427,881)</u>	<u>655,813</u>
		<u><u>(38,427,881)</u></u>	<u><u>655,813</u></u>

(*) In order to build up offshore liquidity, the Bank introduced the "multiplier factor" which entails inciting depositors of foreign currency international liquidity, cash deposited or incoming border transfers to convert these funds into local foreign currency deposits after the application of multiplier factors during 2020. Book losses from these transactions amounted to LBP000.37,269,791 during 2021 and were recorded under (loss) gain on exchange.

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

35 PROVISION FOR EXPECTED CREDIT LOSSES, NET

	Deposits with central banks LBP000	Deposits with banks and financial institutions LBP000	Loans and advances to customers LBP000	Financial assets classified at amortized cost LBP000	Financial assets at fair value through other comprehensive income LBP000	Acceptances LBP000	Other assets LBP000	Indirect and unutilized facilities LBP000	Total LBP000
Balance at 1 January 2020	16,134,796	176,105	36,973,889	12,741,170	1,301,610	59,005	791,774	59,421	68,237,770
Additions	2,066,300	131,804	25,879,049	4,615,524	-	-	440,518	43,638	33,176,833
Write-back	-	-	-	-	-	(32,364)	(177,292)	-	(209,656)
Write-offs	-	-	-	-	(1,301,610)	-	-	-	(1,301,610)
Balance at 31 December 2020	18,201,096	307,909	62,852,938	17,356,694	-	26,641	1,055,000	103,059	99,903,337
Balance at 1 January 2021	18,201,096	307,909	62,852,938	17,356,694	-	26,641	1,055,000	103,059	99,903,337
Additions	5,489,269	27,305	28,882,942	23,823,550	-	2,083,244	269,259	466,938	61,042,507
Write-back	-	(69,000)	(15,746,705)	-	-	-	-	-	(15,815,705)
Write-offs	-	(192,629)	-	-	-	-	-	-	(192,629)
Transfer from other reserves	-	-	-	-	-	-	(168,000)	-	(168,000)
Balance at 31 December 2021	23,690,365	73,585	75,989,175	41,180,244	-	2,109,885	1,156,259	569,997	144,769,510

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

36 STAFF COSTS

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Salaries and related charges	26,496,721	23,128,800
Social Security contributions	3,332,747	3,021,828
Provision for employees' end-of-service indemnities (net) (Note 20)	1,466,384	1,275,399
	<u>31,295,852</u>	<u>27,426,027</u>

37 ADMINISTRATIVE EXPENSES

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Travel and entertainment	29,148	101,284
Advertisement and publicity	1,242,271	1,451,786
Professional fees	3,512,377	3,459,136
Maintenance and repairs	4,975,418	2,167,807
Electricity and fuel	1,757,098	397,537
Telephone expenses	657,960	474,838
Printing and stationary	997,255	580,288
Rent and building services	516,430	1,082,161
Fees and taxes	416,381	888,523
Insurance	728,179	529,798
Subscriptions	3,611,091	2,198,315
Gifts and donations	752,369	351,645
Attendance fees	439,059	425,228
Other	2,518,761	2,096,773
	<u>22,153,797</u>	<u>16,205,119</u>

38 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

Forward exchange contracts outstanding as of 31 December 2021 and 2020 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers.

39 FIDUCIARY DEPOSITS

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Fiduciary deposits from customers invested in other banks	-	2,018,030
Fiduciary deposits for wealth management	8,319,297	8,933,545
Fiduciary deposits from customers invested in loans to other customers	-	382,302
	<u>8,319,297</u>	<u>11,333,877</u>

40 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

Key management personnel

Key management personnel are those individuals who have the authority and responsibility for planning, and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee, and persons and entities connected to them to be Key Management Personnel.

Balances and transactions with related parties as at and for the year ended 31 December 2021 and 2020, are as follows:

	2021		2020	
	<i>Outstanding balance LBP000</i>	<i>Interest revenue (expense) LBP000</i>	<i>Outstanding balance LBP000</i>	<i>Interest revenue (expense) LBP000</i>
Key management personnel and their close family members				
Net loans and advances	1,567,355	36,612	978,528	9,328
Deposits	44,876,116	(33,240)	14,055,933	(70,212)
Guarantees given	3,869	-	58,012	-
Other affiliates				
Net loans and advances	20,393	15,631	727,836	12,610
Deposits	11,940,433	(2,500)	29,833,718	(36,962)

The following is a summary of the nature of other transactions with related parties that are recorded in the income statement:

- During 2021, short-term benefits comprise of salaries, bonuses, attendance fees and other benefits amounted to LBP000 3,863,504 (2020: LBP000 3,646,820).
- Provision for end of service benefits of key management personnel amounted to LBP000 452,965 as of 31 December 2021 (2020: LBP000 315,757).

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

41 CASH AND CASH EQUIVALENTS

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

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Cash	31,521,516	36,083,885
Current accounts with central banks (excluding compulsory reserve)	1,316,669,001	1,390,642,053
Term placements with Central Bank of Lebanon	174,332,600	278,888,375
Checks for collection and current accounts with banks and financial institutions	100,802,417	22,306,100
Term placements with banks and financial institutions	-	2,875,289
	<u>1,623,325,534</u>	<u>1,730,795,702</u>

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

42 COLLATERAL GIVEN

	<i>31 December 2021</i>		
	<i>Pledged amount</i>	<i>Nature of facility</i>	<i>Amount of facility</i>
	<i>LBP000</i>		<i>LBP000</i>
Deposits with banks and financial institutions	14,293,153	Forward contracts	79,163,501
		Acceptances less than one year	10,549,424
	<i>31 December 2020</i>		
	<i>Pledged amount</i>	<i>Nature of facility</i>	<i>Amount of facility</i>
	<i>LBP000</i>		<i>LBP000</i>
Deposits with banks and financial institutions	13,956,781	Forward contracts	104,361,639
		Acceptances less than one year	11,584,624

43 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 Group 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).

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 1.3. However, in light of the high deviation between the parallel market rate, the Sayafa rates and the official published exchange rates, Management estimates that the amounts reported in this note in LBP 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.

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

44.1 Fair value of financial instruments carried at fair value

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

	2021			Total LBP000
	Level 1 LBP000	Level 2 LBP000	Level 3 LBP000	
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and Central Bank of Lebanon</i>				
Treasury bills	244,377	-	-	244,377
Eurobonds	-	-	16,533	16,533
<i>Private sector and other securities</i>				
Bank and financial institutions	353,886	-	-	353,886
Equity instruments	2,974,526	-	-	2,974,526
	<u>3,572,789</u>	<u>-</u>	<u>16,533</u>	<u>3,589,322</u>
Financial assets designated at fair value through other comprehensive income				
<i>Private sector and other securities</i>				
Equity instruments	21,197,797	-	-	21,197,797
	<u>24,770,586</u>	<u>-</u>	<u>16,533</u>	<u>24,787,119</u>
FINANCIAL ASSETS				
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and Central Bank of Lebanon</i>				
Treasury bills	245,870	-	-	245,870
Eurobonds	33,871	-	-	33,871
<i>Private sector and other securities</i>				
Bank and financial institutions	67,838	-	-	67,838
Equity instruments	10,533,857	-	-	10,533,857
	<u>10,881,436</u>	<u>-</u>	<u>-</u>	<u>10,881,436</u>
Financial assets designated at fair value through other comprehensive income				
<i>Private sector and other securities</i>				
Equity instruments	19,301,327	-	-	19,301,327
	<u>30,182,763</u>	<u>-</u>	<u>-</u>	<u>30,182,763</u>

There were transfers between levels during 2021 (2020: No transfers between levels).

44 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**44.1 Fair value of financial instruments carried at fair value (continued)**

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

Interest rate derivatives

Interest rate derivatives include interest rate swaps and interest rate options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations by estimating future cash flows and discounting them with the appropriate yield curves incorporating funding costs relevant for the position. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case, they are Level 3. The Group does not have interest rate derivatives classified as Level 3.

Foreign exchange contracts

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts and over-the-counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Group classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole). The Group does not have foreign exchange derivatives classified as Level 3.

Funds and Equity shares of non-listed entities

Units held in funds are measured based on their net asset value (NAV), taking into account redemption and/or other restrictions. Classification between level 2 and level 3 is dependent on whether the NAV is observable or unobservable (i.e. recent and published by the fund administrator or not).

Equity shares of non-listed entities comprise mainly the Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value.

The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between level 2 and level 3 is based on the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

Comparison of carrying and fair values for financial assets and liabilities not held at fair value*Financial assets and liabilities concentrated in Lebanon*

These assets and liabilities consist of balances with the Central Bank of Lebanon and Lebanese Banks, Lebanese government securities, loans and advances to customers and related parties, due to the Central Bank of Lebanon and Lebanese Banks, customers and related parties deposits, and debt issued and other borrowed funds. 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 unprecedented 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.

Financial assets and liabilities not concentrated in Lebanon

These are not significant to the Group's consolidated financial statements.

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

The Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. 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.

	2021		
	<i>Banks</i> <i>LBP000</i>	<i>Customers</i> <i>LBP000</i>	<i>Total</i> <i>LBP000</i>
Guarantees and contingent liabilities			
Financial guarantees	1,734,661	38,245,437	39,980,098
Other guarantees	-	-	-
	<u>1,734,661</u>	<u>38,245,437</u>	<u>39,980,098</u>
	<u><u>1,734,661</u></u>	<u><u>38,245,437</u></u>	<u><u>39,980,098</u></u>
Commitments			
Documentary credits	-	-	-
Loan commitments	-	3,596,141	3,596,141
<i>Of which revocable</i>	-	-	-
<i>Of which irrevocable</i>	-	3,596,141	3,596,141
	<u>-</u>	<u>3,596,141</u>	<u>3,596,141</u>
	<u><u>-</u></u>	<u><u>3,596,141</u></u>	<u><u>3,596,141</u></u>
	2020		
	<i>Banks</i> <i>LBP000</i>	<i>Customers</i> <i>LBP000</i>	<i>Total</i> <i>LBP000</i>
Guarantees and contingent liabilities			
Financial guarantees	-	-	-
Other guarantees	2,103,904	45,912,431	48,016,335
	<u>2,103,904</u>	<u>45,912,431</u>	<u>48,016,335</u>
	<u><u>2,103,904</u></u>	<u><u>45,912,431</u></u>	<u><u>48,016,335</u></u>
Commitments			
Documentary credits	-	308,913	308,913
Loan commitments	-	2,935,868	2,935,868
<i>Of which revocable</i>	-	-	-
<i>Of which irrevocable</i>	-	2,935,868	2,935,868
	<u>-</u>	<u>3,244,781</u>	<u>3,244,781</u>
	<u><u>-</u></u>	<u><u>3,244,781</u></u>	<u><u>3,244,781</u></u>

Guarantees (including standby letters of credit)

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
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees.

45 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit-related commitments and contingent liabilities (continued)

Documentary credits

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

Investment commitments

The Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP.15,510,555 million as of 31 December 2021 (2020: LBP.21,886,586 million).

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims in Lebanon and abroad, mainly those relating to the restrictive measures in place with respect to the withdrawal of funds and transfers abroad.

The extent of the impact of these matters cannot always be predicted but may materially impact the Group's operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Group 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 Group. However, they may have an impact on the offshore liquidity of the Group, its foreign assets, and its foreign currency exposure.

Other commitments and contingencies

Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities.

The Group's books are still subject to the review by the Department of Income Tax from 1 January 2017 to date. The National Social Security Fund (NSSF) reviewed the Group's books till September 2021 (inclusive). Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

46 RISK MANAGEMENT

The Group is exposed to various types of risks, some of which are:

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, litigation risk, compliance risk, political risk, business/strategic risk, and cybersecurity risk.

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control, and reporting to relevant stakeholders. The Bank ensures that risks and rewards are properly balanced and in line with the risk appetite framework, which is approved by the Board of Directors.

Board of Directors

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, approves the risk appetite and policies of the Group. The Board monitors the risk profile in comparison to the risk appetite on a regular basis and follow-up on existing and emerging risks. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

Board Group Risk Committee

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the Group risk policies and risk appetite, monitor the Group's risk profile, review stress test scenarios and results, and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

Executive Committee

The mandate of the Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, and to develop and implement business policies and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

Asset Liability Committee

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market and liquidity risks, as well as reviewing funding needs and contingency exposures. It is the responsibility of this committee to set up strategies for managing market risk and liquidity risk and ensuring that Treasury implements those strategies in line with the risk policy and limits approved by the Board.

Internal Audit

Risk management processes are independently audited by the Internal Audit Department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal Audit discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

Risk Management

Risk Management is a function independent from business lines and headed by the CRO. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Group Risk Committee and the Board. In addition, the function works closely with Senior Management to ensure that proper controls and mitigants are in place. The Risk function has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of cascading risk appetite and limits to entities and business lines, as well as monitoring and aggregating the risk profile across the Group.

46 RISK MANAGEMENT (continued)**Risk Appetite**

The Risk appetite reflects the level and type of risk that the Group is willing to accept, taking into account the Group's strategy, operating environment and regulatory constraints.

Risk appetite is formalised in a document which is reviewed by the Executive Committee and the Board Group Risk Committee, and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite and includes key risk indicators covering various risk types.

Information independently compiled from business lines and risk-taking units is examined and aggregated in order to identify and measure the risk profile. The results are presented on a regular basis to the Management and the Board.

47 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its obligors or counterparties fail to meet their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including Group placements, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to the risk of default of the derivative's counterparty.

47.1 Credit risk management

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to entities. The Group manages and controls credit risk by setting concentration limits on counterparties, geographies and sectors. It also monitors on a regular basis the risk profile in relation to these limits.

Credit risk is monitored by the Credit Review and Credit Risk functions in each entity, which are independent from business lines. These functions ensure a proper coverage of credit risk through the implementation of various processes, including but not limited to: i) providing independent opinions on credit files, ii) reviewing and approving obligors risk ratings assignments, iii) conducting portfolio reviews, iv) ensuring compliance with the Group's credit policy and limits, and v) aggregating data and reporting the credit risk profile to relevant stakeholders.

The Group has established various credit monitoring processes for the early detection of changes in borrowers' credit quality and accordingly, and the design of effective remedial measures. These processes include regular loan portfolio reviews, IFRS 9 Impairment Committee meetings, as well as individual credit assessments of borrowers with their corresponding facilities. The latter process is mainly applicable for non-retail obligors.

The Group has also established an approval limit structure for granting and renewing credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to their own assigned limits.

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.

Since October 2019 events, the challenging economic situation in Lebanon has been exerting significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. In order to address this challenging operating condition, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing the loan portfolio, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting up an independent, centralised and specialised remedial function to proactively manage problematic borrowers.

47 CREDIT RISK (continued)**47.2 Expected Credit Losses****47.2.1 Governance and oversight of expected credit losses**

The IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the implementation of the Expected Credit Loss (ECL) framework. This is being done by: i) approving the IFRS-9 Impairment Policy; ii) reviewing key assumptions and estimations that are part of the ECL framework; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures; and v) reviewing ECL results.

The Group reviews its IFRS-9 Impairment Policy on, at minimum, annual basis and amends it accordingly to reflect any change in the estimation methodology, embedded assumptions or regulatory requirements.

Key judgments inherent in this policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account the borrower's exposure, internal obligor risk rating, facility characteristics, and collateral information among other. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are validated by a qualified independent party to the model development function, before first use and at regular intervals thereafter.

Each model is designated an owner who is responsible for: i) monitoring the performance of the model, which includes comparing estimated ECL versus actual realised losses; and ii) proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Models used in the estimation of ECL, including key inputs, are governed by a series of internal controls which include the validation of completeness and accuracy of data, reconciliation with finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios which are set by economists within the Group's Research Department using independent models and expert judgment. Forward-looking economic scenarios, with their corresponding probabilities of occurrence, are updated annually or more frequently in the event of a significant change in the prevailing economic conditions.

47.2.2 Definition of default and cure

The Group considers a financial asset to be in default when:

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

As part of the qualitative assessment process of default identification, the Group carefully considers other criteria than the ones listed above in order to determine if an exposure should be classified in Stage 3 for ECL calculation purpose or if a Stage 2 classification is deemed more appropriate.

It is the Group's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to the initial recognition date and is examined on a case-by-case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed; ii) three consecutive payments under the new repayment schedule have been made; iii) the borrower has no past dues under any obligation to the Group; and iv) all the terms and conditions agreed to as part of the restructuring agreement have been met.

47 CREDIT RISK (continued)

47.2 Expected Credit Losses

47.2.2 Definition of default and cure (continued)

In response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail customers under system-wide programs. In Lebanon, the Central Bank of Lebanon issued Intermediary Circular 567 dated 26 August 2020 (which was later extended till end of 2021 as per Intermediary Circular 594 dated 2 September 2021), by which it required banks operating in Lebanon to keep the regulatory classification unchanged for obligors that were negatively impacted by this pandemic and not to consider their past-dues, when existing, as evidence of SICR. However, under exceptional circumstances and in case an obligor ceases to be operating under a going concern basis, banks should immediately downgrade the borrower's classification to Stage 3.

47.2.3 The Group's internal rating and PD estimation process

Central Banks, Sovereigns and Financial Institutions

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 the Central Bank of Lebanon and Lebanese sovereign, Intermediate Circular 567 modified the regulatory ECLs levels, previously set in its Intermediate Circular 543 issued on 3 February 2020. Regulatory ECL on exposures to Lebanese sovereign bonds in foreign currency was increased from 9.45% to 45%, while regulatory ECLs on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currency and exposures to the Central Bank of Lebanon in local currency remained unchanged (0%, 1.89% and 0% respectively). This circular however changed the requirement for the recognition of ECL 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 Lebanese government's reform plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Bank was unable to estimate in a reasonable manner ECL on this exposure and accordingly, as applicable, the loss rate mentioned in Intermediate Circular 567 was adopted. To note that the Group disposed of the majority of its holding of Lebanese Sovereign bonds in foreign currency during 2020 and allocated full provision coverage on the implied loss for the remaining balance based on prevailing market values.

Non-retail loans

The Risk function is responsible for the development of internal rating models and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal Obligor Risk Rating (ORR) scale comprised of 19 performing grades and 3 non-performing grades. These grades, which are generated by internal rating models, are calibrated to PDs using historical default observations that are specific to each geography and business line segment. If historical default observations are not sufficient for a reliable PD estimation, then a low-default portfolio approach is adopted. The mapping of ratings to PDs, which is done initially on a through-the-cycle basis, is then adjusted to a point-in-time basis. PDs are also adjusted to incorporate forward-looking component in line with the IFRS 9 standard.

Internal rating models for the Bank's key lending portfolios (including Corporate and SME) take into account both qualitative and quantitative criteria to generate ratings such as:

- Historical and projected financial information related to the customer. These include debt service coverage, operations, liquidity, capital structure and other relevant financial ratios.
- Account behaviour, repayment history (factoring in any COVID-19 related regulatory forbearance measure where applicable) and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information from external parties. This includes external credit ratings issued by recognised rating agencies, independent research analyst reports and other market disclosures.
- Macro-economic information such as GDP growth which correspond to the customer's country of operations.
- Other supporting information on the obligor's willingness and capacity to repay its debt.

47 CREDIT RISK (continued)**47.2 Expected Credit Losses (continued)****47.2.3 The Group's internal rating and PD estimation process (continued)**

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk functions, which are independent from business lines. Credit Review and Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Retail loans and private banking

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group normally relies on application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as an additional input to support the approval or reject decision by specialised credit officers. For the estimation of expected losses for retail products, the Group uses the loss approach by product based on the net flow of exposures from one days-past-due bucket to another (factoring in any COVID-19 related regulatory forbearance measure where applicable). This estimation is adjusted by a forward-looking component in line with the IFRS-9 standard.

Private Banking credit exposures are mainly related to margin lending activities where the Group typically holds high liquid and diversified securities as collaterals with very conservative loan to value thresholds. This lending discipline, together with very tight and automated monitoring standards, ensure the portfolio remains of very high quality. The ECLs for these exposures is dependent on collateral types and coverage level, among others.

47.2.4 Loss given default

LGD is the magnitude of the likely loss in the event of a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties that were fully settled, as well as on the potential future recoveries on defaulted counterparties that still have outstanding balances. LGD estimation is dependent on the counterparty and collateral type, as well as recovery costs. For portfolios with limited historical data, external benchmark information is used to supplement available internal data.

47.2.5 Exposure at default

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

47.2.6 Significant increase in credit risk

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or Lifetime ECL (LTECL), the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information based on the Group's historical experience and expert credit assessment including forward-looking information. The Group's assessment of significant increase in credit risk is being performed on a monthly basis based on the following:

Non-retail Portfolio

Migration of obligor risk rating by a certain number of notches from origination date to reporting date as a key indicator of the change in the risk of default at origination date with the risk of default at reporting date. The Group also considers in its assessment of significant increase in credit risk various qualitative factors including significant adverse changes in business condition, restructuring due to credit quality weakness during the past 12 months, and classification of an exposure under the "Follow-up and Regularisation" supervisory classification.

Retail Portfolio

The Group considers specific conditions that might be indicative of a significant increase in credit risk such as the occurrence of a restructuring event. The Group has also identified thresholds using historical default rates and historical payment behaviour to determine significant increase in credit risk.

47 CREDIT RISK (continued)

47.2 Expected Credit Losses (continued)

47.2.6 Significant increase in credit risk (continued)

Backstop

As a backstop, the financial instrument is considered to have experienced a significant increase in credit risk if the obligor is more than 30 days past-due on his contractual payment.

As noted in section “47.2.2. Definition of Default and Cure” and in response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail borrowers under market-wide programs.

Downgrade from Stage 2 to Stage 3 is based on whether financial assets are credit-impaired at the reporting date.

47.2.7 Expected life

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but instead, calculates ECL over a period that reflects the Group’s expectations with regards to the customer’s behaviour, its likelihood of default and future risk mitigation actions, which could include reducing or cancelling the facilities.

47.2.8 Forward looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition, and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario and two less likely scenarios, one upside and one downside, each assigned a specific probability of occurrence. The base case scenario is aligned with information used by the Group for other purposes such as strategic and budgeting planning processes.

These scenarios, including the weights attributable to them, are prepared by economists in the Research Department. They are determined using a combination of expert judgment and model output. The Group reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

The Group has identified real GDP growth, among others, as the key driver of ECL for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes in forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. However, given the prevailing high uncertainties and challenges, which were further exacerbated by the COVID-19 pandemic as disclosed in Note 1, ECLs estimation remains subject to high volatility (including from changes to macroeconomic variable forecasts) especially in the event of a prolonged crisis and continued deterioration in the economic conditions. It is not practical at this stage to determine and provide sensitivity analysis that is reasonably possible before the full resolution of these prevailing high uncertainties.

47.2.9 Modified and forbore loans

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the *Summary of Significant Accounting Policies* above.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

47 CREDIT RISK (continued)

47.2 Expected Credit Losses (continued)

47.2.9 Modified and forbore loans (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on his debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

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

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

47 CREDIT RISK (continued)

47.2 Expected Credit Losses (continued)

47.2.10 Financial assets and ECLs by stage

The tables below present 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 Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	2021						
	Gross exposure			Impairment allowance			Net exposure LBP000
	Stage 1 LBP000	Stage 2 LBP000	Stage 3 LBP000	Total LBP000	Stage 1 LBP000	Stage 2 LBP000	
31 December 2021							
Balances with central banks	2,210,119,671	-	-	2,210,119,671	23,690,365	-	23,690,365
Deposits with banks and financial institutions	116,411,840	-	-	116,411,840	73,585	-	73,585
Financial assets at FVTPL	3,572,788	-	16,534	3,589,322	-	-	-
Loans and advances to customers and related parties at amortized cost	531,522,321	55,930,372	155,665,269	743,117,962	9,015,722	10,293,974	108,242,487
Corporate and SME	493,537,960	51,930,361	145,690,838	691,159,159	8,487,167	9,966,777	85,530,828
Retail and personal banking	37,984,361	4,000,011	9,974,431	51,958,803	528,555	327,197	3,401,963
Investments securities	324,354,081	-	137,290,177	461,644,258	3,619,659	-	59,545,939
Customers' liability under acceptances	-	-	10,549,424	10,549,424	-	-	2,109,885
Total	3,185,980,701	55,930,372	303,521,404	3,545,432,477	36,399,331	10,293,974	146,968,956

	2020						
	Gross exposure			Impairment allowance			Net exposure LBP000
	Stage 1 LBP000	Stage 2 LBP000	Stage 3 LBP000	Total LBP000	Stage 1 LBP000	Stage 2 LBP000	
31 December 2020							
Balances with central banks	2,204,262,087	-	-	2,204,262,087	18,201,096	-	18,201,096
Deposits with banks and financial institutions	108,544,199	-	-	108,544,199	100,031	-	100,031
Financial assets at FVTPL	10,881,435	-	-	10,881,435	-	-	-
Loans and advances to customers and related parties at amortized cost	454,999,591	88,611,127	144,923,083	688,533,801	1,057,306	19,340,774	73,113,983
Corporate and SME	401,157,271	84,606,986	139,704,107	625,468,364	935,542	18,899,460	69,384,021
Retail and personal banking	53,842,320	4,004,141	5,218,976	63,065,437	121,764	441,314	3,729,962
Investments securities	448,011,917	-	-	448,011,917	17,356,695	-	17,356,695
Customers' liability under acceptances	11,584,624	-	-	11,584,624	26,641	-	26,641
Total	3,238,283,853	88,611,127	144,923,083	3,471,818,063	36,741,769	19,340,774	73,113,983

31 December 2021

47 CREDIT RISK (continued)

47.2 Expected Credit Losses (continued)

47.2.10 Financial assets and ECLs by stage (continued)

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

	2021				2020			
	Stage 1 12 month ECL LBP000	Stage 2 Lifetime ECL LBP000	Stage 3 Lifetime ECL LBP000	Total LBP000	Stage 1 12 month ECL LBP000	Stage 2 Lifetime ECL LBP000	Stage 3 Lifetime ECL LBP000	Total LBP000
Loss allowance as at 1 January	1,049,175	19,340,774	42,462,989	62,852,938	1,908,920	7,057,467	28,007,502	36,973,889
Transfer to Stage 2	(27,513)	27,513	-	-	(73,569)	73,569	-	-
Transfer to Stage 3	-	-	-	-	(6,699)	(2,633,960)	2,640,659	-
Movement due to changes in balance and credit risk within the same stage	(2,194,932)	(12,558,244)	14,753,176	-	-	-	-	-
New financial assets originated or purchased	9,557,098	3,483,931	(530,530)	12,510,499	(882,351)	14,843,698	11,814,828	25,776,175
	631,895	-	-	631,895	102,874	-	-	102,874
	<u>9,015,723</u>	<u>10,293,974</u>	<u>56,685,635</u>	<u>75,995,332</u>	<u>1,049,175</u>	<u>19,340,774</u>	<u>42,462,989</u>	<u>62,852,938</u>

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

47 CREDIT RISK (continued)

47.3 Analysis of Risk Concentrations

47.3.1 Geographical Location Analysis

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

	2021							Total LBP000	
	Lebanon LBP000	Turkey LBP000	MENA LBP000	Europe LBP000	North America LBP000	Asia LBP000	Rest of Africa LBP000		Rest of the world LBP000
Cash and deposits with central banks	2,208,434,830	-	-	9,515,994	-	-	-	-	2,217,950,824
Deposits with banks and financial institutions	23,916,1859	-	895,390	63,428,374	28,052,632	-	-	-	116,338,255
Financial assets at fair value through profit or loss	3,589,322	-	-	-	-	-	-	-	3,589,322
Loans and advances to customers and related parties	622,943,578	-	2,184,262	9,744,771	2,848	-	5	11	634,875,475
Investments securities	383,519,479	-	17,645,343	24,885	-	-	908,612	-	402,098,319
Customers' liabilities under acceptances	8,439,539	-	-	-	-	-	-	-	8,439,539
Investments in subsidiaries and an associate	-	-	-	-	-	-	-	-	-
Assets acquired in satisfaction of loans	3,445,186	-	-	-	-	-	-	-	3,445,186
Property and equipment	82,594,089	-	-	344,825	-	-	-	-	82,938,914
Right-of-use assets	1,401,562	-	-	-	-	-	-	-	1,401,562
Intangible assets	505,905	-	-	3,883	-	-	-	-	509,788
Other assets	36,668,807	-	-	85,125	-	-	-	-	36,753,932
	<u>3,375,504,156</u>	<u>-</u>	<u>20,724,995</u>	<u>83,147,857</u>	<u>28,055,480</u>	<u>-</u>	<u>908,617</u>	<u>11</u>	<u>3,508,341,116</u>
	2020							Total LBP000	
	Lebanon LBP000	Turkey LBP000	MENA LBP000	Europe LBP000	North America LBP000	Asia LBP000	Rest of Africa LBP000		Rest of the world LBP000
Cash and deposits with central banks	2,149,222,835	-	-	70,709,113	-	-	-	-	2,219,931,948
Deposits with banks and financial institutions	30,116,428	-	-	50,219,410	27,452,611	-	655,719	-	108,444,168
Financial assets at fair value through profit or loss	10,649,073	-	-	75,917	156,445	-	-	-	10,881,435
Loans and advances to customers and related parties	584,874,615	-	-	5,404,622	-	-	3,970,957	771,544	595,021,738
Investments securities	413,009,879	-	-	-	-	-	17,645,343	-	430,655,222
Customers' liabilities under acceptances	11,506,397	-	-	51,586	-	-	-	-	11,557,983
Investments in subsidiaries and an associate	-	-	-	-	-	-	-	-	-
Assets acquired in satisfaction of loans	2,907,009	-	-	-	-	-	-	-	2,907,009
Property and equipment	77,295,897	-	-	-	-	-	-	-	77,295,897
Right-of-use assets	1,963,010	-	-	-	-	-	-	-	1,963,010
Intangible assets	709,660	-	-	-	-	-	-	-	709,660
Other assets	24,472,076	-	-	-	-	-	-	-	24,472,076
	<u>3,306,726,879</u>	<u>-</u>	<u>-</u>	<u>126,460,648</u>	<u>27,609,056</u>	<u>-</u>	<u>22,272,019</u>	<u>771,544</u>	<u>3,483,840,146</u>

47 CREDIT RISK (continued)

47.4 Credit Quality

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for fixed income instruments and financial institutions exposures.
- (ii) Internal rating models that take into account both financial and non-financial information such as management quality, operating environment and company standing. The Group has designed specific internal rating models for Corporate, SME models, Project Finance and Individual borrowers.
- (iii) Empirical and expert-based scorecards that assess the creditworthiness of retail borrowers in an objective manner.
- (iv) Supervisory classifications, comprising six main categories: (a) Regular includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These borrowers display regular and timely payment of their dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. (b) Follow-up represents a lack of updated documentation related to the borrower's activity, an inconsistency between facilities' type and related conditions. (c) Follow-up and regularisation includes creditworthy borrowers requiring close monitoring without being impaired. These borrowers usually demonstrate signs of weaknesses (such as insufficient or inadequate cash flows, high leverage ratio, excess utilisation, multiple loan rescheduling since initiation), or operating under deteriorating economic or geographic conditions. (d) Substandard loans include borrowers showing clear signs of inability to repay their facilities on due time, as well as financial difficulties (e.g. hard core accounts, weakened cash generation capacity). (e) Doubtful loans where full repayment is questioned even after liquidation of collateral, when applicable. It also includes loans with past-dues for over 6 months and debtors who are unable to repay their restructured facilities. Finally, (f) bad loans which relate to obligors with no or little expected repayment from business activities or assets liquidation. This category also includes borrowers with significant delays and deemed insolvent.

Sovereign and Banks and Financial Institutions

External Rating Grade	Credit Quality Description
AA+, AA, AA-	High
A+, A, A-	High
BBB+, BBB, BBB-	Standard
BB+, BB, BB-	Standard
B+, B, B-	Weak
CCC+, CCC, CCC-	Weak
CC, C, D	Credit-impaired

Non-retail Loans

Internal Rating Grade	Credit Quality Description
Performing	
1	High
2	High
3	High
4	Standard
5	Standard
6	Standard
7	Weak
Non-performing	
8	Credit-impaired
9	Credit-impaired
10	Credit-impaired

The internal rating grade is based on the obligor risk rating (which is mapped to PD) and therefore does not incorporate facility risk characteristics and structure such as the existence of credit risk mitigants (impacting LGD). For this reason, an obligor risk rating can be mapped to different supervisory ratings depending on the expected loss level.

31 December 2021

47 CREDIT RISK (continued)

47.4 Credit Quality (continued)

Retail

Internal Rating Grade	Credit Quality Description
Performing	
B0 (0 days past due)	High
B1 (1 to 30 days past due)	Standard
B2 (31 to 60 days past due)	Standard
B3 (61 to 90 days past due)	Weak
Non-performing	
B4 –B6 (91 to 180 days past due)	Credit-impaired
B7 – B12 (181 days to 360 days past due)	Credit-impaired
B13 (more than 360 days past due)	Credit-impaired

The credit quality descriptions can be summarised as follows:

- *High*: there is a very high likelihood that the asset will be recovered in full. The counterparty exhibits high ability and willingness to meet its full obligation on due time.
- *Standard*: there is a high likelihood that the asset will be recovered in full. At the lower end of this category however, there are obligors showing some signs of reduced repayment capacity, as well as retail borrowers in their early delinquency status.
- *Weak*: there is a concern on the obligor's ability to make payments when due. However, this has not materialised yet in an event of default. Under this category, the borrower, who is now under a close monitoring and follow-up process, continues to repay his dues, albeit with some and/or recurring delays. Under this category, the exposure is exhibiting an increased risk of loss.

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

47 CREDIT RISK (continued)

47.4 Credit Quality (continued)

The classification of the Group's financial instruments and balances due from banks and financial institutions as per external ratings are as follows:

	2021						Grand total LBP000				
	Sovereign and Central Banks			Non-sovereign							
	AAA to BBB- LBP000	BB+ to B- LBP000	Below B- LBP000	Unrated LBP000	Total LBP000	AAA to BBB- LBP000		BB+ to B- LBP000	Below B- LBP000	Unrated LBP000	Total LBP000
Balances with central banks	-	9,515,994	2,176,913,314	-	2,186,429,308	-	1,814,382	-	45,203,001	116,338,255	2,186,429,308
Deposits with banks and financial institutions	-	-	-	-	-	69,320,872	-	-	-	-	116,338,255
Loans to banks and financial institutions	-	-	260,910	-	260,910	473,131	-	-	2,855,281	3,328,412	3,589,322
Financial assets at fair value through profit or loss	-	-	379,402,659	-	379,402,659	-	-	-	1,497,863	1,497,863	380,900,522
Financial assets at amortized cost	-	9,515,994	2,556,576,883	-	2,566,092,877	69,794,003	1,814,382	-	49,556,145	121,164,530	2,687,257,407
	2020						Grand total LBP000				
	Sovereign and Central Banks			Non-sovereign							
	AAA to BBB- LBP000	BB+ to B- LBP000	Below B- LBP000	Unrated LBP000	Total LBP000	AAA to BBB- LBP000		BB+ to B- LBP000	Below B- LBP000	Unrated LBP000	Total LBP000
Balances with central banks	-	70,415,839	2,115,645,152	-	2,186,060,991	-	2,565,877	-	35,625,345	108,444,168	2,186,060,991
Deposits with banks and financial institutions	-	-	-	-	-	70,252,946	-	-	-	-	108,444,168
Due from head office, sister banks and affiliates	-	-	-	-	-	-	-	-	-	-	-
Loans to banks and financial institutions	-	-	279,741	-	279,741	138,727	-	-	10,462,967	10,601,694	10,881,435
Financial assets at fair value through profit or loss	-	-	407,055,332	-	407,055,332	-	-	-	4,298,563	4,298,563	411,353,895
Financial assets at amortized cost	-	70,451,839	2,522,980,225	-	2,593,396,064	70,391,673	2,565,877	-	50,386,875	123,344,425	2,716,740,489

31 December 2021

47 CREDIT RISK (continued)

47.4 Credit Quality (continued)

The table below shows the credit quality of the Group's loans and advances to customers based on internal credit ratings and stage classification. The amounts presented are gross of impairment allowances.

	2021			Total LBP Million
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	
Loans and advances to customers at amortised cost				
<i>Corporate and SMEs</i>	485,033,895	41,963,584	60,160,010	587,157,489
<i>Performing</i>	493,521,062	51,930,361	-	545,451,423
High	169,261,174	21,543,199	-	190,804,373
Standard	52,572,506	934,571	-	53,507,077
Weak	271,687,382	29,452,591	-	301,139,973
<i>Non-performing</i>	-	-	114,877,243	114,877,243
Credit impaired	(8,487,167)	(9,966,777)	(54,717,233)	(73,171,177)
<i>Retail and private banking</i>	35,905,349	3,672,814	6,572,468	46,150,631
<i>Performing</i>	36,425,416	4,000,011	-	40,425,427
High	3,397,459	-	-	3,397,459
Standard	6,099,096	1,286,426	-	7,385,522
Weak	26,928,861	2,713,585	-	29,642,446
<i>Non-performing</i>	-	-	8,540,870	8,540,870
Credit impaired	(520,067)	(327,197)	(1,968,402)	(2,815,666)
<i>Public sector</i>	-	-	-	-
<i>Performing</i>	-	-	-	-
Standard	-	-	-	-
<i>Non-performing</i>	-	-	-	-
Credit impaired	-	-	-	-
Loans and advances to related parties at amortised cost	1,567,355	-	-	1,567,355
<i>Performing</i>	1,575,843	-	-	1,575,843
Weak	1,575,843	-	-	1,575,843
Credit impaired	(8,488)	-	-	(8,488)
Off balance sheet loan commitments and financial guarantee contracts	37,204,866	38,642	2,168,073	39,411,581
<i>Performing</i>	37,404,950	407,075	-	37,812,025
High	4,132,553	754	-	4,133,307
Standard	5,308,423	-	-	5,308,423
Weak	27,963,974	406,321	-	28,370,295
<i>Non-performing</i>	-	-	2,168,073	2,168,073
Credit impaired	(200,084)	(368,433)	-	(568,517)
Total	559,711,465	45,675,040	68,900,551	674,287,056

31 December 2021

47 CREDIT RISK (continued)

47.4 Credit Quality (continued)

	2020			Total LBP Million
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	
Loans and advances to customers at amortised cost				
<i>Corporate and SMEs</i>	400,201,916	65,702,897	70,320,086	536,224,899
<i>Performing</i>	401,137,428	84,602,354	-	485,739,782
High	38,816,295	32,088,965	-	70,905,260
Standard	48,047,060	38,289	-	48,085,349
Weak	314,274,073	52,475,100	-	366,749,173
<i>Non-performing</i>	-	-	139,704,107	139,704,107
Credit impaired	(935,512)	(18,899,457)	(69,384,021)	(89,218,990)
<i>Retail and private banking</i>	51,655,352	3,562,824	1,489,014	56,707,190
<i>Performing</i>	51,772,327	4,004,141	-	55,776,468
High	4,237,082	224,823	-	4,461,905
Standard	1,672,818	1,264,971	-	2,937,789
Weak	45,862,427	2,514,347	-	48,376,774
<i>Non-performing</i>	-	-	5,218,976	5,218,976
Credit impaired	(116,975)	(441,317)	(3,729,962)	(4,288,254)
<i>Public sector</i>	-	-	-	-
<i>Performing</i>	-	-	-	-
Standard	-	-	-	-
<i>Non-performing</i>	-	-	-	-
Credit impaired	-	-	-	-
Loans and advances to related parties at amortised cost	2,081,161	-	-	2,081,161
<i>Performing</i>	2,085,980	-	-	2,085,980
Low	2,085,980	-	-	2,085,980
Credit impaired	(4,819)	-	-	(4,819)
Off balance sheet loan commitments and financial guarantee contracts	45,213,450	487,548	115,910	45,816,908
<i>Performing</i>	45,272,910	523,609	-	45,796,519
High	1,591,659	754	-	1,592,413
Standard	7,331,738	3,015	-	7,334,753
Weak	36,349,513	519,840	-	36,869,353
<i>Non-performing</i>	-	-	115,910	115,910
Credit impaired	(59,460)	(36,061)	-	(95,521)
Total	499,151,879	69,753,269	71,925,010	640,830,158

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

47 CREDIT RISK (continued)

47.5 Maximum exposure to credit risk and collateral and other credit enhancements

The following table shows the 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 LBP000	Cash collateral and margins LBP000	Securities LBP000	Guarantees received from banks and financial institutions LBP000	Real estate LBP000	Risk transfer LBP000	Net credit exposure LBP000
Balances with central banks	2,186,429,307	-	-	-	-	-	2,186,429,307
Due from banks and financial institutions	116,338,255	-	-	-	-	-	116,338,255
Loans to banks and financial institutions	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	3,589,322	-	-	-	-	-	3,589,322
Loans and advances to customers at amortized cost							
Corporate and SME	587,157,489	3,690,117	100,553	904,500	139,547,205	-	442,915,114
Retail and personal banking	46,150,631	4,593,669	1,234,082	-	35,462,823	-	4,860,057
Public sector	-	-	-	-	-	-	-
Loans and advances to related parties at amortized cost	1,567,355	24,120	-	-	527,625	-	1,015,610
Debtors by acceptances	8,439,539	-	-	-	-	-	8,439,539
Financial assets at amortized cost	402,098,319	-	-	-	-	-	402,098,319
Contingent liabilities							
Letters of credit	-	-	-	-	-	-	-
Financial guarantee given to banks and financial institutions	1,734,664	-	-	-	-	-	1,734,664
Financial guarantee given to customers	38,245,433	112,054	-	2,717,789	-	-	35,415,590
Total	3,391,750,314	8,419,960	1,334,635	3,622,289	175,537,653	-	3,202,835,777
Guarantees received from banks, financial institutions and customers							
Utilized collateral	-	(6,854,180)	(998,557)	(3,219,975)	(111,424,903)	-	(122,497,615)

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

47 CREDIT RISK (continued)

47.5 Maximum Exposure to Credit Risk and Collateral and Other Credit Enhancements (continued)

	2020						
	Maximum exposure LBP000	Cash collateral and margins LBP000	Securities LBP000	Guarantees received from affiliated entities LBP000	Guarantees received from banks and financial institutions LBP000	Real estate LBP000	Net credit exposure LBP000
Balances with central banks	2,183,848,063	-	-	-	-	-	2,183,848,063
Due from banks and financial institutions	108,444,168	-	-	-	-	-	108,444,168
Due from head offices, sister banks and affiliates	-	-	-	-	-	-	-
Loans to banks and financial institutions	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	10,881,435	-	-	-	-	-	10,881,435
Loans and advances to customers at amortized cost							
Corporate and SME	536,233,387	8,549,467	282,786	-	-	199,077,568	328,323,566
Retail and personal banking	56,707,190	9,112,671	9,141,313	-	-	38,453,206	-
Public sector	-	-	-	-	-	-	-
Loans and advances to related parties at amortized cost	2,081,161	-	-	-	-	1,221,075	860,086
Debtors by acceptances	11,557,983	-	-	-	-	-	11,557,983
Financial assets at amortized cost	430,655,222	-	-	-	-	-	430,655,222
Contingent liabilities							
Letters of credit	-	-	-	-	-	-	-
Financial guarantee given to banks and financial institutions	2,103,904	-	-	-	-	-	2,103,904
Financial guarantee given to customers	45,811,209	5,700,853	-	2,717,789	-	-	37,392,567
Total	3,388,323,722	23,362,991	9,424,099	2,717,789	-	238,751,849	3,114,066,994
Guarantees received from banks, financial institutions and customers					(2,298,757)	(163,694,758)	(184,876,925)
Utilized collateral		(17,021,988)	(1,861,422)	-	-	-	-

47 CREDIT RISK (continued)

47.5 Maximum Exposure to Credit Risk and Collateral and Other Credit Enhancements (continued)

Collateral and Other Credit Enhancements

The Group obtains collaterals during its lending activities as a protection against potential losses that may result when borrowers default on their credit obligations. The amount and type of collateral required depend usually on the obligor's creditworthiness. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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

The main types of collateral obtained are as follows:

- *Securities*: the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees*: the Group 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 Group.
- *Real estate (commercial and residential)*: 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 reflects the fair value of the property limited to the related mortgaged amount.
- *Netting agreements*: the Group makes use of netting agreements and other arrangements not eligible for netting under *IAS 32 Financial Instruments: Presentation*, with its counterparties. Such arrangements provide for net settlement of all financial instruments covered by the agreements in the event of default. Although these netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk outstanding amounts of such contracts, as shown in the above table.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees from borrowing companies' shareholders, second degree mortgages on real estate assets, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

48 MARKET RISK

Market risk is defined as the potential loss in both on-balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

The responsibilities of the Market Risk function are to identify, measure, monitor control and report all current and future potential market risks to which the Group is exposed. This includes the effective implementation of a proper risk management framework around the treasury, investment portfolio, and asset and liability activities through the adoption of consistent and comprehensive risk management tools and methodologies. The Group monitors the risk profile generated by these activities in order to ensure that it remains within the approved risk policies and limits.

The Group conducts stress tests on a regular basis using various scenarios and assumptions that are deemed plausible and relevant to the Group's business model and operating environment.

31 December 2021

48 MARKET RISK (continued)

A. CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result 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 Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars and Euros.

As disclosed in Note 1, the Group'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 markets, 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.

The following tables present the breakdown of assets and liabilities of the Group by currency. 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.

	2021				
	LBP LBP000	US\$ LBP000	EUR LBP000	Other LBP000	Total LBP000
Assets					
Cash and deposits with central banks	91,474,669	2,040,868,948	83,609,497	1,997,710	2,217,950,824
Deposits with banks and financial institutions	10,345,364	63,641,013	37,203,343	5,148,535	116,338,255
Financial assets at fair value through profit or loss	244,377	3,344,945	-	-	3,589,322
Loans and advances to customers and related parties	127,850,471	434,717,921	71,857,791	449,292	634,875,475
Investments securities	100,246,464	300,918,361	933,494	-	402,098,319
Customers' liability under acceptances	-	-	8,439,539	-	8,439,539
Assets acquired in satisfaction of loans	-	3,445,186	-	-	3,445,186
Property and equipment	78,413,178	4,364,092	161,644	-	82,938,914
Right-of-use assets	1,320,809	80,753	-	-	1,401,562
Intangible assets	505,905	3,883	-	-	509,788
Other assets	28,756,957	6,289,312	1,707,663	-	36,753,932
Total assets	439,158,194	2,857,674,414	203,912,971	7,595,537	3,508,341,116
Liabilities and shareholders' equity					
Deposits and borrowings from banks and financial institutions	6,015,360	399,769,420	75,421,647	6,128,713	487,335,140
Customers and related parties accounts at amortized cost	158,278,229	2,223,825,012	173,242,799	21,137,724	2,576,483,764
Liability under acceptances	-	-	10,549,424	-	10,549,424
Other term borrowings	8,478,880	7,031,675	-	-	15,510,555
Lease liability	2,335,294	80,025	-	-	2,415,319
Other liabilities	26,449,578	11,987,507	4,077,267	22,569	42,536,921
Provisions	2,332,508	4,005,365	53,598	-	6,391,471
Subordinated bonds	-	54,624,366	-	-	54,624,366
Total liabilities	203,889,849	2,701,323,370	263,344,735	27,289,006	3,195,846,960
Shareholders' equity	177,661,627	134,832,529	-	-	312,494,156
Total liabilities and shareholders' equity	381,551,476	2,836,155,899	263,344,735	27,289,006	3,508,341,116

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

48 MARKET RISK (continued)

A. CURRENCY RISK (continued)

	2020				
	LBP LBP000	US\$ LBP000	EUR LBP000	Other LBP000	Total LBP000
Assets					
Cash and deposits with central banks	187,233,107	1,815,396,526	215,697,871	1,604,444	2,219,931,948
Deposits with banks and financial institutions	6,867,957	52,948,129	42,967,055	5,661,027	108,444,168
Financial assets at fair value through profit or loss	245,869	10,437,473	138,727	59,366	10,881,435
Loans and advances to customers and related parties	22,529,533	488,404,033	84,001,793	86,379	595,021,738
Investments securities	96,498,254	333,141,348	1,015,620	-	430,655,222
Customers' liability under acceptances	-	-	11,557,983	-	11,557,983
Assets acquired in satisfaction of loans	-	2,907,009	-	-	2,907,009
Property and equipment	76,551,238	744,659	-	-	77,295,897
Right-of-use assets	1,760,404	202,606	-	-	1,963,010
Intangible assets	700,745	8,915	-	-	709,660
Other assets	17,162,196	5,462,156	1,847,724	-	24,472,076
Total assets	409,549,303	2,709,652,854	357,226,773	7,411,216	3,483,840,146
Liabilities and shareholders' equity					
Deposits and borrowings from banks and financial institutions	388,696	252,330,788	147,756,590	10,891,223	411,367,297
Customers and related parties accounts at amortized cost	204,958,664	2,209,464,704	170,489,871	17,711,393	2,602,624,632
Liability under acceptances	-	-	11,584,624	-	11,584,624
Other term borrowings	11,390,292	10,496,294	-	-	21,886,586
Lease liability	2,250,351	195,715	-	-	2,446,066
Other liabilities	22,160,170	13,887,311	27,343,861	(21,209,967)	42,181,375
Provisions	2,182,174	2,653,973	49,983	-	4,886,130
Subordinated bonds	-	91,589,918	-	-	91,589,918
Total liabilities	243,330,347	2,580,618,703	357,224,929	7,392,649	3,188,566,628
Shareholders' equity	181,575,389	113,698,129	-	-	295,273,518
Total liabilities and shareholders' equity	424,905,736	2,694,316,832	357,224,929	7,392,649	3,483,840,146

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 in Lebanon, which is further explained in Note 1. These are held by the Group and will be realised/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 consolidatedly. The tables below detail onshore assets and liabilities in foreign currencies:

48 MARKET RISK (continued)

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by Management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

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. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2021 and 2020. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Group expects the low interest rates environment for the local currency (or equivalent) to continue prevailing in Lebanon during 2022. The Group 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 used by the Lebanese banking sector through its various intermediate circulars.

The change in interest income is calculated over a 1-year period while the effect of any future associated hedges made by the Group is not accounted for.

	<i>Decrease in Basis Points</i>	<i>2021 LBP Million Decrease</i>	<i>2020 LBP Million Decrease</i>
LBP	- 100	3,755	7,862

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

48 MARKET RISK (continued)

B. INTEREST RATE RISK (continued)

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates particularly with regard to the maturity of customer demand deposits.

	2021								
	Up to 1 month LBP000	1 to 3 months LBP000	3 months to 1 year LBP000	Total less than 1 year LBP000	1 to 5 years LBP000	Over 5 years LBP000	Total more than 1 year LBP000	Non-interest bearing LBP000	Total LBP000
Assets									
Cash and balances with central banks	1,539,336,285	174,332,600	59,256,610	1,772,925,495	152,617,605	265,843,250	418,460,855	26,564,474	2,217,950,824
Deposits with banks and financial institutions	90,152,724	8,282,072	-	98,434,796	-	-	-	17,903,459	116,338,255
Financial assets at fair value through profit or loss	-	-	-	-	732,960	1,082	734,042	3,589,322	3,589,322
Loans and advances to customers and related parties	703,995,183	31,325,987	5,973,827	741,294,997	1,679,611	-	1,679,611	(108,099,133)	634,875,475
Investments securities	6,532,110	2,100,201	71,589,926	80,222,237	265,428,737	71,807,781	337,236,518	(15,360,436)	402,098,319
Customers' liability under acceptances	-	-	-	-	-	-	-	8,439,539	8,439,539
Assets acquires in satisfaction of loans	-	-	-	-	-	-	-	3,445,186	3,445,186
Property and equipment	-	-	-	-	-	-	-	82,938,914	82,938,914
Right-of-use assets	-	-	-	-	-	-	-	1,401,562	1,401,562
Intangible assets	-	-	-	-	-	-	-	509,788	509,788
Other assets	-	-	-	-	-	-	-	36,753,932	36,753,932
TOTAL ASSETS	2,340,016,302	216,040,860	136,820,363	2,692,877,525	420,458,913	337,652,113	758,111,026	57,352,565	3,508,341,116
Liabilities and shareholders' equity									
Deposits and borrowings from banks and financial institutions	446,346,427	-	22,519,150	468,865,577	17,227,892	-	17,227,892	1,241,671	487,335,140
Customers and related parties accounts at amortized cost	2,351,995,808	49,571,074	110,793,543	2,512,360,425	60,286,056	-	60,286,056	3,837,283	2,576,483,764
Liability under acceptances	-	-	-	-	-	-	-	10,549,424	10,549,424
Other term borrowings	-	-	2,855,574	4,423,252	8,387,256	2,703,253	11,085,509	1,794	15,510,555
Lease liability	873,284	694,394	-	-	-	-	-	2,415,319	2,415,319
Other liabilities	-	-	-	-	-	-	-	42,536,921	42,536,921
Provisions	-	-	-	-	-	-	-	6,391,471	6,391,471
Subordinated bonds	-	-	-	-	52,762,500	-	52,762,500	1,861,866	54,624,366
Total liabilities	2,799,215,519	50,265,468	136,168,267	2,985,649,254	138,658,704	2,703,253	141,361,957	68,835,749	3,195,846,960
Interest rate sensitivity gap	(459,199,217)	165,775,392	652,096	334,948,860	281,800,209	337,652,113	616,749,069		
Cumulative gap	(459,199,217)	(293,423,825)	(292,771,729)						

BANQUE BEMO S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

48 MARKET RISK (continued)

B. INTEREST RATE RISK (continued)

	Up to 1 month LBP'000	1 to 3 months LBP'000	3 months to 1 year LBP'000	Total less than 1 year LBP'000	1 to 5 years LBP'000	Over 5 years LBP'000	Total more than 1 year LBP'000	Non-interest bearing LBP'000	Total LBP'000
Assets									
Cash and balances with central banks	283,795,437	15,735,285	24,065,730	323,596,452	222,453,589	295,687,339	518,140,928	1,378,194,568	2,219,931,948
Deposits with banks and financial institutions	9,133,625	2,819,025	1,015,072	12,969,722	333,878	2,307	336,185	95,474,446	108,444,168
Financial assets at fair value through profit or loss	-	-	-	-	11,735,606	-	11,735,606	10,545,250	10,881,335
Loans and advances to customers and related parties	85,839,516	57,717,933	965,582	144,523,031	275,402,812	122,548,526	397,951,338	438,763,101	595,021,738
Investments securities	-	-	11,169,782	11,169,782	11,477,502	-	11,477,502	21,534,102	430,655,222
Customers' liability under acceptances	-	80,481	-	80,481	-	-	11,477,502	-	11,557,983
Assets acquires in satisfaction of loans	-	-	-	-	-	-	-	2,907,009	2,907,009
Property and equipment	-	-	-	-	-	-	-	77,295,897	77,295,897
Right-of-use assets	-	-	-	-	-	-	-	1,963,010	1,963,010
Intangible assets	-	-	-	-	-	-	-	709,660	709,660
Other assets	-	-	-	-	-	-	-	24,472,076	24,472,076
TOTAL ASSETS	378,770,578	76,352,724	37,216,166	492,339,468	521,403,387	418,238,172	939,641,559	2,051,859,119	3,483,840,146
Liabilities and shareholders' equity:									
Deposits and borrowings from banks and financial institutions	17,598,242	7,379,785	6,593,506	31,571,533	56,200,993	26,217,740	82,418,733	297,377,031	411,367,297
Customers and related parties accounts at amortized cost	824,270,511	157,416,360	115,900,630	1,097,587,501	67,855,743	-	67,855,743	1,437,181,388	2,602,624,632
Liability under acceptances	-	107,122	-	107,122	11,477,502	-	11,477,502	-	11,584,624
Other term borrowings	833,219	828,135	3,577,412	5,238,766	12,649,748	3,883,656	16,533,404	114,416	21,886,586
Lease liability	-	190,818	572,455	763,273	1,682,793	-	1,682,793	-	2,446,066
Other liabilities	-	-	-	-	-	-	-	42,181,375	42,181,375
Provisions	-	-	-	-	-	-	-	4,886,130	4,886,130
Subordinated bonds	37,687,500	-	-	37,687,500	52,762,500	-	52,762,500	1,139,918	91,589,918
Total liabilities	880,389,472	165,922,220	126,644,003	1,172,955,695	202,629,279	30,101,396	232,730,675	1,782,880,258	3,188,566,628
Interest rate sensitivity gap	(501,618,894)	(89,569,496)	(89,427,837)	(1,172,955,695)	318,774,108	388,136,776	232,730,675	1,782,880,258	3,188,566,628
Cumulative gap	(501,618,894)	(591,188,390)	(680,616,227)	(680,616,227)	318,774,108	706,910,884	232,730,675	1,782,880,258	3,188,566,628

48 MARKET RISK (continued)**C. PREPAYMENT RISK**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. This is applicable for example on fixed rate loans when market interest rates fall.

In Lebanon and following the severe devaluation of the local currency in the parallel market and prevalence of multiple exchange rates, prepayment activities on the lending portfolio have accelerated during the course of 2021. However in view of the quasi-absence of any local interest rate benchmarks due to the crisis and given that the Bank in Lebanon prioritizing the implementation of a de-risking strategy (with the aim of alleviating pressure on credit asset quality), the Group considers the impact of prepayment risk resulting from these transactions to be benign.

Outside Lebanon, market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers the impact of prepayment risk on net profits to be not material after considering any penalty fees received on prepayment activities, when existing.

D. EQUITY PRICE RISK

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

Given the very low risk appetite of the Group for such type of risk exposure, the Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

49. LIQUIDITY RISK

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Group manages liquidity at the entity level independently while keeping oversight of intra-group dependencies, when existing. The Group recognizes that its ability to meet its liquidity requirements, including international commitments, may come under increasing pressure under a deteriorating operating environment. Following October 2019 events, the Group's international liquidity in Lebanon came under an unprecedented pressure, which led Management to implement a series of remedial measures to mitigate this risk.

The following outlines the monitoring process that takes place at the entity level including some activities that are more relevant to the Lebanese operations.

Monitoring Process*Daily*

Due to the ongoing economic and financial crisis in Lebanon, Management focused its efforts on the monitoring of international liquidity coverage relative to international commitments, including external account deposits.

To support this activity, the Treasury function monitors and reports daily and intra-day inflows and outflows for major currencies and ensures that funding gaps are met.

Weekly

The Market Risk unit prepares a weekly report on the international liquid exposures showing the changes in the position compared to previous period, in addition to the liquidity position for other major currencies.

Monthly

The Market Risk function submits a monthly ALM report to ALCO showing changes in the liquidity position including future flows, as well as the coverage level relative to international commitments.

49 LIQUIDITY RISK (continued)**Monitoring Process (continued)***Quarterly*

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

Periodic

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

Moreover, stress testing is carried out annually for all material banking units of the Group as part of the ICAAP preparation and submission. Scenarios used in these stress tests vary between entities to reflect their local market operating environments. Scenarios may include, among others, the following assumptions:

- Significant withdrawals of foreign currency deposits.
- Significant withdrawals of undrawn and committed credit lines.
- Significant haircut on liquid assets.
- Unavailability of wholesale (interbank) funding.
- Significant reduction in assets that are eligible as collateral in the refinancing operations.

Furthermore, the Group has put in place policies and measures for monitoring and managing liquidity risk. These include setting up remedial actions to be taken in response to potential liquidity stress events. Among these policies is the Asset Liability Management (ALM) Risk Policy which is reviewed by ALCO and submitted to the Board Risk Committee for review.

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 Group. In Lebanon and since October 2019 events, the Group monitors on a regular 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 Group'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.

Sources of Funding

Customers' deposits were the main funding source of the Group as at 31 December 2021 and 2020. The distribution of sources and the maturity of deposits are actively monitored in order to avoid high concentration of deposits by maturity and size. The Group monitors the percentage of core deposits versus total deposits and aims to ensure that this percentage is maintained at a high level.

The Group 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 clients' deposits.

	<i>LBP</i>		<i>Foreign Currencies</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	%	%	%	%
Year-end	80.82	13.37	21.02	24.97
Maximum	80.82	31.77	24.79	44.02
Minimum	22.60	13.37	21.02	27.75
Average	50.45	22.03	23.13	32.04

31 December 2021

49 LIQUIDITY RISK (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	2021					Total LBP000
	Less than 1 month LBP000	1 to 3 months LBP000	3 to 12 months LBP000	1 to 5 years LBP000	Over 5 years LBP000	
Financial liabilities						
Deposits and borrowing with banks and financial institutions	447,588,098	-	22,519,150	17,227,892	-	487,335,140
Customers and related parties at amortized cost	2,355,833,091	49,571,074	110,793,543	60,286,056	-	2,576,483,764
Liability under acceptances	10,549,424	-	-	-	-	10,549,424
Other term borrowings	875,078	694,394	2,855,574	8,382,256	2,703,253	15,510,555
Lease liability	2,415,319	-	-	-	-	2,415,319
Other liability	42,536,921	-	-	-	-	42,536,921
Provisions	6,391,471	-	-	-	-	6,391,471
Total financial liabilities	2,866,189,402	50,265,468	136,168,267	85,896,204	2,703,253	3,141,222,594
	2020					
	Less than 1 month LBP000	1 to 3 months LBP000	3 to 12 months LBP000	1 to 5 years LBP000	Over 5 years LBP000	Total LBP000
Financial liabilities						
Deposits and borrowing with banks and financial institutions	314,975,273	7,379,785	6,593,506	56,200,993	26,217,740	411,367,297
Customers and related parties at amortized cost	2,261,451,899	157,416,360	115,900,630	67,855,743	-	2,602,624,632
Liability under acceptances	-	107,122	-	11,477,502	-	11,584,624
Other term borrowings	947,635	828,135	3,577,412	12,649,748	3,883,656	21,886,586
Lease liability	-	666,478	572,455	1,207,133	-	2,446,066
Other liability	42,181,375	-	-	-	-	42,181,375
Provisions	4,886,130	-	-	-	-	4,886,130
Total financial liabilities	2,624,442,312	166,397,880	126,644,003	149,391,119	30,101,396	3,096,976,710

49 LIQUIDITY RISK (continued)

Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Group's assets and liabilities.

The maturity profile of the assets and liabilities at 31 December 2021 is as follows:

	<i>Total less than one year LBP000</i>	<i>Total more than one year LBP000</i>	<i>Total LBP000</i>
Assets			
Cash and deposits with central banks	1,799,489,969	418,460,855	2,217,950,824
Deposits with banks and financial institutions	116,338,255	-	116,338,255
Financial assets at fair value through profit or loss	3,328,411	260,911	3,589,322
Loans and advances to customers and related parties	633,195,864	1,679,611	634,875,475
Investments securities	64,861,801	337,236,518	402,098,319
Customer's liability under acceptances	8,439,539	-	8,439,539
Assets acquired in satisfaction of loans	3,445,186	-	3,445,186
Property and equipment	82,938,914	-	82,938,914
Right-of-use assets	1,401,562	-	1,401,562
Intangible assets	509,788	-	509,788
Other assets	36,753,932	-	36,753,932
Total assets	2,750,703,221	757,637,895	3,508,341,116
Liabilities and shareholders' equity			
Deposits and borrowing from banks and financial institutions	470,107,248	17,227,892	487,335,140
Customers and related parties at amortized cost	2,516,197,708	60,286,056	2,576,483,764
Liability under acceptances	10,549,424	-	10,549,424
Other term borrowings	4,425,046	11,085,509	15,510,555
Lease liability	2,415,319	-	2,415,319
Other liability	42,536,921	-	42,536,921
Provisions	6,391,471	-	6,391,471
Subordinated bonds	1,861,866	52,762,500	54,624,366
Total liabilities	3,054,485,003	141,361,957	3,195,846,960
Shareholders' equity	312,494,156	-	312,494,156
Total liabilities and shareholders' equity	3,366,979,159	141,361,957	3,508,341,116

31 December 2021

49 LIQUIDITY RISK (continued)

Maturity analysis of assets and liabilities (continued)

The maturity profile of the assets and liabilities at 31 December 2020 is as follows:

	<i>Total less than one year LBP000</i>	<i>Total more than one year LBP000</i>	<i>Total LBP000</i>
Assets			
Cash and deposits with central banks	1,701,791,020	518,140,928	2,219,931,948
Deposits with banks and financial institutions	108,444,168	-	108,444,168
Financial assets at fair value through profit or loss	10,545,250	336,185	10,881,435
Loans and advances to customers and related parties	583,286,132	11,735,606	595,021,738
Investments securities	32,703,884	397,951,338	430,655,222
Customer's liability under acceptances	80,481	11,477,502	11,557,983
Assets acquired in satisfaction of loans	2,907,009	-	2,907,009
Property and equipment	77,295,897	-	77,295,897
Right-of-use assets	1,963,010	-	1,963,010
Intangible assets	709,660	-	709,660
Other assets	24,472,076	-	24,472,076
Total assets	2,544,198,587	939,641,559	3,483,840,146
Liabilities and shareholders' equity			
Deposits and borrowing from banks and financial institutions	328,948,564	82,418,733	411,367,297
Customers and related parties at amortized cost	2,534,768,889	67,855,743	2,602,624,632
Liability under acceptances	107,122	11,477,502	11,584,624
Other term borrowings	5,353,182	16,533,404	21,886,586
Lease liability	1,238,933	1,207,133	2,446,066
Other liability	42,181,375	-	42,181,375
Provisions	4,886,130	-	4,886,130
Subordinated bonds	38,827,418	52,762,500	91,589,918
Total liabilities	2,956,311,613	232,255,015	3,188,566,628
Shareholders' equity	295,273,518	-	295,273,518
Total liabilities and shareholders' equity	3,251,585,131	232,255,015	3,483,840,146

50 OPERATIONAL RISK

The operational risk management framework is implemented by an independent Operational Risk function. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through annual reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved Group Operational Risk Policy. These principles and standards include at a minimum: redundancy of mission-critical systems, segregation of duties, four-eyes principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness and training. Controls are also embedded within systems and formalised in policies and procedures.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted to identify outstanding risk exposures and control vulnerabilities associated with existing or new products, processes, activities and systems. Key Risk Indicators (KRIs) are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Following October 2019 events, the Group has been subject to an increased compliance risk pressure as a result of the considerable number of regulatory circulars and memos issued since that date (40 BdL circulars and 8 BCC memos were published in total during 2021). These regulatory requirements, in addition to changes in the operating environment, have necessitated the rapid development and implementation of new systems' updates and processes, which also required adequate training to employees.

To ensure the continuity and timely resumption of critical business activities due to potential risk of disruptions of systems or other unforeseen events, the Group has been continuously maintaining a world-class business continuity and disaster recovery site that was awarded the Tier 4 – Fault Tolerant Certification of Design Documents and Constructed Facility. A Business Continuity Plan (BCP) was also developed and is being kept up-to-date to minimise the risk of interruption of critical operations in case of an adverse event.

The Group is also abreast of latest cybersecurity threats, countermeasures, technologies and tools, and is continuously implementing technical and non-technical measures to strengthen its cyber resilience posture. External expert support is sought when needed.

Major incidents, RCA findings, KRIs, business continuity, information and cybersecurity activities are reported to the Executive Committee, Board of Directors and Board Group Risk Committee periodically.

Insurance coverage (including cybercrime insurance) is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume, nature and operating environment.

51 LITIGATION RISK

Since 17 October 2019, no litigations in Lebanon and abroad, as a result of the restrictive measures adopted by Lebanese banks in relation to the withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Pounds. 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. The amount cannot be determined presently. In addition, the Group may, from time to time, become involved in other legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (Note 45).

52 POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Group, its strategy and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and political or social unrest or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Group 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 Group's activities, operating results and position.

53 CAPITAL MANAGEMENT

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon, which is the lead supervisor of the Group.

Central Bank of Lebanon Intermediate Circular 567, issued on 26 August 2020, introduced several key changes to the calculation of regulatory capital adequacy ratios. These changes include:

- 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. These levels remained applicable in 2021.

<i>Type of financial instrument</i>	<i>2021</i>	<i>2020</i>
Exposures to Central Bank of Lebanon in foreign currency	1.89%	1.89%
Exposures to Central Bank of Lebanon in Lebanese Pounds	0%	0%
Lebanese government securities in foreign currency	45%	45%
Lebanese government securities in Lebanese Pounds	0%	0%

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their Common Equity Tier 1 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. The Central Bank of Lebanon's Central Council may exceptionally approve a bank's completion of 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 the Code of Money & Credit) in Common Equity Tier 1, instead of 50% of this gain in Tier 2, as was the case previously. 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 draw 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 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 the Bank to include provisions for expected credit losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to credit risk-weighted assets). Such provisions included under CET 1 should be amortised over a period of 3 years starting 2022 and ending in 2024 by 25% yearly.

31 December 2021

53 CAPITAL MANAGEMENT (continued)

The following table shows the applicable regulatory capital ratios:

	<i>Common Tier 1 Capital Ratio</i>	<i>Tier 1 Capital Ratio</i>	<i>Total Capital Ratio</i>
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 capital conservation buffer	7.00%	8.50%	10.50%
		<i>2021</i>	<i>2020</i>
		<i>LBP000</i>	<i>LBP000</i>
Risk-weighted assets:			
Credit risk		2,640,536	2,768,628
Market risk		56,680	26,879
Operational risk		196,897	177,086
Total risk-weighted assets		<u>2,894,113</u>	<u>2,972,593</u>

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

	<i>2021</i>	<i>2020</i>
	<i>LBP000</i>	<i>LBP000</i>
Tier 1 capital	319,341	316,825
<i>Of which: common Tier 1</i>	<i>225,537</i>	<i>74,305</i>
Tier 2 capital	59,582	71,550
Total capital	<u>378,923</u>	<u>388,375</u>

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

	<i>2021</i>	<i>2020</i>
Capital adequacy – Common Tier 1	7.79%	8.16%
Capital adequacy – Tier 1	11.03%	10.66%
Capital adequacy – Total capital	13.09%	13.07%

The capital adequacy ratios as at 31 December 2021 and 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 published 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 the 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.