

BANK OF BEIRUT S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2021

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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-6
Consolidated Financial Statements:	
Consolidated Statement of Financial Position	7-8
Consolidated Statement of Profit or Loss	9
Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Consolidated Statement of Changes in Equity	11
Consolidated Statement of Cash Flows	12
Notes to the Consolidated Financial Statements	13-132



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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Bank of Beirut S.A.L.
Beirut, Lebanon

Adverse Opinion

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

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of our audit report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at December 31, 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 explained in Note 3, the Group has not applied the requirements of IAS 29 'Financial Reporting in Hyperinflationary Economies' in the preparation of the consolidated financial statements for the year ended December 31, 2021. IAS 29 requires that the financial statements, and corresponding figures for previous periods, of an entity with a functional currency that is hyperinflationary, to be stated in the terms of the measuring unit current at the end of the reporting period. Had the Group applied the requirements of IAS 29 many of the elements of the accompanying consolidated financial statements, including disclosures, would have been significantly impacted. The effects on the consolidated financial statements of this departure have not been determined. Our opinion in the prior year was also modified in respect of this matter.

2. Management has translated transactions and monetary assets and liabilities denominated in foreign currencies, to the Bank's functional currency in accordance with the accounting policy on foreign currency transactions described in Note 3, using the official published exchange rates. As described in Note 1 to the consolidated financial statements, other exchange rates and exchange mechanisms were introduced by the Central Bank of Lebanon during the year ended December 31, 2021 and which differ significantly from the official published exchange rates. In translating transactions and monetary assets and liabilities denominated in foreign currencies, management did not determine the exchange rate at which future cash flows or balances could have been settled if those cash flows had occurred at the measurement date, which constitutes a departure from IFRSs. Had the Group translated transactions and monetary assets and liabilities denominated in foreign currencies at the exchange rate at which future cash flows or balances could have been settled if those cash flows had occurred at the measurement date, many of the elements of the accompanying consolidated financial statements, including disclosures, would have been materially impacted. The effects on the consolidated financial statements of this departure have not been determined.
3. Note 1 to the financial statements indicates that there is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole, triggered by the severe financial crisis and unprecedented economic downturn, the effects of the Covid-19 pandemic and the explosion at Beirut Seaport in August 2020. As the situation is rapidly evolving, the magnitude of the possible adverse effects on the Lebanese economy and the banking sector, remains unknown and gave rise to unusual practices that are not considered to be in the normal course of business in a non-crisis environment as disclosed under Note 1 to the consolidated financial statements.

The audit evidence available to us to confirm the appropriateness of preparing the consolidated financial statements on a going concern basis was limited due to the severity of the uncertainties noted above as applicable to the Group and within the Lebanese banking sector as a whole resulting from the overwhelming systemic risk which could impact the assessment of solvency risk, liquidity and funding risk, currency risk, credit risk and profitability and the related future actions and mitigation plans and factors.

This situation indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and in the absence of any alternative evidence available to us, we were unable to form a view as to the applicability of the going concern basis, the circumstances of which, together with the effect on the consolidated financial statements should this basis be inappropriate, could result in the Group being unable to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not adequately disclose this fact. Our opinion in the prior year was also modified in respect of this matter.

4. Cash and deposits with central banks and investment securities at amortized cost which are carried in the consolidated statement of financial position at LBP8,513billion and LBP3,383billion respectively (2020: LB8,527billion and LBP4,142billion respectively), include balances with the Central Bank of Lebanon and Lebanese government debt securities of LBP9,183billion and LBP1,078billion respectively (2020: LB8,898billion and LBP1,752billion respectively). Management has not stated these balances 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 IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.
5. Cash and deposits at central banks are carried in the statement of financial position at LBP8,513billion (2020: LBP8,527billion). Management has stated cash and deposits at central banks inclusive of the present value of all interest to be received from term placements subject to leverage arrangements entered into with the Central Bank of Lebanon in 2019 and has not recognized the interest over the expected life of the financial instruments, which constitutes a departure from IFRSs. A prior year adjustment of LBP234billion has been reported in the consolidated statement of changes in equity. Management has presented the prior year adjustment, which relates to the measurement of interest received on the aforementioned leverage arrangements in prior years in the statement of changes in equity and has not restated comparative information, which constitutes a departure from IFRSs. The Group's records indicate that had management not stated cash and deposits at central banks inclusive of the present value of all interest to be received from the aforementioned leverage arrangements and had restated comparative information, an amount of LBP364billion (2020: LBP665billion) would have been required to reduce cash and deposits at central banks and an amount of LBP234billion (2020: nil) would have been required to reduce the prior year adjustment relating to the measurement of interest received on the aforementioned leverage arrangements. Accordingly, interest income would have been increased by LBP67billion (2020: reduced by LBP280billion), the net profit for the year would have been increased by LBP67billion (2020: reduced by LBP280billion) and total equity would have been reduced by LBP364billion (2020: LBP665billion).
6. Loans and advances to customers, which are carried in the consolidated statement of financial position at LBP4,600billion (2020: LBP5,862billion), include balances concentrated in Lebanon of LBP2,118billion (2020: LBP3,160billion). Management has not stated balances concentrated in Lebanon net of an allowance for expected credit losses which takes into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount. Our opinion in the prior year was also modified in respect of this matter.
7. Provisions, which are carried in the consolidated statement of financial position at LBP86billion (2020: LBP81billion), include a provision for expected credit losses on financial guarantees and other commitments of LBP21billion (2020: LBP24billion). Management has not stated the provision for expected credit losses on financial guarantees and other commitments by taking into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount. Our opinion in the prior year was also modified in respect of this matter.

8. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried in the consolidated statement of financial position at LBP73billion (2020: LBP77billion) and LBP15billion (2020: LBP17billion) respectively, include investment securities of LBP19billion (2020: LBP23billion) and LBP15billion (2020: LBP17billion) respectively, which are issued by the Lebanese government, the Central Bank of Lebanon and corporate entities domiciled in Lebanon. Management has stated the aforementioned 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 IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.
9. Management has not disclosed the fair value of the Group's financial assets and financial liabilities at amortized cost, which constitutes a departure from IFRSs. We were unable to determine the amounts that should have been disclosed in the financial statements. Our opinion in the prior year was also modified in respect of this matter.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 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 the Board of Directors and Those Charged with Governance for the Financial Statements

The Board of Directors and those charged with governance (referred to thereafter as "Management") are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material 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 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.


- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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.

Beirut, Lebanon
August 3, 2022


DFK Fiduciaire du Moyen Orient


Deloitte & Touche

BANK OF BEIRUT S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2021</u>	<u>2020</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and deposits at central banks	5	8,513,492,451	8,526,622,272
Deposits with banks and financial institutions	6	698,294,257	671,576,735
Financial assets at fair value through profit or loss	7	72,881,765	77,470,039
Loans to banks	8	183,089,034	219,063,766
Loans and advances to customers	9	4,600,076,469	5,861,713,698
Loans and advances to related parties	10	44,649,241	34,878,192
Investment securities at fair value through other comprehensive income	11	14,966,819	16,670,365
Investment securities at amortized cost	11	3,383,081,380	4,141,675,835
Customers' liability under acceptances	12	20,069,013	33,284,181
Investment in an associate	13	25,923,516	24,935,787
Assets acquired in satisfaction of loans	14	57,722,603	70,026,375
Property and equipment	15	319,228,717	331,387,521
Goodwill	16	87,034,435	87,034,435
Right-of-use assets	17	20,083,797	36,341,494
Other assets	18	184,924,694	130,278,120
Total Assets		<u>18,225,518,191</u>	<u>20,262,958,815</u>

Financial instruments with off-balance sheet risks

Letters of guarantee and standby letters of credit	45	557,816,293	638,249,212
Documentary and commercial letters of credit	45	250,932,070	240,139,681
Notional amount of interest rate swap	45	93,590,360	113,165,500
Forward exchange contracts	45	84,174,500	278,163,438

Fiduciary accounts	46	143,194,397	122,635,026
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THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE
CONSOLIDATED FINANCIAL STATEMENTS

BANK OF BEIRUT S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2021</u>	<u>2020</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits from banks and financial institutions	19	572,568,661	956,893,958
Deposits from customers and related parties	20	14,498,030,373	16,180,691,110
Liabilities under acceptance	12	20,201,413	35,938,023
Other borrowings	21	674,771,269	567,030,544
Certificates of deposit	22	669,868	669,955
Lease liability	17	21,509,179	35,886,557
Other liabilities	23	338,927,430	334,037,033
Provisions	24	85,709,555	80,955,238
Total liabilities		<u>16,212,387,748</u>	<u>18,192,102,418</u>
 <u>EQUITY</u> 			
Common share capital	25	89,055,474	89,055,474
Share premiums	25	143,800,495	143,800,495
Preferred shares	26	844,124,625	844,124,625
Shareholders' cash contribution to capital	27	208,683,086	20,978,370
Reserves	28	960,916,959	961,549,611
Retained earnings		(262,359,173)	349,495,958
Investment revaluation reserve		6,871,784	6,876,040
Treasury shares	29	(5,466,583)	(5,466,583)
Foreign currency translation reserve		18,934,438	33,933,297
Profit/(loss) for the year	43	5,587,909	(377,254,617)
Equity attributable to the equity holders of the Bank		<u>2,010,149,014</u>	<u>2,067,092,670</u>
Non-controlling interests	30	2,981,429	3,763,727
Total equity		<u>2,013,130,443</u>	<u>2,070,856,397</u>
Total Liabilities and Equity		<u>18,225,518,191</u>	<u>20,262,958,815</u>

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

BANK OF BEIRUT S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Year Ended December 31,	
		2021	2020
		LBP'000	LBP'000
Interest income	32	995,764,116	1,680,659,360
Less: tax on interest	32	(87,317,162)	(110,498,547)
Interest income, net of tax		908,446,954	1,570,160,813
Interest expense	33	(197,659,445)	(686,840,192)
Net interest income		<u>710,787,509</u>	<u>883,320,621</u>
Fee and commission income	34	126,714,396	103,035,016
Fee and commission expense	35	(27,916,790)	(24,986,038)
Net fee and commission income		<u>98,797,606</u>	<u>78,048,978</u>
Net interest and other loss on financial assets at fair value through profit or loss	36	(1,734,935)	(22,222,328)
Loss on derecognition of financial assets at amortized cost	5 & 11	(384,174,077)	(517,443,245)
Other operating income (net)	37	27,378,910	25,216,985
Net financial revenues		<u>451,055,013</u>	<u>446,921,011</u>
Allowance for expected credit losses (net)	38	(77,542,511)	(486,864,444)
Other provisions (net)	39	(10,944,740)	(1,311,192)
Net financial revenues after impairment charges		<u>362,567,762</u>	<u>(41,254,625)</u>
Staff costs	40	(169,048,764)	(144,581,575)
General and administrative expenses	41	(125,041,808)	(103,880,210)
Depreciation and amortization	42	(33,323,861)	(35,279,972)
Profit/(loss) before income tax		35,153,329	(324,996,382)
Income tax expense	23	(29,041,546)	(49,791,043)
Deferred tax on undistributed profit	23	(1,146,258)	(1,991,492)
Net profit/(loss) for the year		<u>4,965,525</u>	<u>(376,778,917)</u>
Attributable to:			
Equity holders of the Bank	43	5,587,909	(377,254,617)
Non-controlling interests	30	(622,384)	475,700
		<u>4,965,525</u>	<u>(376,778,917)</u>
Basic profit/loss per share in LBP	44	<u>LBP 82</u>	<u>LBP(6,203)</u>
Diluted profit/loss per share in LBP	44	<u>LBP 82</u>	<u>LBP(6,203)</u>

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

BANK OF BEIRUT S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<u>Notes</u>	<u>Year Ended</u> <u>December 31,</u>	
		<u>2021</u>	<u>2020</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Profit/(loss) for the year		4,965,525	(376,778,917)
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation adjustment related to foreign operations		(14,998,859)	58,950,813
Change in fair value of cash flow hedge		(2,070,392)	3,760,189
Total other comprehensive (loss)/ income for the year		(17,069,251)	62,711,002
Total comprehensive loss for the year		(12,103,726)	(314,067,915)
Attributable to:			
Equity holders of the Bank		(11,481,342)	(314,543,615)
Non-controlling interests		(622,384)	475,700
		(12,103,726)	(314,067,915)

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

BANK OF BEIRUT S.A.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Common Share Capital LBP'000	Share Premiums LBP'000	Non- Cumulative Preferred Shares LBP'000	Shareholders' Cash Contribution to Capital LBP'000	Owned Building Revaluation Surplus LBP'000	Investment Revaluation Reserve LBP'000	Reserve for Assets Acquired in in Satisfaction of Loans LBP'000	Reserves and Retained Earnings LBP'000	Treasury Shares LBP'000	Currency Translation Adjustment LBP'000	(Loss)/ Profit for the year LBP'000	Equity attributable to the Equity Holders of the Bank LBP'000	Non- Controlling Interests LBP'000	Total LBP'000
Balance at December 31, 2019	82,102,954	150,753,015	844,124,625	20,978,370	1,668,934	6,871,369	12,568,198	1,467,049,671	(5,466,583)	(25,017,516)	(183,091,595)	2,372,541,442	3,166,997	2,375,708,439
Allocation of 2019 loss	-	-	-	-	-	-	1,993,206	(185,084,801)	-	-	183,091,595	-	-	-
Transfer to common share capital (Note 25)	6,952,520	(6,952,520)	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification from free reserves	-	-	-	-	-	-	(426,050)	426,050	-	-	-	-	-	-
Effect of exchange difference	-	-	-	-	-	4,671	-	9,090,172	-	-	-	9,094,843	-	9,094,843
Other	-	-	-	-	-	-	-	-	-	-	-	-	121,030	121,030
Total comprehensive loss for the year 2020	-	-	-	-	-	-	-	3,260,189	-	58,950,813	(377,254,617)	(314,543,615)	475,700	(314,067,915)
Balance at December 31, 2020	89,055,474	143,800,495	844,124,625	20,978,370	1,668,934	6,876,040	14,135,354	1,295,241,281	(5,466,583)	33,933,297	(377,254,617)	2,067,092,670	3,763,727	2,070,856,397
Allocation of 2020 loss	-	-	-	-	-	-	1,446,075	(378,700,692)	-	-	377,254,617	-	-	-
Reclassification from free reserves	-	-	-	-	-	-	(3,265,179)	3,265,179	-	-	-	-	-	-
Cash contribution to capital (Note 27)	-	-	-	187,704,716	-	-	-	-	-	-	-	187,704,716	-	187,704,716
Prior year adjustment (Note 5)	-	-	-	-	-	-	-	(234,000,000)	-	-	-	(234,000,000)	-	(234,000,000)
Effect of exchange difference	-	-	-	-	-	(4,256)	-	837,226	-	-	-	832,970	-	832,970
Other	-	-	-	-	-	-	-	-	-	-	-	-	(159,914)	(159,914)
Total comprehensive loss for the year 2021	-	-	-	-	-	-	-	(2,070,392)	-	(14,928,859)	5,587,909	(11,481,342)	(622,384)	(12,103,726)
Balance at December 31, 2021	89,055,474	143,800,495	844,124,625	208,683,086	1,668,934	6,871,784	12,316,250	684,572,602	(5,466,583)	18,914,438	5,587,909	2,010,149,014	2,981,429	2,013,130,443

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

BANK OF BEIRUT S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31,	
		2021	2020
		LBP'000	LBP'000
Cash flows from operating activities:			
Profit/(loss) for the year		4,965,525	(376,778,917)
Adjustments for:			
Income tax expense	23	29,041,546	49,791,043
Value adjustment under leverage arrangement	5	(66,900,000)	(279,915,604)
Depreciation and amortization	42	33,323,861	35,279,972
Allowance for expected credit losses (Net)	38	77,542,511	486,864,444
Deferred tax on profits for distribution	23	1,067,051	2,277,665
Finance lease cost		1,275,462	2,282,375
Unrealized loss on assets at fair value through profit or loss	36	2,441,626	2,263,273
Gain on sale of assets acquired in satisfaction of loans	37	(15,535,306)	(2,727,625)
Share in profits of an associate	37	(1,054,721)	(1,185,171)
Write-back/(provision) for end of service indemnity for employees	24	3,653,184	(1,027,002)
Other adjustments and effect of difference on exchange		(10,785,665)	66,333,688
		59,035,074	(16,541,859)
Net decrease in financial assets at fair value through profit or loss		2,146,648	57,739,638
Net decrease in loans to banks		36,876,454	33,191,077
Net decrease in loans and advances to customers	48	1,189,156,792	1,485,128,949
Net (increase)/decrease in loans and advances to related parties		(9,204,130)	27,161,447
Net decrease in cash and deposits at central banks		624,072,905	1,897,325,829
Net decrease in deposits with banks and financial institutions		382,452	58,679,062
Net decrease in investment securities		723,645,232	1,172,840,160
Net increase in other assets	48	(62,070,593)	(5,472,531)
Net decrease/(increase) in deposits from banks and financial institutions		129,891,977	(706,768,343)
Net decrease in other liabilities	48	(25,265,845)	(5,389,516)
Net increase in other provisions		12,446,536	492,800
Net decrease in deposits from customers and related parties		(1,682,660,737)	(2,343,347,741)
Settlement of end-of-service indemnity	24	(2,427,959)	(9,679,249)
Net cash generated from operating activities		<u>996,024,806</u>	<u>1,645,359,723</u>
Cash flows from investing activities:			
Property and equipment		(13,061,347)	(24,112,915)
Proceeds from sale of assets acquired in satisfaction of loans		49,827,856	19,933,371
Proceeds from sale of property and equipment		147,030	1,012,397
Dividends from investment in an associate	14	66,992	818,262
Net cash generated from/(used in) investing activities		<u>36,980,531</u>	<u>(2,348,885)</u>
Cash flows from financing activities:			
Increase in cash contribution to capital		187,704,716	-
Increase in other borrowings		107,740,725	45,104,571
Decrease/(increase) in certificates of deposit		(87)	32,918
Payment of lease liabilities		(5,780,493)	(7,885,040)
Net cash generated by financing activities		<u>289,664,861</u>	<u>37,252,449</u>
Net increase in cash and cash equivalents		1,322,670,198	1,680,263,287
Cash and cash equivalents - Beginning of year	48	<u>1,736,245,447</u>	<u>55,982,160</u>
Cash and cash equivalents - End of year	48	<u><u>3,058,915,645</u></u>	<u><u>1,736,245,447</u></u>

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

BANK OF BEIRUT S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021

I. GENERAL INFORMATION

Bank of Beirut S.A.L. (the “Bank”) is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 75 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 58 branches (70 branches in 2020) throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 3 branches in the Sultanate of Oman, two subsidiary banks in the United Kingdom and Australia and representative office in Nigeria. Further information on the Group’s structure is provided in Note 3(A). Information on other related party transactions of the Group is provided in Note 47.

The headquarters of Bank of Beirut S.A.L. are located in Fosh Street, Down Town Beirut, Lebanon.

1.1 The Macro Economic Environment

The Group’s operations are mostly carried in Lebanon that has been witnessing, since the last quarter of 2019, severe events which had and continue to have a significant impact on the fiscal, monetary and economic outlook along with their related adverse impact on the business community as a whole and the banking system in particular, mainly: social unrest and business disruption across the country, series of downgrades to the level of default ranking for private and sovereign credit risk by all major rating agencies, restrictions on cash withdrawals and movement of funds in foreign currencies, non-ability to transfer funds from local bank accounts in foreign currency to foreign accounts with correspondent banks, and the Lebanese Republic default on its Eurobonds due on March 9, 2020 and then the decision to discontinue payments on all of its outstanding USD-denominated Eurobonds. The Eurobonds default precludes access to international markets for foreign financing, while the domestic banking system is severely impaired.

The dry up of the dollar inflow to the country was accompanied with systemic failures across banking, debt, exchange rate and the collapse of basic services. A significant portion of the Lebanese banks holdings consist of sovereign lending, including deposits with Central Bank of Lebanon, which made banks unable to meet their dollar obligations to customers. Banks have imposed unofficial strict capital controls, ceased financing activities and stopped attracting deposits. The banking sector endures in a segmented payment system that differentiates between the pre-crisis ‘legacy dollar’ (onshore dollars) deposits and the post crisis ‘fresh dollar’ (offshore dollars) inflows, yet minimal. The legacy dollar deposits are subject to sharp deleveraging through de facto liraification. The difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies increased, deviating significantly from the official peg of 1507.5 LBP/USD. The Lebanese currency continues to lose value as inflation rates remain in the triple digits. This has resulted in an uncontrolled rise in prices and in the consumer price index; lifting import subsidies on food, fuel and medication; loss of confidence in the economy and deterioration in the economic fundamentals. The financial crisis has been intensified by the COVID-19 and the devastating explosion at the Beirut seaport on August 4, 2020 causing severe property damages across a wide area of the capital along with a large number of casualties.

During 2020 in an attempt to control the high rise in prices and to compensate for the loss in the purchasing power of the Lebanese people, the Central Bank of Lebanon, through several circulars, introduced several measures including the subsidy of Tier 1 essential imports (fuel oil, medicine and wheat) at the official exchange rate (1507.5 LBP/USD) and the subsidy of Tier 2 essential imports as defined by the Central Bank of Lebanon. Both subsidies were discontinued during 2021. Further measures introduced by the Central Bank of Lebanon during 2020 included the platform rate to be used in specific circumstances and for the purpose of allowing depositors to withdraw small amounts of cash from their pre-crisis foreign currency bank accounts based on monthly limits set by each bank separately.

During 2021 the Central Bank of Lebanon introduced Basic Circular # 157 “*Exceptional Procedures on Foreign currency Operations*” enacting the legal and regulatory framework of the electronic ‘Sayrafa’ foreign exchange trading platform which should be used by banks operating in Lebanon to process customers’ foreign exchange transactions (buy and sell).

However, the above measures remain unsustainable and despite these efforts, inflation continues to increase at an accelerating pace, eroding the real value of the local currency and “local” foreign currency bank accounts, and tossing Lebanon in hyperinflation and major economic collapse.

Lebanese Government Financial Recovery Plan

On May 1, 2020 the Lebanese government addressed a formal request for support from the International Monetary Fund (IMF) as part of its Financial Recovery Plan (the ‘Plan’) approved on April 30, 2020, which included among other items, reviewing the peg policy, restructuring of the government debt, restructuring of the financial system and the banking sector, and international financial assistance. This Plan was challenged by the Association of Banks in Lebanon (ABL) and by certain political parties and has not been implemented.

On April 7, 2022 the Lebanese government signed a staff-level agreement with the IMF for a 46-month extended fund facility, under which the Lebanese government has requested access to the equivalent of around USD 3 billion. This agreement is subject to the approval of the IMF management and its Executive Board, and this approval is contingent on enacting a slew of economic reforms and restructuring of the financial sector, including:

- i. Cabinet/ parliamentary approval of a bank restructuring strategy enabling legislation in conjunction with an audit of the largest 14 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.

On May 20, 2022 the Council of Ministers endorsed a financial recovery roadmap which includes several measures to secure international aid and unlock funds from the IMF discussed above. The roadmap includes the following:

- i. Full audit on the Central Bank's forex financial position by July 2022.
- ii. Cancelling a large part of the Central Bank of Lebanon obligations in foreign currency to commercial banks.
- iii. Audit of the largest 14 commercial banks, representing 83% of total assets.
- iv. Viable banks should be recapitalized with significant contributions from respective shareholders and large depositors. The plan said it would protect small depositors 'to the maximum extent possible' in each viable bank, without specifying the minimum protected amount.
- v. Dissolving non-viable banks by November 2022.

Following the parliamentary elections on May 15, 2022 the Council of Ministers has lost its decision-making powers and a new Cabinet is yet to be formed. Parliamentary approvals for the matters indicated above are yet to be endorsed, including the capital control bill which was repeatedly opposed in the past.

The financial recovery plan and roadmap were severely criticized by the Association of Banks in Lebanon (ABL) and the assumptions made.

1.2 Central Bank of Lebanon (BDL) policy initiatives

Since the beginning of the crisis in October 2019, the Central Bank of Lebanon has issued a series of circulars reflecting on policy initiatives and crisis management. Below is brief of the key circulars:

Regulatory framework:

- *Intermediate Circular 567:*

- BDL licensees should apply the following minimum regulatory expected credit loss ("ECL") ratios, while permitting banks to constitute progressively those ECLs over a period of five years (starting from 2020). The BDL Central Council may consider the extension of the period to 10 years, for banks that manage to complete the 20% cash contribution to capital requirement:
 - o Foreign currency placements with BDL, including certificates of deposit: 1.89%
 - o Local currency deposits with BDL: 0%
 - o Lebanese government bonds in foreign currencies: 45%
 - o Lebanese treasury bills in local currency: 0%
- BDL licensees are allowed not to downgrade loans exposures showing past dues (principal and interest) between February 2020 and December 2020 as a result of COVID-19, unless borrower ceases to operate as a going concern, in which case exposure should be automatically downgraded to Stage 3.

- Prohibition of dividends distribution on banks' common shares for the years 2019 and 2020.
- By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018. The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these are liquidated within 5 years.
- Banks can include the revaluation surplus of property and equipment in Tier I capital, subject to BDL approval on the revaluation.
- Banks must comply with the minimum capital adequacy ratios. Bank should refrain from dividend distribution, should these ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio.

Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022.

- Banks are required to submit to a comprehensive plan to Central Bank, reflecting own strategies to comply with the regulatory minimum capital requirements, including the timeline to achieve compliance. The plan should incorporate allowances required by the Banking Control Commission of Lebanon against different risks banks are exposed to.
- As exceptional measures, 100% of ECL on Stage 1 and Stage 2 exposures (except those against sovereign and BDL exposures in local and foreign currency), may be added to common equity Tier I capital. These will be gradually amortized to 75% in 2022, 50% in 2023 and 25% in 2024.

- *Basic Circular 154:*

- Banks should perform a fair value assessment of their assets and liabilities and set a plan to comply with all applicable regulatory requirements, namely those related to liquidity and capital adequacy, and restore their levels of service which were in place before the economic crisis. Banks should also submit a request to the BDL Central Council to reconstitute/raise their capital to the required levels by the end of the first quarter of the year 2021, where applicable. In this respect, banks shall consider soliciting their depositors to convert their deposits into shares or bonds, provided listing the bank's shares on the Beirut Stock Exchange.
- In order to enhance their offshore liquidity, banks are required to instigate those depositors to repatriate 30% (in the case of banks' key executives and politically exposed persons) and 15% (for other depositors) of their overseas transfers made since July 1, 2017 and exceeding the equivalent of USD 500,000. Funds received will be deposited in special saving accounts for 5 years and will not be subject to compulsory reserve requirements.
- Banks should secure by February 28, 2021, offshore foreign currency deposits equivalent to a minimum of 3% of their total foreign currency as at July 31, 2020.

- *Intermediate Circular 575* approving banks to book exceptionally one third of the capital gains arising from the revaluation of assets received in settlement of debts, under Tier II capital subject to the approval of the BDL Central Council on the revaluation methodology and raising capital before December 31, 2021 as follows:
 - Add a maximum of one third of the revaluation gains under Tier 2 capital,
 - Increase common equity Tier I capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier II capital.

Monetary policies and socio-economic support:

- *Intermediate Circular 536*: Stipulates the following measures:
 - Interest earned on by banks on USD Certificates of Deposit issued by BDL, are received 50%-50% in USD and LBP respectively. Similarly, interest on customers deposits denominated in foreign currencies are paid 50%-50% in the account currency and LBP respectively.
 - Banks should comply with interest rate ceilings on customer deposits capped at 5% and 8.5% on foreign currency and LBP denominated deposits respectively.
 - The Beirut Reference Rates (BRR) should reflect the lower deposit rates.
- *Basic Circular 150* exempting banks from compulsory reserve requirements on fresh foreign currency deposits received after April 9, 2020, subject to conditions.
- *Intermediate Circulars 547 and 552* requesting banks to rollover loans to customers in local and foreign currencies maturing between March 2020 to June 2020 up to 5 years at zero interest rate and fees, subject to the bank assessment of the customers' inability to settle their dues because of the economic situation. BDL also allowed the extension of loans to businesses to fund salaries and operating expenses, at the same terms mentioned above. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
- *Basic Circular 152 and Intermediate Circular 569* allowing banks extension of loans up to 5 years at zero interest rate, to help those affected by the Beirut Seaport explosion. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
- *Intermediate Circular 568* requesting banks to accept repayment by resident customers of their USD denominated retail loans (up to USD 800,000 for housing loans and USD 100,000 for retail loans) in local currency at the official exchange rate (LBP 1,507.5 to the USD).

Foreign exchange policies:

- *Basic Circular 151 "Cash Withdrawals from Foreign Currency Bank Accounts"* dated April 21, 2020 provides withdrawals of pre-crisis customers' deposits in foreign currencies with banks, at the rate of 3,900 LBP / USD, which was then increased to 8,000 LBP / USD and within a monthly limit of USD 3,000 by bank account. Effective until June 30, 2022.

- Basic Circular 157 “*Exceptional Procedures on Foreign currency Operations*” issued on May 10, 2021 enacting the legal and regulatory framework of the ‘Sayrafa’ foreign exchange trading platform developed by the Central Bank of Lebanon. Transactions that can be conducted on the ‘Sayrafa’ platform consist of purchasing LBP in exchange of fresh foreign currency and purchasing fresh foreign currency in exchange of LBP. The bid/ask spread that banks are allowed to achieve, is capped at 1% of the purchase price. The Central Bank of Lebanon may at its sole discretion, interfere on the Platform to stabilize the exchange rate. The ‘Sayrafa’ platform is not available for trading onshore pre-crisis foreign currency bank accounts as these are subject to unofficial capital control.

The average daily trading exchange rates and daily volume of foreign currency traded on the Sayrafa platform are published on the Central Bank of Lebanon website.

Closing average exchange rate on December 31, 2021: USD 1 = LBP 22,700

Average exchange rate during the period from May 10, 2021 to December 31, 2021: USD 1 = LBP 16,266

- Basic Circular 158 “*Exceptional Measures for the Gradual Withdrawal of Deposits in Foreign currencies*” issued on June 8, 2021 setting out an exceptional framework for the settlement of onshore foreign currency deposits up to an amount equivalent to USD 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met. Customers’ monthly entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

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, banks can use their foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition they reconstitute it by December 31, 2022.

1.3 The Group’s Financial particulars

1.3.1 Foreign exchange

The Group’s assets and liabilities in foreign currency, were converted in to Lebanese Pounds at the official exchange rate peg of USD1 = LBP1,507.5 as published by the Central Bank of Lebanon on a monthly basis. Since the last quarter of 2019, several exchange rates emerged deviating significantly from each other and from the official peg as at December 31, 2021 and December 31, 2020 as discussed under Note 1.2, in addition to the estimated exchange rates detailed in the government’s Financial Recovery Plan.

The existence of multiple foreign exchange rates as well as the accessibility to such rates, necessitates the review of the appropriate exchange rates that entities should use in accounting for and reporting their foreign currency transactions. The judgment of which foreign exchange (FX) rate to use depends on the official FX rate 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. This should take into account the specific facts and circumstances relating to each transaction or balance.

In the light of uncertainties, management did not determine the rates at which 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's transactions and monetary assets and liabilities in foreign currencies, whether onshore or offshore, were converted in Lebanese pound at the official exchange rate peg of USD1 = LBP1,507.5.

As the official exchange rate significantly deviates from the exchange rates in the parallel markets, this does not represent a reasonable estimate of expected cash flows that would have to be generated/used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the financial statements. The valuation of the Group's assets and liabilities in foreign currencies at a different rate is expected to significantly impact the Bank's financial statements once the regulatory authorities adopt a free-floating exchange rate policy.

1.3.2 Hyperinflation in Lebanon

IAS 29 '*Financial Reporting in Hyperinflationary Economies*' does not prescribe when hyperinflation arises, however it does provide characteristics of an economic environment of a country which indicate hyperinflation and allows judgement as to when restatement of financial statements becomes necessary. Characteristics of the economic environment of a country which indicate the existence of hyperinflation include:

- the cumulative inflation rate over three years approaches, or exceeds 100%;
- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short; and
- interest rates, wages, and prices are linked to a price index.

Since the year 2020, the economic environment in Lebanon experienced the acceleration of inflation indices, a three-year cumulative inflation rate exceeding 100%, and the significant devaluation of the Lebanese pound. The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 753% and 224%, respectively, as of December 31, 2021 (2020: 173% and 146% respectively). Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after December 31, 2020.

The basic principles in IAS 29 is that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. Comparative figures for prior period(s) should be restated into the same current measuring unit.

Restatements are made by applying a general price index. Items such as monetary items that are already stated at the measuring unit at the balance sheet are not restated. Other items are restated based on the change in the general price index between the date those items were acquired or incurred and the balance sheet date.

A gain or loss on the net monetary position is included in net income. The restated amount of a non-monetary position is reduced, in accordance with appropriate IFRSs when it exceeds its recoverable amount.

The Bank has not applied the principles of IAS 29 in the preparation of these financial statements given, among other considerations, the significant divergence in market perception of the exchange rate in comparison to the official exchange rate; consensus on the use of same general price index across entities that report in Lebanese pound; and any views of relevant regulators including taxation.

1.3.3 Exposure to financial instruments

As at December 31, 2021, the Group's net credit exposure to Lebanese sovereign debt, including BDL, represented 58.34% of total consolidated assets (2020: 55.85%). LBP denominated net exposures and foreign currency denominated net exposures amounted to LBP3,358billion and LBP7,276billion respectively (2020: LBP4,136billion and LBP7,180billion respectively).

The material uncertainties discussed under Note 1.1 above and the lack of observable indicators, have impacted management ability to formulate adequate loss allowances on the Bank's exposures to BDL, Lebanese Government bonds, deposits with banks, and other financial instruments originated by Lebanese banks and other corporate entities. Therefore, the loss allowances recognized in these financial statements do not represent a reasonable estimate of the expected credit losses on these exposures and have not been assessed in accordance with IFRS 9. This applies as well to the credit risk Staging of these exposures as disclosed in these financial statements. The basis of the loss allowances recognized by the Group against BDL and sovereign exposures is described under Note 53.

The adverse economic conditions and the severe recession resulted in a significant deterioration of the credit quality of the customers' loans portfolio concentrated in Lebanon since the last quarter 2019 despite the drop in the customers' loans portfolio. The Group's credit assessment of the customers' loans portfolio is based on information available to management which did not take into account the circumstances prevailing as a result of the continuing and aggravating economic crisis and recession which has further deteriorated as a result of the explosion in the seaport of Beirut and Covid-19 pandemic. Given the high level of uncertainties, Management is unable to estimate in a reasonable manner the impact of these matters on the Group's financial position.

Fair values of financial assets originated in Lebanon have been determined by the Group using notional prices quoted on inactive and illiquid markets or using yield curves that are not reflective of economic reality and market conditions. In the absence of reliable data, the Group did not disclose the fair value of financial assets and financial liabilities measured at amortized cost as required by IFRS 13 *Fair Value Measurements*.

The downgrade of sovereign credit rating, the increase in credit, liquidity, market and operational risks across all business sectors, the de-facto capital controls and restrictions on transfers of foreign currency overseas exposing the banking sector to litigation, the current and future possible changes to fiscal, economic and political conditions as well as changes to the legal and regulatory landscape in the Republic of Lebanon stemming from the above events and the government's recovery plans have led to significant uncertainties and the full range of effects on the banking sector in general and on the Group's financial standing is unknown.

Management considers that the adverse impact of the above is expected to be pervasive and will have a significant negative impact on the equity of the Bank and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

The Group's Management's current strategy is to continue operations with limited scope of services and transactions, similarly to the banking sector as a whole, as they have since October 17, 2019.

As disclosed in Note 51 to these financial statements, the Bank's capital adequacy ratio as at December 31, 2021 and 2020, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

1.3.4 Litigations and claims

Until the above uncertainties are resolved, the Group is continuing its operations as performed since October 17, 2019 and in accordance with the 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 pound. Management is carefully considering the impact of these existing 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 development and the increasing trend in judgments ruled in favor of the plaintiffs and customers, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch as disclosed in Note 53. The amount cannot be determined presently.

The Lebanese crisis continues to impose 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 Group to increased litigation and regulatory risks and negatively impact the financial position of the Group, 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 Group's financial position, future cashflows, results of operations, regulatory ratios and covenants. The Group's realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

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

2.1 New and amended IFRS that effective for the current year

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after January 1, 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

<p>Interest Rate Benchmark Reform “phase two” amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16</p>	<p>The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.</p> <p>The amendments affect many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform.</p> <ul style="list-style-type: none"> - The amendments apply to all entities and are not optional. - The amendments are effective for annual periods beginning on or after January 1, 2021 with early application permitted.
<p>19-Related Rent Concessions beyond June 30, 2021 [IFRS 16]</p>	<p>In May 2020 the International Accounting Standards Board (IASB) amends IFRS 16, which relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification, that applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2021. In March 2021, IASB extended the availability of the practical expedient to rent concessions for which any reduction in lease payments affects payments originally due on or before June 30, 2022, provided the</p>

	<p>other conditions for applying the practical expedient are met. This is the only change made to the practical expedient.</p> <p>- The amendments are effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted.</p>
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2.2 New and revised IFRS in issue but not yet effective and not early adopted

The following IFRS have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 17 <i>Insurance Contracts</i>	The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.
Amendments to IFRS 3 <i>Reference to the Conceptual Framework</i>	The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated <i>Conceptual Framework</i>) at the same or earlier.
Amendments to IAS 16 <i>Property, Plant and Equipment—Proceeds before Intended Use</i>	The amendments are effective for annual periods beginning on or after January 1, 2022, with early application Permitted.
Amendments to IAS 37 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture.</i> The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

Amendment to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 The amendment is effective for annual periods beginning on or after January 1, 2023.
Amendment to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies the amendment is effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 8	Definition of accounting estimates The amendment is effective for annual periods beginning on or after January 1, 2023.

The directors anticipate that these new standards, interpretations, and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendment, may have no material impact on the financial statements of the Group in the period of initial application.

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3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of Preparation and Measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Financial assets and liabilities at fair value through profit or loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments measured at fair value.

Assets and liabilities are prepared according to their nature and are presented in an approximate order that reflects their relative liquidity.

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

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated subsidiaries consist of the following:

	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership		Business Activity
			2021	2020	
Beirut Broker Company S.A.R.L.	Lebanon	1999	100	100	Insurance brokerage
Bank of Beirut UK LTD	United Kingdom	2002	100	100	Banking
BOB Finance S.A.L.	Lebanon	2006	100	100	Money Transfer
Bank of Beirut Invest S.A.L.	Lebanon	2007	100	100	Investment Banking
Cofida Holding S.A.L.	Lebanon	2008	100	100	Holding
Beirut Life S.A.L.	Lebanon	2010	90	90	Insurance
Bank of Sydney Ltd	Australia	2011	100	100	Banking
Medawar 247	Lebanon	2015	100	100	Real estate
Medawar 1216	Lebanon	2015	100	100	Real estate

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, 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 recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries and associates are identified separately from the Group's equity therein.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

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

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

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

D. Foreign Currencies:

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the official rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the official rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the official rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

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

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

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

Cash flows provided by and used in foreign currencies under various activities, as included in the statement of cash flows, are converted into Lebanese Pounds at year-end exchange rates, except for cash and cash equivalents at the beginning of the year which is converted at the prior year closing exchange rates and the effect of currency fluctuation, if any, is disclosed separately.

E. Financial Instruments:

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

Recognized financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognized in profit or loss on initial recognition (i.e. day 1 profit or loss).
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

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

F. Financial Assets:

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

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

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

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

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Group may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortized cost or at FVTOCI

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

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

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity.

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

Impairment

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

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

No impairment loss is recognized on equity investments.

With the exception of Purchased or Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1);
or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

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

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

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

Definition of default

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

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

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

Significant increase in credit risk

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

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

Modification and derecognition of financial assets

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

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

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Exchange of securities

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Repurchase and Reverse Repurchase Agreements:

Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position reflecting its economic substance 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 effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified date are not recognized in the statement of financial position. The consideration paid, including accrued interest is recorded in the statement of financial position reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is treated as interest income in the statement of profit or loss and is accrued over the life of the agreement using the effective interest rate method.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group’s enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

G. Financial Liabilities and Equity Instruments:

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

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

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

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

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

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

Fair value is determined as described under Note 54 below.

Other financial liabilities

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

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

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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

H. Offsetting

Financial assets and liabilities are set-off and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

I. Derivative financial instruments

Derivatives, such as foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps, are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain/loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm

commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).

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

Embedded derivatives

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

J. Financial guarantee contracts

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

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

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

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

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

K. Hedge accounting

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

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

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

L. Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

M. Property and Equipment

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and any impairment loss. Buildings acquired prior to 1993 are stated at their revalued amounts based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Equity".

Depreciation of property and equipment, other than land and advance payments on capital expenditures, is calculated systematically using the straight line method over the estimated useful lives of the related assets using the following annual rates:

	<u>Rate</u>	<u>Years</u>
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10
Installation and improvement	25%	4

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 recognized under "Other operating income" in the consolidated statement of profit or loss in the year the asset is derecognized.

N. Intangible Assets Other than Goodwill

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates all other expenditure is expressed when incurred.

O. Assets acquired in satisfaction of loans

The Lebanese banking entities of the Group account for collateral foreclosed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. foreclosed assets should be sold within two years from the date of approval of foreclosure by the Banking Control Commission. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of foreclosed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss under "Other operating income" or "Other operating expenses". Gains resulting from the sale of foreclosed assets are transferred to "Reserves for assets acquired in satisfaction of loans" starting in the following financial year.

For assets which were not disposed of within the specified period of two years, an amount computed as percentage of their gross carrying value is transferred to "Reserves for assets acquired in satisfaction of loans" in the following financial year.

P. Impairment of Tangible and Intangible Assets (Other than Goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

The impairment loss is charged to the consolidated statement of profit or loss.

Q. Provision for Employees' End-of-Service Indemnity / Staff Retirement Benefits

Employees' End-of-service Indemnities: (Under the Lebanese Jurisdiction)

The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees' were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund.

Defined Benefit Plans: (Under other jurisdictions)

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

R. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

S. Interest Income and Expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net (loss)/income from financial assets at fair value through profit or loss'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

T. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

U. Net income/(loss) from financial assets at fair value through profit or loss

Net income from financial instruments financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL and related interest income, expense and dividends.

V. Dividend income

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

W. Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized in other comprehensive income (OCI), in which case it is recognized in OCI.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

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

- When the deferred tax liability arises from the initial recognition of goodwill or 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, associates and interests in joint ventures, when 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.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 utilized, except:

- When 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, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is possible that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits 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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

X. Fiduciary Accounts

Fiduciary assets held or invested on behalf of individuals and others are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

Y. Leases

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line item in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Impairment of Tangible and Intangible Assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Z. Cash and Cash Equivalents

Cash and cash equivalents comprise balances with original maturities of a period of three months including: cash and balances with the Central Bank and deposits with other banks and financial institutions.

AA. Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares.

AB. Dividends

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

AC. Insurance Contracts

The Group issues contracts that transfer insurance risk.

Recognition and measurement:

Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of their dependents to maintain their current level of income. Long-term life insurance contracts issued by the Group insure human life events (for example death or survival). Premiums are shown before deduction of commission and are recognized as revenue when they become payable by the contract holder. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency and maintenance expenses that are established at the time the contract is issued.

Mathematical reserves for life insurance contracts:

Provisions for term life products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.

At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of mathematical reserves. Prevailing laws require that such actuarial valuation be carried out annually.

Outstanding claims reserves:

The outstanding claims reserves are made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR). Claims are recognized in the income statement when incurred based on estimated benefits.

Liability Adequacy Test:

Liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

Deferred Acquisition Cost:

Commissions that are related to securing new contracts and renewing existing contracts are capitalized as Deferred Acquisition Cost ("DAC"). All other costs are recognized as expenses when incurred. Deferred acquisition costs are subsequently amortized over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the income statement.

AD. Investment Properties

Investment property is stated at cost less accumulated depreciation and impairment losses. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in profit or loss.

Investment property is depreciated from its date of acquisition through the statement of profit and loss using the straight-line method over its estimated useful life.

The depreciation rate and method is reviewed annually to ensure it reflects the residual value and estimated useful life. Adjustments are made prospectively where there are changes. The depreciation rate used for investment property is 2.5%.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Going Concern:

Notwithstanding the uncertainties resulting from the events and conditions disclosed under Note 1, these consolidated financial statements have been prepared based on the going concern assumption which assumes that the Group will have adequate resources to continue in operational existence for the foreseeable future. However, the Directors highlight that the current market circumstances and uncertainties disclosed in Note 1, which has been worsened by the COVID-19 pandemic and the Beirut port explosion, which are outside their control, represent material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern. The Board of Directors and those charged with governance believe that they are monitoring the current situation and taking all possible attainable remediation actions under the circumstances to ensure the sustainability of the business and viability of the Group.

Business Model Assessment:

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

Significant increase of credit risk:

As explained in Note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to Note 3 and Note 53 for more details.

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used:

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See Note 3 and Note 53 for more details on ECL.

B. Key Sources of Estimation Uncertainty:

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

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

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

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

Probability of default:

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

Loss Given Default:

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

Impairment of Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value

Impairment of investment in an associate:

The Group assess at each reporting date whether there is an indication that an investment may be impaired. If any indication exists, the Group estimates the investment's recoverable amount. When the cost of the investment exceeds the recoverable amount, the investment is considered impaired and a provision for impairment is setup representing the difference between the investment's recoverable amount and its carrying value. The provision is charged to the consolidated statement of profit or loss.

5. CASH AND DEPOSITS AT CENTRAL BANKS

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash on hand	166,136,710	90,033,943
Compulsory reserves with the Central Bank of Lebanon (BDL)	358,255,015	262,585,427
Current accounts with BDL	1,375,013,200	528,612,501
Current accounts with other central banks	523,994,043	643,761,000
Term placements with BDL	2,724,531,390	3,253,607,046
Term placements with BDL subject to leverage arrangements (i)	3,032,637,750	3,083,892,750
Value adjustments (i)	364,241,116	665,141,116
Term placements with other central banks	3,113,975	1,888,642
Accrued interest receivable, net of tax	<u>89,293,095</u>	<u>121,008,208</u>
	8,637,216,294	8,650,530,633
Allowance for expected credit losses – Note 53	<u>(123,723,843)</u>	<u>(123,908,361)</u>
	<u>8,513,492,451</u>	<u>8,526,622,272</u>

The non-interest earning compulsory reserves with the Central Bank of Lebanon (“BDL”) represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers’ deposits in Lebanese Pounds in accordance with local banking regulations.

Current accounts with other central banks also include the equivalent in Euro of LBP1.1billion as at December 31, 2021 (LBP1.8billion as at December 31, 2020) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2020) of banks’ and customers’ deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

Current accounts with other central banks include the equivalent of LBP30.5billion as at December 31, 2021 earmarked against the customers’ deposits held by the Group banking subsidiary in Cyprus (LBP31.3billion as at December 31, 2020).

Current accounts with other central banks also include as at December 31, 2021 the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2020) as minimum reserve requirements at Central Bank of Oman.

Compulsory deposits are not available for use in the Group’s day-to-day operations.

Term placements with the Central Bank of Lebanon include as of December 31, 2021, and 2020, the equivalent in foreign currencies of LBP1,264billion and LBP1,573billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 14% (15% in 2020) of total deposits in foreign currencies regardless of nature, except for funds transferred from abroad or cash deposit in foreign currency received after April 9, 2020 as per BDL circular 150 issued on April 9, 2020.

Accrued interest receivable as at December 31, 2021, is stated net of tax in the amount of LBP14.6billion on deposits with the Central Bank of Lebanon (LBP14.4billion as at December 31, 2020).

During 2020, the Group derecognized certain term placements with BDL in Lebanese Pounds, for the purpose of liquidity, with an aggregate carrying value of LBP901billion, which resulted in a loss of LBP65.5billion recorded under “Loss on derecognition of financial assets measured at amortized cost” in the consolidated statement of profit or loss.

(i) Term placements with BDL subject to leverage arrangements

Term placements with BDL subject to leverage arrangements represents non-conventional financial deals entered into with BDL that triggered investment in term placements with BDL and Lebanese Treasury bills denominated in LBP, classified at amortized cost, earning coupon rates ranging between 6.74% per annum and 11% per annum and having maturities ranging between 2022 and 2035, originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP, bearing interest at the rate of 2% per annum and carrying same maturities, thus significantly enhancing the yield on the initial investment in U.S. Dollar. During 2019, the Group signed with Central Bank of Lebanon a netting agreement allowing to offset the “assets under leverage arrangement” versus the borrowing from the Central Bank of Lebanon. The related details are presented as follows:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Term placements with BDL	2,661,346,000	3,303,500,000
Lebanese treasury bills classified at amortized cost	<u>422,798,258</u>	<u>411,797,080</u>
Total assets under leverage arrangements	3,084,144,258	3,715,297,080
Offsetting to leverage arrangements with BDL	<u>(3,084,144,258)</u>	<u>(3,715,297,080)</u>
Net	<u>-</u>	<u>-</u>

During 2021, financial assets and financial liabilities that were settled on a net basis amounted to LBP1,122billion (2020: LBP1,381billion) as a condition to transactions entered into with the Central Bank of Lebanon, aiming at FX risk management.

During 2020, the Group recognized the present value of the future interest expected to be received from certain leverage arrangements entered into with the Central Bank of Lebanon during 2019 in the amount of LBP280billion (2019: LBP393billion), as value adjustment against interest income from BDL. During 2021, the Group amortized LBP67billion of the value adjustment to interest income from BDL and reversed LBP234billion to retained earnings as prior year adjustment related to deals not approved by the regulator. The outstanding balance of value adjustment amounted to LBP364billion as of December 31, 2021 (2020: LBP665billion).

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Checks in course of collection	45,714,413	61,752,277
Current accounts	436,886,622	410,427,948
Overnight placements	22,853,460	11,547,551
Term placements	177,835,917	168,954,024
Pledged deposits (Note 50)	16,297,934	19,062,403
Accrued interest receivable	201,997	191,407
	<u>699,790,343</u>	<u>671,935,610</u>
Allowance for expected credit losses – Note 53	(1,496,086)	(358,875)
	<u>698,294,257</u>	<u>671,576,735</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31, 2021</u>		
	<u>LBP</u>	<u>C/V of F/Cy</u>	<u>Total</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Quoted equity securities	-	245,306	245,306
Unquoted equity securities	-	12,015,725	12,015,725
Lebanese treasury bills	5,760,366	-	5,760,366
Lebanese Government bonds	-	878,824	878,824
Foreign Government treasury bills	-	53,873,123	53,873,123
Accrued interest receivable, net of tax	108,421	-	108,421
	<u>5,868,787</u>	<u>67,012,978</u>	<u>72,881,765</u>

	December 31, 2020		
	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	135,231	135,231
Unquoted equity securities	-	14,215,725	14,215,725
Lebanese treasury bills	7,080,076	-	7,080,076
Lebanese Government bonds	-	1,161,575	1,161,575
Foreign Government treasury bills	-	54,753,116	54,753,116
Accrued interest receivable, net of tax	124,316	-	124,316
	<u>7,204,392</u>	<u>70,265,647</u>	<u>77,470,039</u>

8. LOANS TO BANKS

	December 31,	
	2021	2020
	LBP'000	LBP'000
Loans to a resident housing bank (a)	-	2,127,200
Discounted acceptances (b)	52,235,680	79,254,681
Short term loans (c)	133,804,643	139,529,445
Accrued interest receivable	741,725	901,673
Less: Deferred interest	(1,000,952)	(718,448)
	185,781,096	221,094,551
Less: Allowance for expected credit losses – Note 53	(2,692,062)	(2,030,785)
	<u>183,089,034</u>	<u>219,063,766</u>

(a) Loans to a resident housing bank represented 12 years LBP loans granted to this bank. Interest is collected semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers. These loans were fully settled during the year 2021.

(b) Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.

(c) Short term loans represent short term financing provided by the Group to an associate and other banks mainly against trade finance operations.

9. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2021		
	Gross	Expected	Carrying
	Amount	Credit Loss	Amount
	LBP'000	LBP'000	LBP'000
Performing loans:			
Retail	2,894,602,202	(13,736,989)	2,880,865,213
Corporate and SME	1,426,890,379	(158,896,696)	1,267,993,683
Credit impaired:			
Retail	119,713,629	(16,937,579)	102,776,050
Corporate and SME	595,602,633	(248,348,376)	347,254,257
Accrued interest receivable	1,187,266	-	1,187,266
	<u>5,037,996,109</u>	<u>(437,919,640)</u>	<u>4,600,076,469</u>

	December 31, 2020		
	Gross	Expected	Carrying
	Amount	Credit Loss	Amount
	LBP'000	LBP'000	LBP'000
Performing loans:			
Retail	3,342,724,614	(5,546,717)	3,337,177,897
Corporate and SME	2,123,253,844	(146,759,800)	1,976,494,044
Credit impaired:			
Retail	132,484,444	(15,653,355)	116,831,089
Corporate and SME	666,333,907	(239,777,443)	426,556,464
Accrued interest receivable	4,654,204	-	4,654,204
	<u>6,269,451,013</u>	<u>(407,737,315)</u>	<u>5,861,713,698</u>

Loans and advances to customers include creditors accidentally debtors' balances aggregating to LBP3.1billion as at December 31, 2021 (LBP8.2billion in 2020).

The movement of allowance for expected credit losses during 2021 and 2020 is summarized under Note 53.

10. LOANS AND ADVANCES TO RELATED PARTIES

	<u>December 31, 2021</u>		
	<u>Gross</u>	<u>Expected</u>	<u>Carrying</u>
	<u>Amount</u>	<u>Credit Loss</u>	<u>Amount</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Performing Loans:			
Retail	15,502,325	(19,455)	15,482,870
Corporate and SME	30,048,884	(1,027,641)	29,021,243
Accrued interest receivable	145,128	-	145,128
	<u>45,696,337</u>	<u>(1,047,096)</u>	<u>44,649,241</u>

	<u>December 31, 2020</u>		
	<u>Gross</u>	<u>Expected</u>	<u>Carrying</u>
	<u>Amount</u>	<u>Credit Loss</u>	<u>Amount</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Performing Loans:			
Retail	13,924,270	(11,331)	13,912,939
Corporate and SME	22,415,162	(1,602,684)	20,812,478
Accrued interest receivable	152,775	-	152,775
	<u>36,492,207</u>	<u>(1,614,015)</u>	<u>34,878,192</u>

Loans and advances to related parties are partially covered by collaterals (Refer to Note 47).

11. INVESTMENT SECURITIES

This caption consists of:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Investment securities at fair value through other comprehensive income (A)	14,966,819	16,670,365
	<u>14,966,819</u>	<u>16,670,365</u>
Investment securities at amortized cost (B)	4,445,700,283	5,176,680,925
Accrued interest receivable, net of tax	42,197,410	40,566,672
Allowance for expected credit losses – Note 53	(1,104,816,313)	(1,075,571,762)
	<u>3,383,081,380</u>	<u>4,141,675,835</u>
	<u>3,398,048,199</u>	<u>4,158,346,200</u>

A) Investment securities at fair value through other comprehensive income:

Investment securities at fair value through other comprehensive income consisting of unquoted equity securities include an amount of LBP6.5billion as at December 31, 2021 representing the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding (LBP6.5billion as at December 31, 2020).

B) Investment securities at amortized cost:

	December 31, 2021			
	Amortized	Accrued	Expected	Net
	Cost	Interest	Credit	Carrying
	LBP'000	Receivable	Loss	Amount
	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	697,217,184	12,446,640	-	709,663,824
Lebanese government bonds	1,462,500,205	-	(1,093,951,492)	368,548,713
Foreign government bonds	89,900,887	919,149	(1,226)	90,818,810
Certificates of deposit issued by Central Bank of Lebanon	1,709,754,750	27,386,536	(10,523,410)	1,726,617,876
Certificates of deposit issued by financial private sector	58,735,074	1,431,071	(4,143)	60,162,002
Bonds issued by financial private sector	427,592,183	14,014	(336,042)	427,270,155
	<u>4,445,700,283</u>	<u>42,197,410</u>	<u>(1,104,816,313)</u>	<u>3,383,081,380</u>

	December 31, 2020			
	Amortized	Accrued	Expected	Net
	Cost	Interest	Credit	Carrying
	LBP'000	Receivable	Loss	Amount
	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	701,006,366	10,898,111	(11,752,075)	700,152,402
Lebanese government bonds	2,105,374,266	-	(1,053,123,386)	1,052,250,880
Foreign government bonds	89,860,566	919,149	(1,103)	90,778,612
Certificates of deposit issued by Central Bank of Lebanon	1,756,062,777	27,000,366	(10,460,082)	1,772,603,061
Certificates of deposit issued by financial private sector	39,225,276	1,726,690	(2,752)	40,949,214
Bonds issued by financial private sector	485,151,674	22,356	(232,364)	484,941,666
	<u>5,176,680,925</u>	<u>40,566,672</u>	<u>(1,075,571,762)</u>	<u>4,141,675,835</u>

During 2021 and 2020, the Group entered into several sales transactions of debt securities at amortized cost that resulted in losses of LBP384billion in 2021 (Losses of LBP452billion in 2020) recognized in the consolidated statement of profit or loss. Losses on derecognition of financial assets at amortized cost resulted from the sale of the following debt securities:

	<u>2021</u>	<u>2020</u>
	LBP'000	LBP'000
Lebanese Government bonds	(387,945,773)	(417,404,886)
Certificates of deposit issued by the Central Bank of Lebanon	<u>3,771,696</u>	<u>(34,739,668)</u>
	<u>(384,174,077)</u>	<u>(452,144,554)</u>

The sales transactions were entered into for the purpose of liquidity gap and yield management, exchange of financial assets with the Central bank of Lebanon, deterioration of the credit rating, and currency risk management.

Certain investment securities at amortized cost are pledged against term borrowings (Note 50).

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	LBP'000	LBP'000
Customers' liability under acceptance	20,201,413	35,938,023
Allowance for expected credit losses – Note 53	<u>(132,400)</u>	<u>(2,653,842)</u>
	<u>20,069,013</u>	<u>33,284,181</u>

13. INVESTMENT IN AN ASSOCIATE

Investment in an associate as at December 31, 2021 and 2020 consists of 20% equity stake in the share capital of Sudanese French Bank. The movement of the investment balance during 2021 and 2020 is as follows:

	2021		2020	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Balance at January 1	32,954,393	49,678,747	32,711,003	49,311,838
Share in net profit (Note 37)	699,649	1,054,721	786,183	1,185,171
Distribution of dividends	(44,439)	(66,992)	(542,794)	(818,262)
Balance at December 31	33,609,603	50,666,476	32,954,392	49,678,747
Less: Allowance for impairment	(16,413,240)	(24,742,960)	(16,413,240)	(24,742,960)
Net balance at December 31	<u>17,196,363</u>	<u>25,923,516</u>	<u>16,541,152</u>	<u>24,935,787</u>

The following tables illustrate summarized financial information of the Group's investment in Sudanese French Bank:

December 31, 2021						
Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership	Group's share of net Assets	Group's share in Profit
LBP'000	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000
172,940,775	129,089,838	43,850,937	5,273,607	20	8,770,187	1,054,721

December 31, 2020						
Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership	Group's share of net Assets	Group's share in Profit
LBP'000	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000
250,873,590	228,940,524	21,933,066	5,611,361	20	4,386,613	1,122,272

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

The movement of assets acquired in satisfaction of loans was as follows:

	<u>Real Estate</u> <u>LBP'000</u>
Gross Amount:	
Balance at January 1, 2020	81,728,822
Additions	6,423,340
Disposals	(17,205,746)
Balance at December 31, 2020	70,946,416
Additions	21,988,778
Disposals	(34,292,550)
Balance at December 31, 2021	<u>58,642,644</u>
Allowance for impairment:	
Balance at January 1, 2021	(920,041)
Allocation to free reserves	-
Balance at December 31, 2021	<u>(920,041)</u>
Carrying Amount:	
Balance at December 31, 2021	<u>57,722,603</u>
Balance at December 31, 2020	<u>70,026,375</u>

During 2021, the Group sold assets acquired in satisfaction of loans with an aggregate cost of LBP34.3billion (LBP17.2billion during 2020), which resulted in a gain in the amount of LBP15.5billion (gain of LBP2.73billion during 2020) reflected in the consolidated statement of profit or loss under "Other operating income (net)" (Note 37).

The fair value of assets acquired in satisfaction of loans amounted to LBP80billion as at December 31, 2021 (LBP95billion as at December 31, 2020). The valuation is made by Group's internal experts and/or external experts.

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. Up to July 20, 2018, in case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met and subject to the approval of the Central Bank of Lebanon. Effective July 20, 2018, the regulatory reserve of all assets acquired in satisfaction of loans where the 2 years grace period for disposal elapses on or after July 20, 2018 should be appropriated from profit over a period of 20 years. This regulatory reserve is reflected under equity. In this connection, an amount of LBP1.45billion was appropriated in 2021 (LBP1.99billion in 2020). An amount of LBP3.26billion was transferred during 2021 to retained earnings upon the sale of the related foreclosed assets (LBP426million in 2020) (Note 28).

15. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2021 and 2020 was as follows:

	<u>Buildings and Real Estate</u> <u>LBP'000</u>	<u>Furniture</u> <u>LBP'000</u>	<u>Equipment</u> <u>LBP'000</u>	<u>Vehicles</u> <u>LBP'000</u>	<u>Installations and Improvement</u> <u>LBP'000</u>	<u>Advance Payments on Capital Expenditure</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>
Gross Amount:							
Balance at January 1, 2021	314,760,757	47,343,831	69,314,164	651,969	105,740,220	8,531,163	546,342,104
Additions	-	1,129,403	672,324	-	1,059,478	10,200,142	13,061,347
Disposals	-	(185,122)	(128,965)	(125,462)	(5,233,905)	-	(5,673,454)
Transfers between categories	-	-	-	-	5,037,301	(5,037,301)	-
Transfers to intangible assets	-	-	-	-	-	(190,699)	(190,699)
Write off to profit or loss	-	-	-	-	-	(39,129)	(39,129)
Effect of exchange rate changes	(3,280,648)	591,550	(1,135,599)	(3,955)	(403,196)	(160,307)	(4,391,755)
Balance at December 31, 2021	<u>(311,480,109)</u>	<u>48,880,662</u>	<u>68,721,924</u>	<u>522,552</u>	<u>106,199,898</u>	<u>13,303,869</u>	<u>549,108,414</u>
Accumulated depreciation:							
Balance at January 1, 2021	(39,551,796)	(33,105,184)	(57,117,142)	(537,696)	(84,342,765)	-	(214,654,583)
Charge for the year (Note 42)	(4,390,482)	(2,650,880)	(4,141,295)	(49,029)	(9,948,321)	-	(21,180,007)
Eliminated at disposals	-	141,127	102,542	125,380	5,157,375	-	5,526,424
Effect of exchange rate changes	57,870	43,877	259,577	2,767	364,378	-	728,469
Balance at December 31, 2021	<u>(43,884,408)</u>	<u>(35,571,060)</u>	<u>(60,896,318)</u>	<u>(458,578)</u>	<u>(88,769,333)</u>	<u>-</u>	<u>(229,579,697)</u>
Impairment allowance:							
Balance at December 31, 2021	(300,000)	-	-	-	-	-	(300,000)
Carrying amount:							
At December 31, 2021	<u>267,295,701</u>	<u>13,309,002</u>	<u>7,825,606</u>	<u>63,974</u>	<u>17,430,565</u>	<u>13,303,869</u>	<u>319,228,717</u>

	Buildings and Real Estate LBP'000	Furniture LBP'000	Equipment LBP'000	Vehicles LBP'000	Installations and Improvement LBP'000	Advance Payments on Capital Expenditure LBP'000	Total LBP'000
Gross Amount:							
Balance at January 1, 2020	296,892,098	47,240,879	67,461,217	645,706	98,433,394	13,390,833	524,064,127
Additions	12,065,677	1,147,930	2,276,538	-	369,561	9,343,520	25,203,226
Transfer from investment properties	4,942,848	-	-	-	-	-	4,942,848
Disposals	-	(885,330)	(1,793,213)	-	(6,106,791)	-	(8,785,334)
Transfers between categories	-	258,833	1,057,248	-	12,185,185	(13,501,266)	-
Write off to profit or loss	-	-	-	-	-	(1,090,311)	(1,090,311)
Effect of exchange rate changes	860,134	(418,481)	312,374	6,263	858,871	388,387	2,007,548
Balance at December 31, 2020	<u>314,760,757</u>	<u>47,343,831</u>	<u>69,314,164</u>	<u>651,969</u>	<u>105,740,220</u>	<u>8,531,163</u>	<u>546,342,104</u>
Accumulated depreciation:							
Balance at January 1, 2020	(35,967,036)	(30,817,365)	(54,110,053)	(465,560)	(77,262,682)	-	(198,622,696)
Charge for the year (Note 42)	(3,522,549)	(2,839,210)	(5,075,248)	(68,147)	(12,166,598)	-	(23,671,752)
Eliminated at disposals	-	612,202	1,616,547	-	5,537,103	-	7,765,852
Effect of exchange rate changes	62,211)	(60,811)	451,612	(3,989)	(450,388)	-	(125,987)
Balance at December 31, 2020	<u>(39,551,796)</u>	<u>(33,105,184)</u>	<u>(57,117,142)</u>	<u>(537,696)</u>	<u>(84,342,765)</u>	<u>-</u>	<u>(214,654,583)</u>
Impairment allowance:							
Balance at December 31, 2020	(300,000)	-	-	-	-	-	(300,000)
Carrying amount:							
At December 31, 2020	<u>274,908,961</u>	<u>14,238,647</u>	<u>12,197,022</u>	<u>114,273</u>	<u>21,397,455</u>	<u>8,531,163</u>	<u>331,387,521</u>

During 2019, the Group acquired a building along with its surrounding land located at 62 PITT street Sydney for AUD52.9million (C/V of LBP55.8billion). A portion of the building and its surrounding land in the amount of AUD27.27million (C/V of LBP28.75billion) will be used by the Group for its operations and has accordingly been classified as under “building and real estate”. The remaining portion of the building in the amount of AUD25.6million (C/V of LBP27billion) will be leased to tenants and have been classified as investment properties under other assets (Note 18). During 2020, an additional amount of LBP4.9billion related to this property was transferred from investment properties to “building and real estate”.

Additions during 2021 and 2020 to “installations and improvement”, “equipment” and “advance payments on capital expenditures” represent mainly costs incurred in connection with the refurbishment of branches in Lebanon. In this connection, the Group transferred from advance payments on capital expenditures to Installations and Improvement, Equipment and Furniture an amount of LBP5billion during 2021 (LBP13.5billion during 2020) representing mainly the renovations of branches.

16. GOODWILL

	December 31, 2021			December 31, 2020		
	LBP LBP'000	C/V of F/Cv LBP'000	Total LBP'000	LBP LBP'000	C/V of F/Cv LBP'000	Total LBP'000
Beirut Life S.A.L.	452,265	-	452,265	452,265	-	452,265
Bank of Sydney Ltd	-	86,582,170	86,582,170	-	86,582,170	86,582,170
	<u>452,265</u>	<u>86,582,170</u>	<u>87,034,435</u>	<u>452,265</u>	<u>86,582,170</u>	<u>87,034,435</u>

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that each subsidiary constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations or market comparability approach, as applicable. The market average multiple of equity for acquisitions of similar sized cash generating units is used to determine the recoverable amount of the cash generating unit when using the market comparability approach.

17. RIGHT-OF-USE ASSETS / LEASE LIABILITY

The Group is a lessee in a number of leases consisting of retail branches. Leases of buildings and freehold improvements generally have lease terms between 2 and 12 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options.

The Group also has certain leases with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption for these leases.

Since 2020 and due to the events occurring in Lebanon as described in Note 1, the Group has closed several branches and cancelled the related lease agreements. This has led to the write-off of right-of-use assets and derecognition of lease liabilities.

The movement of the Group's right-of-use assets and lease liabilities is summarized as follows:

	<u>Right-of-use Assets</u> LBP'000	<u>Lease Liabilities</u> LBP'000
Balance at January 1, 2020	45,914,584	44,948,865
Additions	1,352,928	1,331,629
Depreciation expense (Note 42)	(5,983,197)	-
Cancellation of lease contracts	(4,942,821)	(4,791,272)
Interest expense (Note 41)	-	2,282,375
Payments of lease liabilities	-	(7,885,040)
Balance at December 31, 2020	36,341,494	35,886,557
Additions	1,639,528	1,591,883
Depreciation expense (Note 42)	(6,599,528)	-
Cancellation of lease contracts	(10,486,677)	(10,486,677)
Interest expense (Note 41)	-	1,275,462
Payments of lease liabilities	-	(5,780,493)
Effect of exchange rate changes	(811,020)	(977,553)
Balance at December 31, 2021	<u>20,083,797</u>	<u>21,509,179</u>

18. OTHER ASSETS

	December 31,	
	2021	2020
	LBP'000	LBP'000
Medical costs receivable from National Social security Fund (a)	11,820,016	10,371,492
Intangible assets (b)	16,973,917	18,739,803
Fair value of forward contracts	375,316	6,276,528
Prepayments	8,130,457	10,348,198
Regulatory blocked deposit (c)	4,500,000	4,500,000
Investment properties (d)	21,726,512	23,669,078
Foreign exchange position receivables (e)	72,209,649	10,249,018
Sundry accounts receivable	47,816,430	40,950,081
Deferred tax assets	3,412,636	4,306,197
Other	1,378,899	1,961,984
	<u>188,343,832</u>	<u>131,372,379</u>
Allowance for expected credit losses – Note 53	(3,419,138)	(1,094,259)
	<u>184,924,694</u>	<u>130,278,120</u>

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to employees and expected to be recovered within three years from the date they were incurred because of substantial settlement delays by the National Social Security Fund.

(b) The movement of intangible assets is disclosed as follows:

	Software LBP'000	Key Money LBP'000	Total LBP'000
Cost:			
Balance, January 1, 2020	45,046,105	1,658,250	46,704,355
Additions	8,243,103	-	8,243,103
Disposals	(28,155,565)	-	(28,155,565)
Effect of exchange rate changes	3,433,115	-	3,433,115
Balance, December 31, 2020	<u>28,566,758</u>	<u>1,658,250</u>	<u>30,225,008</u>
Additions	5,525,957	-	5,525,957
Transfers from property and equipment	190,699	-	190,699
Disposals	(683,351)	-	(683,351)
Effect of exchange rate changes	(1,210,823)	-	(1,210,823)
Balance, December 31, 2021	<u>32,389,240</u>	<u>1,658,250</u>	<u>34,047,490</u>
Amortization:			
Balance, January 1, 2020	(28,960,214)	-	(28,960,214)
Amortization for the year (Note 42)	(5,195,499)	-	(5,195,499)
Disposals	23,228,505	-	23,228,505
Effect of exchange rate changes	(557,997)	-	(557,997)
Balance, December 31, 2020	<u>(11,485,205)</u>	<u>-</u>	<u>(11,485,205)</u>
Amortization for the year (Note 42)	(4,943,054)	-	(4,943,054)
Disposals	222,275	-	222,275
Effect of exchange rate changes	790,661	-	790,661
Balance, December 31, 2021	<u>(15,415,323)</u>	<u>-</u>	<u>(15,415,323)</u>
Impairment allowance:			
Balance, January 1, 2021	-	-	-
Additions (Note 39)	-	(1,658,250)	(1,658,250)
Balance, December 31, 2021	<u>-</u>	<u>(1,658,250)</u>	<u>(1,658,250)</u>
Net Book Value:			
Balance, December 31, 2021	<u>16,973,917</u>	<u>-</u>	<u>16,973,917</u>
Balance, December 31, 2020	<u>17,081,553</u>	<u>1,658,250</u>	<u>18,739,803</u>

(c) The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of investment banks in accordance with Article 132 of the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

(d) The movement of investment properties during 2021 and 2020 is disclosed as follows:

	<u>LBP'000</u>
Balance at January 1, 2020	26,565,469
Transfer to owner-occupied (Note 15)	(4,942,848)
Depreciation expense (Note 42)	(429,523)
Effect of exchange rate changes	<u>2,475,980</u>
Balance at December 31, 2020	23,669,078
Depreciation expense (Note 42)	(601,272)
Effect of exchange rate changes	<u>(1,341,294)</u>
Balance at December 31, 2021	<u><u>21,726,512</u></u>

(e) Foreign exchange position receivables as at 31 December 2021, consist of amount receivables from the Central Bank of Lebanon, mainly as a result of application of Basic Circulars 151, 157 and 161.

19. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Current accounts from banks and financial institutions	296,442,798	357,806,211
Current accounts - associate bank (Note 47)	9,925	9,947
Short term deposits	272,643,915	596,467,983
Repurchase agreements (a)	-	-
Pledged deposits	30,537	30,563
Accrued interest payable	<u>3,441,486</u>	<u>2,579,254</u>
	<u><u>572,568,661</u></u>	<u><u>956,893,958</u></u>

(a) The Group entered into the following repurchase transactions with foreign financial institutions to sell Lebanese Eurobonds under agreement to repurchase them. These transactions are subject to call margin to be deposited by the Group as collateral in case the securities decline in value. As at December 31, 2021, the carrying amount and the fair value of the Lebanese Eurobonds sold under agreements to repurchase was LBP1,254billion (USD832million) and LBP168billion (USD113.3million) (LBP1,254billion (USD832million) and LBP168billion (USD113.3million) at December 31, 2020), respectively. Those securities are reflected in the statement of financial position under “debt securities at amortized cost” (Note 11). As a result of the decline in value of these collateralized Lebanese Eurobonds, the Bank deposited a call margin in the amount of LBP528billion as of December 31, 2021 (LBP528billion as of December 31, 2020) that was netted from the corresponding repurchase agreements as follows:

	December 31, 2021	December 31, 2020
	LBP'000	LBP'000
Proceeds from repurchase agreements:		
- 5.815% maturity March 6, 2023	301,500,000	301,500,000
- 5.915% maturity March 28, 2024	<u>226,596,094</u>	<u>226,596,094</u>
Proceeds from repurchase agreements	528,096,094	528,096,094
Less: Cash margin	<u>(528,096,094)</u>	<u>(528,096,094)</u>
Net	<u><u>-</u></u>	<u><u>-</u></u>

20. DEPOSITS FROM CUSTOMERS AND RELATED PARTIES

	December 31, 2021		
	LBP	F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
Current and demand deposits	964,014,104	3,062,890,365	4,026,904,469
Term deposits	1,681,464,948	7,871,062,824	9,552,527,772
Contribution to capital (escrow account) - Note 27	-	18,854,845	18,854,845
Credit accounts against loans and advances	206,911,110	200,696,112	407,607,222
Margins for irrevocable import letters of credit	-	25,268,681	25,268,681
Margins on letters of guarantee	8,686,058	39,291,780	47,977,838
Other margins	<u>8,108,353</u>	<u>17,200,104</u>	<u>25,308,457</u>
	2,869,184,573	11,235,264,711	14,104,449,284
Accrued interest payable	<u>26,581,406</u>	<u>11,697,003</u>	<u>38,278,409</u>
Total customers' deposits	<u><u>2,895,765,979</u></u>	<u><u>11,246,961,714</u></u>	<u><u>14,142,727,693</u></u>
Deposits from related parties:			
Current and demand deposits	894,269	50,629,346	51,523,615
Term deposits	810,998	222,535,902	223,346,900
Contribution to capital (escrow account) - Note 27	-	68,868,897	68,868,897
Credit accounts against loans and advances	89,536	1,603,529	1,693,065
Margins on letters of guarantee	55,213	23,406	78,619
Other margins	<u>-</u>	<u>6,550,395</u>	<u>6,550,395</u>
	1,850,016	350,211,475	352,061,491
Accrued interest payable	<u>20,572</u>	<u>3,220,617</u>	<u>3,241,189</u>
Total related parties' deposits	<u><u>1,870,588</u></u>	<u><u>353,432,092</u></u>	<u><u>355,302,680</u></u>
Total deposits	<u><u><u>2,897,636,567</u></u></u>	<u><u><u>11,600,393,806</u></u></u>	<u><u><u>14,498,030,373</u></u></u>

	December 31, 2020		
	LBP	F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
Current and demand deposits	601,923,519	2,679,458,751	3,281,382,270
Term deposits	2,350,627,078	9,310,253,783	11,660,880,861
Cash contribution to capital (escrow account) – Note 27	-	136,737,787	136,737,787
Credit accounts against loans and advances	245,232,092	344,450,415	589,682,507
Margins for irrevocable import letters of credit	-	20,844,135	20,844,135
Margins on letters of guarantee	8,342,344	37,134,378	45,476,722
Other margins	7,087,079	18,013,228	25,100,307
	<u>3,213,212,112</u>	<u>12,546,892,477</u>	<u>15,760,104,589</u>
Accrued interest payable	32,496,520	26,197,382	58,693,902
	<u>3,245,708,632</u>	<u>12,573,089,859</u>	<u>15,818,798,491</u>
Deposits from related parties:			
Current and demand deposits	3,162,326	29,448,788	32,611,114
Term deposits	2,089,128	258,920,910	261,010,038
Cash contribution to capital (escrow account) – Note 27	-	64,116,759	64,116,759
Credit accounts against loans and advances	95,917	1,624,937	1,720,854
Margins on letters of guarantee	5,419	24,240	29,659
Other margins	-	261,360	261,360
	<u>5,352,790</u>	<u>354,396,994</u>	<u>359,749,784</u>
Accrued interest payable	24,553	2,118,282	2,142,835
	<u>5,377,343</u>	<u>356,515,276</u>	<u>361,892,619</u>
Total deposits	<u>3,251,085,975</u>	<u>12,929,605,135</u>	<u>16,180,691,110</u>

Deposits from customers and related parties at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

	December 31, 2021			
	LBP	F/Cy	% of Customers	% of Deposits
	Total Deposits LBP'000	Total Deposits LBP'000		
Deposits from customers:				
Less than LBP 500 million	1,420,371,812	3,367,609,622	97.23	33.95
From LBP 500 million to LBP 1.5 billion	421,863,446	1,755,904,664	2.14	15.44
From LBP 1.5 billion to LBP 5 billion	266,819,748	1,276,211,762	0.48	10.94
Over LBP 5 billion	760,129,567	4,835,538,663	0.15	39.67
	<u>2,869,184,573</u>	<u>11,235,264,711</u>	<u>100.00</u>	<u>100.00</u>
Deposits from related parties:				
Less than LBP 500 million	513,537	1,839,623	74.08	0.67
From LBP 500 million to LBP 1.5 billion	718,866	26,959,589	15.87	7.86
From LBP 1.5 billion to LBP 5 billion	255,283	19,441,162	4.23	5.59
Over LBP 5 billion	362,329	301,971,102	5.82	85.88
	<u>1,850,015</u>	<u>350,211,476</u>	<u>100.00</u>	<u>100.00</u>
	<u>2,871,034,588</u>	<u>11,585,476,187</u>		

December 31, 2020				
	<u>LBP</u>	<u>F/Cy</u>		
	<u>Total</u>	<u>Total</u>	<u>% of</u>	<u>% of</u>
	<u>Deposits</u>	<u>Deposits</u>	<u>Customers</u>	<u>Deposits</u>
	<u>LBP'000</u>	<u>LBP'000</u>		
Deposits from customers:				
Less than LBP 500 million	1,630,250,352	4,631,189,752	97.05	39.73
From LBP 500 million to LBP 1.5 billion	461,045,741	2,425,767,740	2.26	18.32
From LBP 1.5 billion to LBP 5 billion	285,740,849	1,862,660,191	0.54	13.63
Over LBP 5 billion	<u>836,175,171</u>	<u>3,627,274,793</u>	<u>0.15</u>	<u>28.32</u>
	<u>3,213,212,113</u>	<u>12,546,892,476</u>	<u>100.00</u>	<u>100.00</u>
Deposits from related parties:				
Less than LBP 500 million	923,355	13,513,487	77.88	4.01
From LBP 500 million to LBP 1.5 billion	797,779	18,162,055	10.10	5.27
From LBP 1.5 billion to LBP 5 billion	1,501,518	32,721,506	6.25	9.51
Over LBP 5 billion	<u>2,130,140</u>	<u>289,999,945</u>	<u>5.77</u>	<u>81.20</u>
	<u>5,352,792</u>	<u>354,396,993</u>	<u>100.00</u>	<u>100.00</u>
	<u>3,218,564,905</u>	<u>12,901,289,469</u>		

Deposits from customers include as at December 31, 2021 coded deposit accounts in the aggregate of LBP3.28billion (LBP3.24billion as at December 31, 2020). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

The average balance of deposits from customers and related cost of funds over the last 3 years are as follows:

<u>Year</u>	<u>Average</u>	<u>Allocation of Deposits</u>		<u>Cost of</u>	<u>Average</u>
	<u>Balance of</u>			<u>Funds</u>	<u>Cost of</u>
	<u>Deposits</u>	<u>LBP</u>	<u>F/Cy</u>	<u>LBP'000</u>	<u>Funds</u>
	<u>LBP'000</u>	<u>%</u>	<u>%</u>		<u>%</u>
Year 2021	14,995,686,258	21	79	144,142,545	0.96
Year 2020	16,221,290,760	22	78	476,679,365	2.94
Year 2019	18,466,728,614	28	72	1,092,654,812	5.92

The average balance of related parties' deposits and related cost of funds over the last 3 years are as follows:

Year	Average Balance of Deposits LBP'000	Allocation of Deposits		Cost of Funds LBP'000	Average Cost of Funds %
		LBP	F/Cy		
		%	%		
Year 2021	373,649,836	2	98	5,007,452	1.34
Year 2020	315,901,771	6	94	8,653,319	2.74
Year 2019	476,257,124	9	91	26,616,914	5.59

21. OTHER BORROWINGS

	December 31,	
	2021 LBP'000	2020 LBP'000
Borrowings from Central Bank of Lebanon (a)	396,531,541	489,813,409
Borrowings from other central banks (b)	273,801,874	70,243,694
Borrowings from the European Investment Bank	-	1,890,768
	<u>670,333,415</u>	<u>561,947,871</u>
Accrued interest payable	4,437,854	5,082,673
	<u>674,771,269</u>	<u>567,030,544</u>

(a) Borrowings from Central Bank of Lebanon as of December 31, 2021 and 2020 represent facilities in accordance with Central Bank of Lebanon Basic Decision No.6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans that the Group granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

(b) In the current year, in response to the Covid-19 pandemic and to stimulate the economy, the Reserve Bank of Australia ('RBA') provided Authorized Deposit-taking Institutions ("ADI's") access to the Term Funding Facility ("TFF"), a low cost funding facility with a 3 year term. There were no terms and conditions associated with the TFF, other than the pledging of securities the RBA eligibility criteria, as collateral. The Group accesses this funding by entering into repurchase agreements with the RBA through its banking subsidiary in Australia "Bank of Beirut Sydney LTD".

As at December 31, 2021, the Group has drawn down LBP274billion (AUD252million) (2020:LBP70billion (AUD62.4million)). The Group retains risks and rewards of the above-mentioned pledged securities, and therefore does not derecognize these assets.

The movement of other borrowings is detailed as follows:

	<u>2021</u> <u>LBP'000</u>	<u>2020</u> <u>LBP'000</u>
Balance at January 1	561,947,871	1,138,480,582
Financing cash flows	273,801,874	70,243,694
Settlements	(144,712,086)	(646,776,405)
Effect of exchange rate changes	(20,704,244)	-
Balance at December 31	<u>670,333,415</u>	<u>561,947,871</u>

22. CERTIFICATES OF DEPOSIT

	<u>December 31,</u>			
	<u>2021</u>		<u>2020</u>	
	<u>C/V of F/Cy</u> <u>LBP'000</u>	<u>Average</u> <u>Interest</u> <u>Rate</u> <u>%</u>	<u>C/V of F/Cy</u> <u>LBP'000</u>	<u>Average</u> <u>Interest</u> <u>Rate</u> <u>%</u>
Certificates of deposit	668,038	2.25	668,124	2.25
Accrued interest payable	1,830		1,831	
	<u>669,868</u>		<u>669,955</u>	

23. OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Checks and incoming payment orders in course of settlement	28,023,918	30,457,241
Fair value of derivative financial liabilities (a)	1,719,261	6,137,736
Deferred tax liability (b)	10,731,789	9,664,738
Accrued expenses	73,288,992	58,095,996
Deferred income	10,768,976	7,123,871
Income tax payable (c)	41,431,860	70,858,426
Withheld taxes	2,905,204	2,942,037
Margins on letters of credit - banks	80,358,161	83,847,793
Margins on letters of guarantee - banks	95,986	3,341,137
Sundry accounts payable	89,551,978	61,515,299
Unfavorable exchange difference on fixed currency position	51,305	52,759
	<u>338,927,430</u>	<u>334,037,033</u>

(a) Fair value of derivative financial liabilities consists of the following:

	December 31,	
	2021	2020
	LBP'000	LBP'000
Interest rate swap (Note 45)	1,249,456	4,660,774
Forward contracts	<u>469,805</u>	<u>1,476,962</u>
	<u><u>1,719,261</u></u>	<u><u>6,137,736</u></u>

The Group uses interest rate swaps, and forward contracts for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

(b) The deferred tax liability consists of the following:

	December 31,	
	2021	2020
	LBP'000	LBP'000
Deferred tax liability on undistributed profits from subsidiaries	<u>10,731,789</u>	<u>9,664,738</u>
	<u><u>10,731,789</u></u>	<u><u>9,664,738</u></u>

The movement of deferred tax liability which relates to undistributed profits from subsidiaries during 2021 and 2020 was as follows:

	2021	2020
	LBP'000	LBP'000
Balance at January 1	9,664,738	7,387,073
Additions	<u>1,067,051</u>	<u>2,277,665</u>
Balance at December 31	<u><u>10,731,789</u></u>	<u><u>9,664,738</u></u>

At December 31, 2021 and 2020, a deferred tax liability for temporary differences related to the undistributed profits of foreign subsidiaries was not recognized on the grounds that management has committed to retain the profits in two of its foreign subsidiaries for purpose of permanent capitalization of profits.

(c) The following table explains the relationship between taxable income and accounting income:

	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Profit/(loss) before income tax	35,153,329	(324,996,382)
Income from subsidiaries, and foreign branches	<u>1,547,593</u>	<u>10,443,044</u>
	36,700,922	(314,553,338)
<u>Add:</u> Non-deductible expenses	219,749,535	92,498,261
<u>Less:</u> Non-taxable revenues or revenues subject to tax in previous periods	(101,856,294)	(703,409,949)
Taxable income/(loss)	<u>154,594,163</u>	<u>(925,465,026)</u>
Income tax (17%)	23,698,009	-
<u>Add:</u> Income tax expense on subsidiaries and foreign branches	<u>5,343,537</u>	<u>3,042,566</u>
Corporate income tax expense for the year	29,041,546	3,042,566
Add: 2% tax on 2019 turnover (i)	<u>-</u>	<u>46,748,477</u>
Total income tax expense for the year	29,041,546	49,791,043
Carried forward balance from prior year	16,548,280	21,067,383
Less: Subsidiaries and foreign branches income tax paid	(4,157,966)	-
Income tax payable as at December 31	<u>41,431,860</u>	<u>70,858,426</u>

The tax returns of the Bank and most of its Lebanese subsidiaries for the years 2016 to 2021 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessments have been finalized up to the year 2017. Tax assessments for the years 2018 to 2021 have yet to be finalized by the Secretariat General for Taxation. The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Bank's results and financial position as of reporting date.

(i) This amount represents 2% tax on 2019 turnover as per Article No 20 of Budget Law 6/2020 accrued for as of December 31, 2020 and to be settled over 3 equal installments due in March, June and August 2021.

24. PROVISIONS

	December 31,	
	2021	2020
	LBP'000	LBP'000
Provision for staff and executive management termination indemnity (a)	23,820,264	22,595,039
Provision for risks and charges	8,215,875	1,281,375
Provision for loss on foreign currency position	194,000	194,000
Provision for expected credit losses on off-balance sheet commitments – Note 53	21,038,064	24,439,792
Provision for insurance contracts liabilities	32,325,416	32,323,251
Other	115,936	121,781
	<u>85,709,555</u>	<u>80,955,238</u>

(a) The movement of provision for staff termination indemnity is as follows:

	2021	2020
	LBP'000	LBP'000
Balance at January 1	22,595,039	33,301,290
Additions /(write-back) (Note 40)	3,653,184	(1,027,002)
Settlements	(2,427,959)	(9,679,249)
Balance at December 31	<u>23,820,264</u>	<u>22,595,039</u>

25. SHARE CAPITAL

The authorized ordinary share capital of Bank of Beirut S.A.L. is equal to LBP89.06billion consisting of 60,996,900 fully paid shares of LBP1,460 par value each as of December 31, 2021 and 2020.

At December 31, 2019 the authorized ordinary share capital of Bank of Beirut S.A.L. was LBP82.1billion consisting of 56,234,900 fully paid shares of LBP1,460 par value each. During 2020, the Group transferred the 4,762,000 Series 2014 priority shares to common shares at par value of LBP1,460 as further explained below.

As of December 31, 2019, the Group had 4,762,000 Series 2014 priority shares in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,460. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.

Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need for the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend, if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

The Bank shall have the right, but not the obligation, to resolve, prior to the holding of the above-mentioned General Meeting, the extension of the Priority Period for two consecutive years (the “Extension Period”).

On December 16, 2020, the Bank's Extraordinary General Assembly resolved that the Series 2014 Priority Shares ceased to be identified as a special class within the Common Shares of the Bank and became mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

26. PREFERRED SHARES

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Non-cumulative perpetual redeemable Series “G” preferred shares	188,362,125	188,362,125
Non-cumulative perpetual redeemable Series “H” preferred shares	203,512,500	203,512,500
Non-cumulative perpetual redeemable Series “I” preferred shares	188,437,500	188,437,500
Non-cumulative perpetual redeemable Series “J” preferred shares	113,062,500	113,062,500
Non-cumulative perpetual redeemable Series “K” preferred shares	<u>150,750,000</u>	<u>150,750,000</u>
	<u>844,124,625</u>	<u>844,124,625</u>

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

<u>Non-cumulative perpetual redeemable preferred shares</u>	<u>Number of Shares</u>	<u>Share’s issue price</u>	<u>Benefits</u>	<u>Listed on Beirut Stock Exchange</u>
Series “G”	3,570,000	USD 35	6.75% per year	No
Series “H”	5,400,000	USD 25	7% per year	Yes
Series “I”	5,000,000	USD 25	6.75% per year	Yes
Series “J”	3,000,000	USD 25	6.5% per year	Yes
Series “K”	4,000,000	USD 25	6.5% per year	Yes

The Group has the right, at its sole discretion, to redeem on each redemption date all or part of the Series “G”, “H”, “I”, “J” and “K” preferred shares (but not less than 25%). Redemption date means for the first time the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Group’s shareholders which ascertains the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; and every consecutive 2 years thereafter.

In the event of liquidation of the Bank, holders of preferred shares Series “G”, “H”, “I”, “J” and “K” rank senior to the holders of common shares.

27. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is stated at LBP208.68billion (USD138,429,908) as at December 31, 2021 (2020: LBP20.98billion (USD13,916,000)), out of which LBP20.98billion is non-interest bearing while the remaining LBP187.70billion carries interest at the rate ranging between 5% and 8% per annum subject to certain conditions.

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

To meet the requirements of Central Bank of Lebanon towards increasing common equity Tier I as at December 31, 2018 by 20% in foreign currencies by December 31, 2020 that was later extended to February 28, 2021, the Bank's Extraordinary General Assembly of shareholders held on December 16, 2020 called for additional cash contribution from shareholders in the amount of USD 203.5 million. Up to December 31, 2020, the Bank's shareholders settled USD 133.2 million (LBP200.8 billion) in the form of cash contribution with the remaining balance of USD 70.3 million will be settled through transfer of real estate by the shareholders subject to the final approval of BDL. These contributions were reflected under deposits from customers and related parties (Note 20) pending the completion of legal formalities and obtaining the final regulatory approvals.

On March 11, 2021, the Bank obtained the preliminary approval of the Central Bank of Lebanon on the cash contribution contracts signed with certain shareholders, and the exceptional approval to constitute 50% of the 20% cash contribution required above, through transfer of real estate by the shareholders subject to certain conditions. In this respect, the Bank transferred LBP187.7billion (USD124,513,908) from the escrow account to cash contribution to capital under equity. The preliminary approval on the cash contribution contracts signed with certain shareholders became final on June 14, 2022. As for the remaining amount of the cash contribution to capital, it has not yet been materialized, pending the final approval of the regulators.

28. RESERVES

	December 31,	
	2021	2020
	LBP'000	LBP'000
Legal reserves (a)	222,301,807	221,115,355
Special reserves setup from net release of provision for credit losses	2,067,371	2,067,371
Reserves restricted for capital increase	40,560,677	40,560,677
Issue premiums on common shares	385,505,908	385,505,908
Non-distributable general reserves	296,496,012	296,496,012
Owned buildings' revaluation surplus	1,668,934	1,668,934
Regulatory reserve for assets acquired in satisfaction of loans (Note 14)	<u>12,316,250</u>	<u>14,135,354</u>
	<u>960,916,959</u>	<u>961,549,611</u>

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law and the Code of Commerce on the basis of 10% of net profit for Lebanese entities. This reserve is not available for distribution. During 2021, the Group allocated LBP1.19billion to legal reserves (Nil during 2020).

29. TREASURY SHARES

The Group is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD</u>	<u>USD</u>
Common shares	<u>3,626,257</u>	<u>3,626,257</u>
C/V LBP'000	<u>5,466,583</u>	<u>5,466,583</u>

30. NON-CONTROLLING INTERESTS

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>USD</u>	<u>USD</u>
Share in:		
Capital	382,969	225,000
Retained earnings	3,220,843	3,063,027
(Loss)/profit for the year	(622,383)	475,700
	<u>2,981,429</u>	<u>3,763,727</u>

31. DIVIDENDS PAID

There was no dividends distribution during the years 2021 and 2020.

32. INTEREST INCOME

	<u>2021</u>		
	<u>Interest Income</u>	<u>Withheld Tax</u>	<u>Net Interest Income</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Interest income from:			
Deposits with central banks	503,915,195	(63,846,279)	440,068,916
Deposits with banks and financial institutions	19,091,391	(80,485)	19,010,906
Loans to banks	1,466,719	-	1,466,719
Investment securities at amortized cost	240,409,465	(23,390,398)	217,019,067
Loans and advances to customers	229,577,886	-	229,577,886
Loans and advances to related parties	1,303,460	-	1,303,460
	<u>995,764,116</u>	<u>(87,317,162)</u>	<u>908,446,954</u>

	<u>2020</u>		
	<u>Interest Income</u>	<u>Withheld Tax</u>	<u>Net Interest Income</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Interest income from:			
Deposits with central banks	1,042,959,434	(86,197,805)	956,761,629
Deposits with banks and financial institutions	52,119,635	(24,289)	52,095,346
Loans to banks	2,920,215	-	2,920,215
Investment securities at amortized cost	259,474,827	(24,276,454)	235,198,373
Loans and advances to customers	321,094,431	-	321,094,430
Loans and advances to related parties	2,090,819	-	2,090,820
	<u>1,680,659,361</u>	<u>(110,498,548)</u>	<u>1,570,160,813</u>

33. INTEREST EXPENSE

	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest expense on:		
Deposits from banks and financial institutions	44,670,578	91,783,601
Deposits from customers	144,142,545	476,679,365
Deposits from related parties	5,007,452	8,653,319
Other borrowings	3,830,364	109,714,253
Certificates of deposit	8,506	9,654
	<u>197,659,445</u>	<u>686,840,192</u>

34. FEE AND COMMISSION INCOME

	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Commissions on documentary credits	14,445,080	16,715,140
Commissions on letters of guarantee	14,847,055	10,713,586
Commissions on money transfers' transactions	14,283,988	5,861,573
Insurance brokerage and service fees	21,267,891	25,376,089
Commissions on fiduciary accounts	218,900	615,931
Commissions on banking services	38,024,484	24,668,420
Commissions on credit cards	13,025,872	9,986,312
Commissions on capital market transactions	-	98,102
Other	10,601,126	8,999,863
	<u>126,714,396</u>	<u>103,035,016</u>

35. FEE AND COMMISSION EXPENSE

	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Commissions on transactions with banks and financial institutions	1,145,058	435,683
Commissions on credit cards	5,535,873	6,405,317
Commissions on fiduciary deposits	181,446	529,664
Commissions on loans	3,208,417	708,658
Commissions on money transfers transactions	1,923,516	1,139,384
Commissions on insurance transactions	4,233,448	5,488,911
Other	11,689,032	10,278,421
	<u>27,916,790</u>	<u>24,986,038</u>

36. NET INTEREST AND OTHER (LOSSES)/GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2021</u> LBP'000	<u>2019</u> LBP'000
Interest income, net of tax	494,831	954,181
Change in fair value loss (net)	(2,441,626)	(23,409,906)
Gain on sale	170,935	105,261
Dividends received	40,925	128,136
	<u>(1,734,935)</u>	<u>(22,222,328)</u>

37. OTHER OPERATING INCOME (NET)

	<u>2021</u> LBP'000	<u>2020</u> LBP'000
Share in profits of an associate (Note 13)	1,054,721	1,185,171
Foreign exchange gain	10,189,646	18,020,257
(Loss)/gain on forward contracts	(822,106)	1,854,446
Gain on sale of assets acquired in satisfaction of loans (Note 14)	15,535,306	2,727,625
Loss on sale of property and equipment	-	(7,085)
Dividends on other investments	5,724	18,522
Other (net)	1,415,619	1,418,049
	<u>27,378,910</u>	<u>25,216,985</u>

38. ALLOWANCES FOR EXPECTED CREDIT LOSSES (NET)

	<u>2021</u> LBP'000	<u>2020</u> LBP'000
Allowances for expected credit losses (Note 53)	73,487,944	485,877,783
Loss from direct write-off of loans and advances	4,054,567	986,661
	<u>77,542,511</u>	<u>486,864,444</u>

39. OTHER PROVISION (NET)

	<u>2021</u> LBP'000	<u>2020</u> LBP'000
Provision for insurance liabilities (Note 24)	2,351,990	1,311,192
Provision for risks and charges (Note 24)	6,934,500	-
Provision for impairment intangible assets (Note 18)	1,658,250	-
	<u>10,944,740</u>	<u>1,311,192</u>

40. STAFF COSTS

	<u>2021</u>	<u>2020</u>
	LBP'000	LBP'000
Salaries	126,929,328	104,323,242
Social security contributions	13,510,637	9,384,113
Executive board members remunerations	1,265,685	1,265,685
Provision for end of service indemnities (Note 24)	3,653,184	(1,027,002)
Other staff benefits	23,689,930	30,635,537
	<u>169,048,764</u>	<u>144,581,575</u>

41. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2021</u>	<u>2020</u>
	LBP'000	LBP'000
Management fees	2,927,509	4,812,151
Cleaning	5,614,172	3,589,015
Telephone, mail and other communication expenses	6,012,805	6,212,952
Office supplies	4,002,403	2,281,399
Advertising and marketing expenses	4,011,751	4,269,014
Electricity and fuel	14,246,159	4,515,928
Maintenance and repair fees	30,481,212	20,375,171
Subscription fees	3,650,185	2,446,436
Donation and gifts	863,254	2,117,483
Reception and entertainment	2,300,120	1,205,614
Professional and regulatory fees	11,183,007	8,483,002
Rent expense	6,750,526	6,902,888
Insurance expenses	1,810,283	1,939,042
Travel and related expenses	514,373	963,628
Centrale des risques	791,691	785,701
Taxes and fiscal charges	7,203,324	7,396,894
Miscellaneous expenses	21,403,572	23,301,517
Finance cost on lease liability	1,275,462	2,282,375
	<u>125,041,808</u>	<u>103,880,210</u>

42. DEPRECIATION AND AMORTIZATION

	<u>2021</u>	<u>2020</u>
	LBP'000	LBP'000
Depreciation of property and equipment (Note 15)	21,180,007	23,671,753
Amortization of deferred software charges (Note 18 (b))	4,943,054	5,195,499
Depreciation of right of use assets (Note 17)	6,599,528	5,983,197
Depreciation of investment properties (Note 18 (d))	601,272	429,523
	<u>33,323,861</u>	<u>35,279,972</u>

43. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK

The consolidated profit for the year attributable to the equity holders of the Bank is allocated as follows:

	Year-Ended December 31, 2021		
	Profit before Tax	Current and Deferred Tax	Net Profit
	LBP'000	LBP'000	LBP'000
Bank of Beirut S.A.L.	3,628,832	(20,936,200)	(17,307,368)
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	4,501,742	(977,781)	3,523,961
Bank of Sydney Ltd	10,692,370	(3,210,656)	7,481,714
Bank of Beirut Invest S.A.L.	706,346	(307,244)	399,102
BOB Finance S.A.L.	12,519,335	(2,167,128)	10,352,207
Cofida Holding S.A.L.	685,242	(5,000)	680,242
Beirut Broker Company S.A..L	7,605,687	(1,292,967)	6,312,720
Beirut Life S.A.L.	(6,079,263)	(144,570)	(6,223,833)
Medawar 247 S.A.L.	(16,826)	-	(16,826)
Medawar 1216 S.A.L.	(16,826)	-	(16,826)
	34,226,639	(29,041,546)	5,185,093
Consolidation eliminations and adjustments	926,690	(1,146,258)	(219,568)
	<u>35,153,329</u>	<u>(30,187,804)</u>	<u>4,965,525</u>

	Year-Ended December 31, 2020		
	Loss before Tax	Current and Deferred Tax	Net Loss
	LBP'000	LBP'000	LBP'000
Bank of Beirut S.A.L.	(327,916,005)	(44,838,157)	(372,754,162)
Profit/(loss) of subsidiaries:			
Bank of Beirut UK LTD	2,272,315	(4,312)	2,268,003
Bank of Sydney Ltd	3,095,725	(948,716)	2,147,009
Bank of Beirut Invest S.A.L.	1,359,790	(731,128)	628,662
BOB Finance S.A.L.	10,525,959	(1,798,169)	8,727,790
Cofida Holding S.A.L.	2,513,069	(5,000)	2,508,069
Beirut Broker Company S.A..L.	7,087,157	(1,285,686)	5,801,471
Beirut Life S.A.L.	4,936,870	(179,875)	4,756,995
Medawar 247 S.A.L.	(17,246)	-	(17,246)
Medawar 1216 S.A.L.	(30,821)	-	(30,821)
	(296,173,187)	(49,791,043)	(345,964,230)
Consolidation eliminations and adjustments	(29,298,895)	(1,991,492)	(31,290,387)
	<u>(325,472,082)</u>	<u>(51,782,535)</u>	<u>(377,254,617)</u>

44. EARNINGS/(LOSSES) PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non-recurring income and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
<u>Earnings/(Losses):</u>		
Profit/(loss) for the year attributable to equity holders of the Bank	<u>4,965,525</u>	<u>(377,254,617)</u>
<u>Number of Shares:</u>		
Weighted average number of ordinary shares	60,813,819	60,813,819
Weighted average number of priority shares	-	-
Weighted average number of priority and ordinary shares	<u>60,813,819</u>	<u>60,813,819</u>
Basic earnings/(losses) per common share	<u>LBP 82</u>	<u>LBP(6,203)</u>
Diluted earnings/(losses) per share	<u>LBP 82</u>	<u>LBP(6,203)</u>

The conversion effect of Series "G" preferred shares and Series 2014 priority shares was excluded from the calculation of diluted earnings per share for 2021 and 2020 since they have anti-dilutive effect.

45. 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 balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 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, and these contracts are fully hedged by the Group.

As of December 31, 2021 and 2020, the Group had an interest rate swap outstanding to hedge cash flows detailed as follows:

	December 31,			
	2021		2020	
	<u>Original Currency</u> AUD	<u>C/V LBP'000</u>	<u>Original Currency</u> AUD	<u>C/V LBP'000</u>
Principal amount	86,000,000	93,590,360	98,000,000	113,165,500
Fair value (Note 23)	1,148,123	1,249,456	4,036,351	4,660,774

46. FIDUCIARY ACCOUNTS

Fiduciary accounts are invested as follows:

	December 31,	
	<u>2021</u> LBP'000	<u>2020</u> LBP'000
Back-to-back lending	31,616,811	31,345,443
Equity securities (long position)	99,615,470	78,100,655
Debt leverage	11,962,116	13,188,928
	<u>143,194,397</u>	<u>122,635,026</u>

47. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties consist of the following:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Shareholders, directors and other key management personnel and close family members and their related companies:		
<i>Direct facilities and credit balances:</i>		
Secured loans and advances	995,568	1,109,355
Unsecured loans and advances	43,508,545	35,230,078
Accrued interest receivable	145,128	152,775
Deposits	(352,061,490)	(359,749,784)
Accrued interest payable	(3,241,189)	(2,142,835)
<i>Indirect facilities:</i>		
Letters of guarantee	1,679,514	1,481,021
Associates		
<i>Direct facilities and credit balances:</i>		
Deposits from associate (Note 19)	(9,925)	(9,947)

48. NOTE TO THE STATEMENT OF CASH FLOWS

A. Cash and cash equivalents

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

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Cash on hand	166,136,710	90,033,943
Current accounts with central banks	1,687,065,033	872,840,852
Time deposits with central banks	900,034,000	1,012,510,000
Checks for collection	45,714,413	61,752,277
Current accounts with banks and financial institutions	436,886,622	410,427,948
Overnight placements	22,853,460	11,547,551
Term placements with banks and financial institutions	176,444,117	167,568,859
Current accounts from banks and financial institutions	(296,452,723)	(357,816,158)
Short term deposits from banks and financial institutions	(79,765,987)	(532,619,825)
	<u>3,058,915,645</u>	<u>1,736,245,447</u>

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

B. Non-cash transactions

The statement of cash flow is prepared after excluding the effect of the following non-cash transactions:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Operating Activities:		
Property and equipment	(190,699)	4,942,848
Other assets	<u>190,699</u>	<u>(4,942,848)</u>
	<u>-</u>	<u>-</u>

49. CONTINGENCIES

As of the date of the consolidated statement of financial position, there are lawsuits and litigations, whereby the Group is either plaintiff or defendant, mostly resulting from the 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 pound as described under Note 1.3.4. These lawsuits are pending before the competent courts and the outcome of which cannot be determined at present. Management considers that these lawsuits and litigations will not have material impact on the Group consolidated financial statements, however they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch.

The Bank, amongst 10 other banks in Lebanon, is defendant in a civil action brought on January 1, 2019 under the Anti-Terrorism Act (“ATA”) at United States District Court, Eastern District of New York, by a group of plaintiffs claiming to have suffered losses by reason of acts of international terrorism occurring between 2004 and 2011. The Bank’s management states that the Bank has not been involved in any wrong doing and has appointed lawyers to defend its case. Management is of the opinion that the risk derived from the outcome of this lawsuit is relatively low and will not result in an adverse impact on the Bank’s financial statements.

50. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

December 31, 2021				
Pledged Amount	Nature of Facility	Corresponding Facilities		
		Amount of Facility	Nature of Facility	Amount of Facility
LBP'000		LBP'000		LBP'000
Pledged deposits with banks		538,277	Performance bonds	2,241,450
Pledged deposits with banks		12,865,919	Foreign currency (Bought)	51,596,038
Pledged deposits with banks		2,893,738	Foreign currency (Sold)	-
Lebanese government bonds		1,254,240,000		51,679,627
Cash margin		528,096,064		-
	Repurchase agreements	1,782,336,064		528,096,064
				-
				-
December 31, 2020				
Pledged Amount	Nature of Facility	Corresponding Facilities		
		Amount of Facility	Nature of Facility	Amount of Facility
LBP'000		LBP'000		LBP'000
Pledged deposits with banks		717,773	Performance bonds	4,521,297
Pledged deposits with banks		11,961,971	Foreign currency (Bought)	43,775,090
Pledged deposits with banks		6,382,659	Foreign currency (Sold)	-
Lebanese government bonds		1,254,240,000		43,976,503
Cash margin		528,096,064		-
	Repurchase agreements	1,782,336,064		528,096,064
				-
				-

As at December 31, 2021, the Group had deposits in guarantee in the amount of LBP1.81billion (LBP1.76billion as at December 31, 2020) blocked in favor of the Ministry of Economy and Trade in guarantee of the Group's insurance activities in Lebanon.

51. CAPITAL MANAGEMENT

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

The following are the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
As at December 31, 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%
As at December 31, 2020			
Minimum required capital ratios	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5%	7.00%	8.50%	10.50%

The Central Bank of Lebanon issued intermediary circular No.567 dated August 26, 2020 introducing several changes in the calculation of the regulatory capital adequacy ratios. These key changes are discussed below:

- Increasing the regulatory ECL on Lebanese government bonds in foreign currency from 9.45% to 45% and allowing the constitution of the regulatory ECL progressively over a period of five years starting from 2020, noting that the BDL Central Council may accept to extend the term to ten years for banks that manage to complete the 20% cash contribution to capital before December 31, 2020.
- Regulatory ECL for other exposures remain unchanged, i.e. exposures in foreign currency with BDL 1.89%; exposures in Lebanese Pounds with BDL and Lebanese treasury bills in Lebanese Pounds 0%.
- By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018 through issuing new foreign currency capital instruments as well as other approaches that meet the criteria for inclusion as regulatory capital. The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these a liquidated within 5 years
- Banks can include the revaluation surplus of real estate properties in Common Equity Tier I capital instead of 50% in Tier II, subject to BDL approval on the revaluation. The deadline set by the regulator for the revaluation of real estate is December 31, 2021.
- Banks should refrain from dividend distribution, should capital adequacy ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio. Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022 years according to an approved plan by the Banking Control Commission of Lebanon.

- Banks should refrain from dividend distribution, should capital adequacy ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio. Also, banks are prohibited from distributing dividends on common shares for the years 2019 and 2020.
- As exceptional measures, 100% of ECL on Stage 1 and Stage 2 exposures (except those against sovereign and BDL exposures in local and foreign currency), may be added to common equity Tier I capital. These will be gradually amortized to 75% in 2022, 50% in 2023 and 25% in 2024.

The Group's consolidated capital adequacy ratio was as follows:

	December 31,	
	2021	2020
	LBP'000	LBP'000
Common equity (net)	1,283,048,501	1,323,757,816
Additional Tier I capital (net)	<u>1,031,829,341</u>	<u>844,124,625</u>
	2,314,877,842	2,167,882,441
Net Tier II capital	<u>145,619,532</u>	<u>132,262,546</u>
Total regulatory capital (including remaining net profit after distribution of dividends)	<u>2,460,497,374</u>	<u>2,300,144,987</u>
Credit risk	13,814,975,252	16,410,564,078
Market risk	1,220,641,797	567,373,144
Operational risk	<u>1,669,716,250</u>	<u>1,513,462,500</u>
Risk weighted assets and risk weighted off-balance sheet items	<u>16,705,333,299</u>	<u>18,491,399,722</u>
Common equity Tier I ratio	7.68%	7.16%
Tier I ratio	13.86%	11.72%
Risk based capital ratio – Tier I and Tier II capital	14.73%	12.44%

The Group's capital adequacy ratio as at December 31, 2021 and 2020, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties discussed under Note 1 once these uncertainties become reasonably quantifiable. Due to the high levels of these uncertainties, management is unable to estimate in a reasonable manner, the impact of these matters on the Group's capital adequacy and the recapitalization needs that may arise once the necessary adjustments are determined and recorded.

52. SEGMENT INFORMATION

The Group classifies its operating segments by geographical location and by activity.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital and assesses performance.

The Group's operating segment information by geographical location is as follows:

	December 31, 2021				
	<u>Lebanon & Middle East</u> LBP'000	<u>Europe</u> LBP'000	<u>Australia</u> LBP'000	<u>Inter-segment</u> LBP'000	<u>Total</u> LBP'000
Total Assets	15,580,419,660	830,561,302	2,891,598,717	(1,077,061,488)	18,225,518,191
Total Liabilities	13,481,813,852	553,976,248	2,546,869,469	(370,271,821)	16,212,387,748
Total Equity	2,098,605,806	212,511,382	344,729,248	(642,715,993)	2,013,130,443
(Loss)/profit for the year	(5,820,582)	3,523,961	7,481,715	402,815	5,587,909
ASSETS					
Financial assets at fair value through P/L	19,008,647	53,873,123	-	-	72,881,765
Loans and advances to customers	2,413,851,294	68,395,521	2,123,547,446	(5,717,792)	4,600,076,469
Loans and advances to related parties	18,539,223	3,824,426	22,940,090	(654,498)	44,649,241
Investment securities	2,910,617,267	(1,226)	487,432,158	-	3,398,048,199
LIABILITIES					
Deposits from customers	11,656,478,431	292,662,226	2,199,704,203	(6,117,167)	14,142,727,693
Deposits from related parties	467,423,862	57,271,870	46,457,461	(215,850,513)	355,302,680
	December 31, 2020				
	<u>Lebanon & Middle East</u> LBP'000	<u>Europe</u> LBP'000	<u>Australia</u> LBP'000	<u>Inter-segment</u> LBP'000	<u>Total</u> LBP'000
Total Assets	17,507,588,575	862,689,713	3,048,908,106	(1,156,227,579)	20,262,958,815
Total Liabilities	15,349,945,620	586,130,095	2,692,610,604	(436,583,901)	18,192,102,418
Total Equity	2,161,406,682	211,723,517	356,297,502	(658,571,304)	2,070,856,397
Loss for the year	(349,903,542)	2,268,003	2,147,009	(31,766,087)	(377,254,617)
ASSETS					
Financial assets at fair value through P/L	22,716,924	54,753,115	-	-	77,470,039
Loans and advances to customers	3,517,248,834	74,651,681	2,275,559,669	(5,746,486)	5,861,713,698
Loans and advances to related parties	21,344,434	3,768,166	8,304,042	(132,461)	33,284,181
Investment securities	3,632,582,251	(126,931)	525,890,880	-	4,158,346,200
LIABILITIES					
Deposits from customers	13,047,040,137	271,690,840	2,500,067,514	-	15,818,798,491
Deposits from related parties	442,620,002	34,027,467	76,894,887	(191,649,737)	361,892,619

December 31, 2021

	Lebanon & Middle East LBP'000	Europe LBP'000	Australia LBP'000	Inter-segment LBP'000	Total LBP'000
Interest income	928,879,695	12,867,886	64,194,910	(10,178,375)	995,764,116
Less: tax on interest	(87,960,004)	-	-	642,842	(87,317,162)
Interest income, net of tax	840,919,691	12,867,886	64,194,910	(9,535,533)	908,446,954
Interest expense	(189,735,438)	(5,415,033)	(12,687,349)	10,178,375	(197,659,445)
Net interest income	651,184,253	7,452,853	51,507,561	642,842	710,787,509
Fee and commission income	112,656,586	15,723,842	2,410,087	(4,076,119)	126,714,396
Fee and commission expense	(31,699,951)	(699,690)	(225,517)	4,708,368	(27,916,790)
Net fee and commission income	80,956,635	15,024,152	2,184,570	632,249	98,797,606
Net interest and other loss on financial assets at fair value through profit or loss	(1,796,691)	61,756	-	-	(1,734,935)
Loss from derecognition of financial assets measured at amortized cost	(384,174,077)	-	-	-	(384,174,077)
Other operating income (net)	23,835,644	1,218,611	2,479,430	(154,775)	27,378,910
Net financial revenues	370,005,764	23,757,372	56,171,561	1,120,316	451,055,013
Allowance for expected credit losses (net)	(77,099,483)	(615,993)	234,005	(61,040)	(77,542,511)
Other provisions (net)	(10,944,740)	-	-	-	(10,944,740)
Net financial revenues after impairment	281,961,541	23,141,379	56,405,566	1,059,276	362,567,762
Staff costs	(136,252,148)	(10,204,164)	(22,592,452)	-	(169,048,764)
General and administrative expenses	(99,508,539)	(6,758,139)	(18,642,543)	(132,587)	(125,041,808)
Depreciation and amortization	(27,168,327)	(1,677,334)	(4,478,200)	-	(33,323,861)
Profit before income tax	19,032,527	4,501,742	10,692,371	926,689	35,153,329
Income tax expense	(24,853,109)	(977,781)	(3,210,656)	-	(29,041,546)
(Loss)/profit for the year before withholding tax on profits from subsidiaries	(5,820,582)	3,523,961	7,481,715	926,689	6,111,783
Deferred tax on undistributed profit	-	-	-	(1,146,258)	(1,146,258)
(Loss)/profit for the year	(5,820,582)	3,523,961	7,481,715	(219,569)	4,965,525

December 31, 2020

	Lebanon & Middle East LBP'000	Europe LBP'000	Australia LBP'000	Inter-segment LBP'000	Total LBP'000
Interest income	1,614,649,898	15,846,898	73,986,077	(23,823,513)	1,680,659,360
Less: tax on interest	(111,337,939)	-	-	839,392	(110,498,547)
Interest income, net of tax	1,503,311,959	15,846,898	73,986,077	(22,984,121)	1,570,160,813
Interest expense	(670,428,493)	(8,913,624)	(31,321,588)	23,823,513	(686,840,192)
Net interest income	832,883,466	6,933,274	42,664,489	839,392	883,320,621
Fee and commission income	88,326,255	14,133,076	2,907,861	(2,332,176)	103,035,016
Fee and commission expense	(25,924,066)	(634,325)	(306,081)	1,878,434	(24,986,038)
Net fee and commission income	62,402,189	13,498,751	2,601,780	(453,742)	78,048,978
Net interest and other loss on financial assets at fair value through profit or loss	(22,970,212)	747,884	-	-	(22,222,328)
Loss from derecognition of financial assets measured at amortized cost	(517,443,245)	-	-	-	(517,443,245)
Other operating income (net)	49,705,866	1,261,371	3,712,348	(29,462,600)	25,216,985
Net financial revenues	404,578,064	22,441,280	48,978,617	(29,076,950)	446,921,011
Allowance for expected credit losses (net)	(482,440,423)	(3,189,484)	(1,398,242)	163,705	(486,864,444)
Other provisions (net)	(1,311,192)	-	-	-	(1,311,192)
Net financial revenues after impairment	(79,173,551)	19,251,796	47,580,375	(28,913,245)	(41,254,625)
Staff costs	(114,345,487)	(9,464,981)	(20,771,107)	-	(144,581,575)
General and administrative expenses	(77,638,465)	(5,624,729)	(20,231,366)	(385,650)	(103,880,210)
Depreciation and amortization	(29,908,024)	(1,889,771)	(3,482,177)	-	(35,279,972)
Loss before income tax	(301,065,527)	2,272,315	3,095,725	(29,298,895)	(324,996,382)
Income tax expense	(48,838,015)	(4,312)	(948,716)	-	(49,791,043)
Loss for the year before withholding tax on profits from subsidiaries	(349,903,542)	2,268,003	2,147,009	(29,298,895)	(374,787,425)
Deferred tax on undistributed profit	-	-	-	(1,991,492)	(1,991,492)
Loss for the year	(349,903,542)	2,268,003	2,147,009	(31,290,387)	(376,778,917)

The Group's operating segment information by activity during 2021 and 2020 was as follows:

	December 31, 2021			
	Banking & Financial Institutions	Insurance and Brokerage	Intersegment	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	19,195,948,647	106,631,032	(1,077,061,488)	18,225,518,191
Total Liabilities	16,534,896,271	47,763,298	(370,271,821)	16,212,387,748
Total Equity	2,596,978,703	58,867,733	(642,715,993)	2,013,130,443
Profit for the year	5,096,208	88,886	402,815	5,587,909
Non - controlling interests	-	(622,384)	-	(622,384)

	December 31, 2020			
	Banking & Financial Institutions	Insurance and Brokerage	Intersegment	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	21,310,898,597	108,287,797	(1,156,227,579)	20,262,958,815
Total Liabilities	18,578,948,479	49,737,840	(436,583,901)	18,192,102,418
Total Equity	2,670,877,744	58,549,957	(658,571,304)	2,070,856,397
Loss for the year	(356,522,696)	11,034,166	(31,766,087)	(377,254,617)
Non - controlling interests	-	475,700	-	475,700

53. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The main risks arising from the Group's financial instruments are:

- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign currency risk; and
- Other operational risks

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various Committees at Group and each entity's level to develop and monitor the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A- Credit Risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations (whether payment of principal or interest), resulting in financial loss to the Group. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit Risk Management

The Group's Credit Committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorization structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

Expected Credit Losses

Governance and Oversight Of Expected Credit Losses

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL measurement framework by:

- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the methods used to measure ECL, while also approving staging classifications for material exposures.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

- Regularly reviewing Impairment policy requirements to maintain adherence to accounting standards and evolving business models. Key judgments inherent in 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.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information, among others. 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 were validated by a qualified independent risk consultant to the model development party, before first use and will be subject to annual review to perform required enhancements going forward in order to enhance the models accuracy and/or account for situations where known or expected risk factors and information have not been considered in the modelling process. Each model 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 using independent and qualified econometric models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Group's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

The internal audit function performs regular audits making sure that the established credit controls and procedures are adequately designed and implemented.

Default Definition and Credit Curing

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

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is 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 significant increase in credit risk's criteria compared to initial recognition and is examined on a case by case basis.

Internal Ratings and PD Mapping Process

i) Treasury (Including Sovereign) and Interbank Exposures

For non-loan exposures, external credit ratings are used and mapped to the corresponding PDs reported by credit rating agencies. These are continuously monitored and updated, and the lowest credit rating (of all rating agencies) for the counterparty and/or debt issuer is adopted.

ii) Commercial Loans

Group Risk Management function, which is independent from business lines, is responsible for the development and maintenance of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 19 performing grades and 3 non performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations that are specific to each country and loan portfolio. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements. These internal rating models for the Group's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure.
- Account behavior, repayment history and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information related to the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports and other market disclosures.
- Any other objectively supportable information on the obligor's willingness and capacity of repayment. Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Analysis Division function, which is independent from commercial lending business lines. The Credit Analysis function is responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

iii) Retail Loans

Retail lending comprises mainly of personal loans, car loans, credit cards and housing loans. The Group utilizes application scorecards to score retail applicants and for either, the automation of decisions according to a certain cut-off score or as a tool to support the approval or reject decision by specialized retail credit officers. To estimate the probability of default for each Retail product, the Group performs a historical behavioral analysis on the repayment history of its retail borrowers (secured and unsecured) and uses a pooling methodology to estimate the probability of default and the resulting expected losses for retail products based on past-due brackets. This estimation is then adjusted by a forward looking component in line with the IFRS9 standard.

Significant Increase In Credit Risk

As explained in Note 3, the Group monitors all financial assets that are subject to impairment requirements to assess 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. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. The Group assessment of significant increase in credit risk is being performed at least quarterly based on the following:

i) Commercial Borrowers

Migration of obligor risk rating by a certain number of notches from origination to reporting date (i.e. distance-to-default) as a key indicator of the change in the risk of default at origination 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 the business condition, restructuring due to credit quality weakness during the past 12-months, classification of an exposure under the "Follow-up and Regularization" supervisory-BDL classification.

ii) Retail Borrowers

Thresholds are based on the analysis of past-due data by bracket to determine significant increase in credit risk. In addition, the Group considers specific events that might be indicative of a significant increase in credit risk, such as the event of restructuring of Retail exposures.

To note that irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing. These internal rating models include a “Corporate” model, “SME” model, “Project & Real Estate Financing” model and “High Net worth Individual” model.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories:
 1. “*Regular*” includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required.
 2. “*Follow-up*” represents a lack of documentation related to a borrower’s activity, an inconsistency between facilities’ type and related conditions.
 3. “*Follow-up and Regularization*” includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit.
 4. “*Substandard loans*” include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties.
 5. “*Doubtful loans*” where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally,
 6. “*Bad loans*” with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The table below provides a mapping of the Group’s internal credit risk grades to external ratings as applied to Commercial Loans:

Commercial Loans' Grading:

<u>Group's Credit Risk Grades</u>	<u>Equivalent Moody's Rating</u>	<u>Credit Quality Description</u>
Performing:		
1	Aaa	Low Risk
2	Aa1 to Aa3	Low Risk
3	A1 to A3	Fair Risk
4	Baa1 to Baa3	Fair Risk
5	Ba1 to Ba3	Monitoring
6	B1 to B3	Monitoring
7	Caa1	High Risk
Non-Performing		
8	Caa2 to Caa3	Substandard
9	Ca	Doubtful
10	C	Impaired

The above Credit Quality descriptions can be summarized as follows:

- Low Risk: there is a very high likelihood of the asset being recovered in full. The counterparty exhibits very high ability and willingness to meet its full obligation on due time.
- Fair Risk: there is a high likelihood that the asset will be recovered in full. The counterparty exhibits high to medium ability and willingness to meet its full obligation on due time.
- Monitoring: there is an acceptable likelihood that the asset will be recovered in full. At the lower end of this scale, there are customers that are being more closely monitored, with some evidence of reduced financial strength.
- High Risk: there is concern over the obligor's ability to make payments when due. However, this has not materialized in an event of default. Under such a classification, the borrower is continuing to make payments on due time, albeit some and/or recurring delays. The counterparty is still expected to settle all outstanding amounts of principal and interest, however with a higher probability of default.

Measurement of ECL

The Group measures ECLs based on a three probability-weighted scenario to measure the expected cash shortfalls, discounted at an approximation to the effective Interest Rate (EIR).

They 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. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.
- **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 realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.
- **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. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

These parameters are generally derived from statistical models and other historical data. Forward looking information are 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.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments, the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management, the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated, taking into account the credit risk management actions that the Group expects to take to mitigate ECL, i.e. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as: instrument type; credit risk grade; collateral type; date of initial recognition; remaining term to maturity; industry; geographic location of the borrower; income bracket of the borrower. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Write off

The Group writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Incorporation Of Forward-Looking Information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios (i.e. upside & downside scenarios). The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material. The changes were applied in isolation and to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Risk Mitigation Policies

Collateral

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

Other specific risk mitigation policies include:

Netting Arrangements

The Group sometimes further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group makes use of master netting agreements and other arrangements not eligible for netting under *IAS 32 Financial Instruments: Presentation* with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master 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. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

Credit Quality

Since year 2020, the severe and unprecedented economic situation in Lebanon exerted 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. The above deterioration in the credit quality of the loans' portfolio in Lebanon was intensified in the subsequent period as a result of the massive and devastating explosion that occurred on August 4, 2020 and which resulted in the destruction of thousands of residential units and businesses in downtown Beirut as well as the eastern side of the capital leaving thousands of citizens homeless and/or jobless.

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

	<u>Notes</u>	<u>December 31,</u>	
		<u>2021</u>	<u>2020</u>
		<u>Gross</u> <u>Maximum</u> <u>Exposure</u> <u>LBP'000</u>	<u>Gross</u> <u>Maximum</u> <u>Exposure</u> <u>LBP'000</u>
Deposits at central banks (excluding cash on hand)	5	8,471,079,584	8,560,496,690
Deposits with banks and financial institutions	6	699,790,343	671,935,610
Financial assets at fair value through profit or loss	7	72,881,765	77,470,039
Loans to banks	8	185,781,096	221,094,551
Loans and advances to customers	9	5,037,996,109	6,269,451,013
Loans and advances to related parties	10	45,696,337	36,492,207
Financial assets measured at amortized cost	11	4,487,897,693	5,217,247,597
Financial assets measured at fair value through other comprehensive income	11	14,966,819	16,670,365
Customers' liability under acceptances	12	20,201,413	35,938,023
Other financial assets		138,100,310	74,309,103
Total		<u>19,174,391,469</u>	<u>21,181,105,198</u>
Financial instruments with off-balance sheet risk		986,513,223	1,269,717,831
Fiduciary accounts	46	143,194,397	122,635,026
Total		<u>1,129,707,620</u>	<u>1,392,352,857</u>
Total credit risk exposure		<u>20,304,099,089</u>	<u>22,573,458,055</u>

An analysis of the Group's credit risk concentrations is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Concentration of loans by industry or sector:

	December 31, 2021						
	Agriculture LBP'000	Manufacturing and Industry LBP'000	Financial Services LBP'000	Real Estate and Construction LBP'000	Trade and Services LBP'000	Others LBP'000	Total LBP'000
Loans to banks	-	-	184,893,084	-	-	888,012	185,781,096
Loans and advances to customers	12,117,313	377,595,203	312,864,728	1,175,021,465	930,966,903	2,229,430,497	5,037,996,109
Loans and advances to related parties	-	2,782,127	7,257,609	-	9,433,154	26,223,447	45,696,337
	<u>12,117,313</u>	<u>380,377,330</u>	<u>505,015,421</u>	<u>1,175,021,465</u>	<u>940,400,057</u>	<u>2,256,541,956</u>	<u>5,269,473,542</u>

BALANCE SHEET EXPOSURE

Loans to banks
Loans and advances to customers
Loans and advances to related parties

	December 31, 2020						
	Agriculture LBP'000	Manufacturing and Industry LBP'000	Financial Services LBP'000	Real Estate and Construction LBP'000	Trade and Services LBP'000	Others LBP'000	Total LBP'000
Loans to banks	-	-	221,094,551	-	-	-	221,094,551
Loans and advances to customers	17,474,791	426,091,973	273,639,056	1,207,416,453	1,393,824,795	2,951,003,945	6,269,451,013
Loans and advances to related parties	-	2,716,372	9,812,509	-	10,379,997	13,583,329	36,492,207
	<u>17,474,791</u>	<u>428,808,345</u>	<u>504,546,116</u>	<u>1,207,416,453</u>	<u>1,404,204,792</u>	<u>2,964,587,274</u>	<u>6,527,037,771</u>

BALANCE SHEET EXPOSURE

Loans to banks
Loans and advances to customers
Loans and advances to related parties

Concentration of financial assets and liabilities by geographical location:

	December 31, 2021					Total LBP'000
	Lebanon LBP'000	Middle East and Africa LBP'000	Europe LBP'000	North America LBP'000	Australia LBP'000	
FINANCIAL ASSETS						
Cash and deposits at central banks	8,104,434,871	327,451,839	153,592,765	-	51,736,819	8,637,216,294
Deposits with banks and financial institutions	54,919,906	57,609,166	209,923,180	200,776,435	87,762,939	699,790,343
Financial assets at fair value through profit or loss	16,152,206	535,163	7,423,683	48,770,713	-	72,881,765
Loans to banks	-	182,877,215	2,903,881	-	-	185,781,096
Loans and advances to customers	2,460,197,316	355,337,236	88,912,230	9,409,306	2,116,455,435	5,037,996,109
Loans and advances to related parties	19,110,770	-	4,240	3,641,237	22,940,090	45,696,337
Investment securities	3,906,238,765	93,885,359	-	-	487,773,569	4,487,897,693
Customers' liability under acceptances	1,941,838	11,559,153	6,700,422	-	-	20,201,413
Other financial assets	131,874,670	224,306	14,870	-	5,986,464	138,100,310
	<u>14,694,870,342</u>	<u>1,029,479,437</u>	<u>469,475,271</u>	<u>262,597,691</u>	<u>2,772,655,316</u>	<u>19,325,561,360</u>
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	108,333,687	449,356,630	14,708,645	-	-	572,568,661
Deposits from customers and related parties	10,370,438,661	1,267,015,429	552,310,670	68,286,072	2,170,497,347	14,498,030,373
Liabilities under acceptance	-	1,854,091	18,347,322	-	-	20,201,413
Other borrowings	400,969,395	-	-	-	273,801,874	674,771,269
Certificates of deposit	-	-	669,868	-	-	669,868
Other financial liabilities	219,836,491	201,366	5,708,056	-	9,456,039	235,201,952
	<u>11,099,578,234</u>	<u>1,718,427,516</u>	<u>591,744,561</u>	<u>68,286,072</u>	<u>2,453,755,260</u>	<u>16,001,443,536</u>
Net position	<u>3,595,292,108</u>	<u>(688,948,079)</u>	<u>(122,269,290)</u>	<u>194,311,619</u>	<u>318,900,056</u>	<u>3,324,117,824</u>

December 31, 2020

	December 31, 2020					Total LBP'000
	Lebanon LBP'000	Middle East and Africa LBP'000	Europe LBP'000	North America LBP'000	Australia LBP'000	
FINANCIAL ASSETS						
Cash and deposits at central banks	7,996,266,024	470,273,017	145,747,562	-	38,244,030	8,650,530,633
Deposits with banks and financial institutions	68,816,366	11,943,643	281,067,807	150,532,538	75,724,921	671,935,610
Financial assets at fair value through profit or loss	22,181,761	535,163	(24,694)	54,777,809	-	77,470,039
Loans to banks	2,143,500	218,376,282	574,769	-	-	221,094,551
Loans and advances to customers	3,556,220,471	344,729,733	94,684,888	2,623,824	2,269,943,178	6,269,451,013
Loans and advances to related parties	24,496,651	3,687,372	4,142	-	8,304,042	36,492,207
Investment securities	4,616,882,622	90,835,552	73,792	-	526,125,996	5,233,917,962
Customers' liability under acceptances	11,887,773	22,259,878	1,790,372	-	-	35,938,023
Other financial assets	44,241,555	3,787,822	4,834,737	1,729,724	19,715,265	74,309,103
	<u>16,343,136,723</u>	<u>1,166,428,462</u>	<u>528,753,375</u>	<u>209,663,895</u>	<u>2,938,057,432</u>	<u>21,271,139,141</u>

FINANCIAL LIABILITIES

Deposits from banks and financial institutions	150,154,470	779,831,552	26,478,790	280,636	-	148,510	956,893,958
Deposits from customers and related parties	11,368,769,884	1,517,799,674	682,191,914	90,488,591	2,487,545,112	33,895,935	16,180,691,110
Liabilities under acceptance	1,520,675	5,944,032	22,164,145	-	-	6,309,171	35,938,023
Other borrowings	494,896,082	-	-	-	72,134,462	-	567,030,544
Certificates of deposit	-	-	669,955	-	-	-	669,955
Other financial liabilities	97,913,580	84,550,429	10,346,972	7,511	31,050,507	-	223,868,999
	<u>12,113,254,691</u>	<u>2,388,125,687</u>	<u>741,851,776</u>	<u>90,776,738</u>	<u>2,590,730,081</u>	<u>40,353,616</u>	<u>17,965,092,589</u>
Net position	<u>4,229,882,032</u>	<u>(1,221,697,225)</u>	<u>(213,098,401)</u>	<u>118,887,157</u>	<u>347,327,351</u>	<u>44,745,638</u>	<u>3,306,046,552</u>

An analysis of the Group's credit risk exposure per class of financial asset, and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Credit risk exposure per class of financial assets and stage

	December 31, 2021							
	Gross Exposure			Impairment Allowance			Net Exposure LBP'000	
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	Stage 1 LBP'000	Stage 2 LBP'000		Stage 3 LBP'000
Cash and deposits with central banks	8,637,216,294	-	-	8,637,216,294	(123,723,843)	-	(123,723,843)	8,513,492,451
Deposits with banks and financial institutions	685,162,650	14,627,693	-	699,790,343	(154,398)	(1,341,688)	(1,496,086)	698,294,257
Loans to banks	181,093,983	-	4,687,113	185,781,096	(352,657)	-	(2,339,405)	183,089,034
Loans and advances to customers	3,292,295,894	1,028,655,826	717,044,389	5,037,996,109	(15,748,329)	(156,885,356)	(265,285,955)	4,600,076,469
Loans and advances to related parties	42,914,210	2,782,127	-	45,696,337	(84,434)	(962,662)	(1,047,096)	44,649,241
Investment securities at amortized cost	3,025,397,488	-	1,462,500,205	4,487,897,693	(10,864,821)	(1,093,951,492)	(1,104,816,313)	3,383,081,380
Customer liabilities under acceptances	19,147,342	1,054,071	-	20,201,413	(104,882)	(27,518)	(132,400)	20,069,013
Other assets	137,085,844	-	1,014,466	138,100,310	(2,404,672)	(1,014,466)	(3,419,138)	134,681,172
Off-balance sheet commitments	498,837,851	309,910,512	-	808,748,363	(14,508,227)	(6,529,837)	(21,038,064)	787,710,299
	16,519,151,556	1,357,030,229	2,185,246,173	20,061,427,958	(167,946,263)	(165,747,061)	(1,362,591,318)	18,365,143,316

	December 31, 2020							
	Gross Exposure			Impairment Allowance			Net Exposure LBP'000	
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000	Stage 1 LBP'000	Stage 2 LBP'000		Stage 3 LBP'000
Cash and deposits with central banks	8,650,530,633	-	-	8,650,530,633	(123,908,361)	-	(123,908,361)	8,526,622,272
Deposits with banks and financial institutions	668,421,377	3,514,233	-	671,935,610	(319,209)	(39,666)	(358,875)	671,576,735
Loans to banks	221,094,551	-	-	221,094,551	(2,030,785)	-	(2,030,785)	219,063,766
Loans and advances to customers	4,199,244,463	1,271,388,199	798,818,351	6,269,451,013	(55,198,099)	(97,108,418)	(255,430,798)	5,861,713,698
Loans and advances to related parties	33,269,880	3,222,327	-	36,492,207	(28,824)	(1,585,191)	(1,614,015)	34,878,192
Investment securities at amortized cost	3,111,873,331	-	2,105,374,266	5,217,247,597	(22,448,376)	(1,053,123,386)	(1,075,571,762)	4,141,675,835
Customer liabilities under acceptances	32,986,631	2,951,392	-	35,938,023	(2,631,887)	(21,955)	(2,653,842)	33,284,181
Other assets	73,192,235	102,402	1,014,466	74,309,103	(50,299)	(29,494)	(1,094,259)	73,214,844
Off-balance sheet commitments	791,765,961	86,622,942	-	878,388,903	(21,216,656)	(3,223,136)	(24,439,792)	853,949,111
	17,782,379,062	1,367,801,495	2,905,207,083	22,055,387,640	(227,832,496)	(102,007,860)	(1,309,568,650)	20,415,978,634

Credit risk exposure for loans and advance to customers per internal rating and stage

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	LBP'000
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	3,292,295,894	239,396,787	-	3,531,692,681
Grades 4-6: Monitoring	-	789,259,039	-	789,259,039
Grades 7-8: Substandard	-	-	-	-
Grade 9: Doubtful	-	-	717,044,389	717,044,389
Grade 10: Impaired	-	-	-	-
Total gross carrying amount	3,292,295,894	1,028,655,826	717,044,389	5,037,996,109
Loss allowance	(15,748,329)	(156,885,356)	(265,285,955)	(437,919,640)
Carrying Amount	<u>3,276,547,565</u>	<u>871,770,470</u>	<u>451,758,434</u>	<u>4,600,076,469</u>

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	LBP'000
	LBP'000	LBP'000	LBP'000	LBP'000
Grades 1-3: low to fair risk	4,199,244,463	334,900,634	-	4,534,145,097
Grades 4-6: Monitoring	-	936,487,565	-	936,487,565
Grades 7-8: Substandard	-	-	355,676,947	355,676,947
Grade 9: Doubtful	-	-	373,355,876	373,355,876
Grade 10: Impaired	-	-	69,785,528	69,785,528
Total gross carrying amount	4,199,244,463	1,271,388,199	798,818,351	6,269,451,013
Loss allowance	(55,198,009)	(97,108,418)	(255,430,798)	(407,737,225)
Carrying Amount	<u>4,144,046,454</u>	<u>1,174,279,781</u>	<u>543,387,553</u>	<u>5,861,713,788</u>

Movement of the allowance for expected credit losses

The movement of the allowance for expected credit losses for all class of financial assets during 2021 and 2020 is summarized as follows:

	Stage 1	Stage 2	Stage 3	Total
	12-Month	Lifetime	Lifetime	
	ECL	ECL	ECL	LBP'000
	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2021	227,832,496	102,007,860	1,309,568,650	1,639,409,006
Net change in the loss allowance	(59,886,233)	63,754,203	69,619,974	73,487,944
Other movement	-	-	(16,597,306)	(16,597,306)
Effect of exchange rate changes and other movements	-	(15,002)	-	(15,002)
Balance at December 31, 2021	<u>167,946,263</u>	<u>165,747,061</u>	<u>1,362,591,318</u>	<u>1,696,284,642</u>

	Stage 1 12-Month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Balance at January 1, 2020	830,317,340	111,489,588	218,299,099	1,160,106,027
Net change in the loss allowance	(602,614,536)	(9,551,178)	1,098,043,497	485,877,783
Other movement	-	-	(7,371,600)	(7,371,600)
Effect of exchange rate changes and other movements	<u>129,692</u>	<u>69,450</u>	<u>597,654</u>	<u>796,796</u>
Balance at December 31, 2020	<u>227,832,496</u>	<u>102,007,860</u>	<u>1,309,568,650</u>	<u>1,639,409,006</u>

The movement of the allowance for expected credit losses for loans and advances to customers during 2021 and 2020 is summarized as follows:

	Stage 1 12-Month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Balance at January 1, 2021	55,198,099	97,108,418	255,430,798	407,737,315
Net change in the loss allowance	(39,449,770)	<u>59,776,938</u>	<u>9,855,157</u>	<u>30,182,325</u>
Balance at December 31, 2021	<u>15,748,329</u>	<u>156,885,356</u>	<u>265,285,955</u>	<u>437,919,640</u>

	Stage 1 12-Month ECL LBP'000	Stage 2 Lifetime ECL LBP'000	Stage 3 Lifetime ECL LBP'000	Total LBP'000
Balance at January 1, 2020	22,231,730	102,832,354	217,274,160	342,338,244
Net change in the loss allowance	32,907,513	(5,791,871)	37,874,900	64,990,542
Effect of exchange rate changes and other movements	<u>58,856</u>	<u>67,935</u>	<u>281,738</u>	<u>408,529</u>
Balance at December 31, 2020	<u>55,198,099</u>	<u>97,108,418</u>	<u>255,430,798</u>	<u>407,737,315</u>

Net change in the loss allowance includes re-measurements as a result of changes in the size of portfolios, reclassifications between stages and reallocations of provisions.

Collateral held as security and other credit enhancements

The Group holds the following collaterals received against loans and advances to customers:

	December 31, 2021									
	Fair Value of Collateral Received									
	Gross Exposure LBP'000	Expected Credit Loss LBP'000	Net Exposure LBP'000	Pledged Funds LBP'000	First Degree Mortgage on Property LBP'000	Debt Securities LBP'000	Bank Guarantees LBP'000	Vehicles LBP'000	Other LBP'000	Total LBP'000
Performing loans	4,322,679,847	(172,633,685)	4,150,046,162	537,839,781	7,340,049,605	47,907,613	47,562,278	64,186,582	1,920,796,754	9,958,342,613
Non-performing loans	715,316,262	(265,285,955)	450,030,307	20,755,887	594,710,394	-	-	9,023,288	98,546,878	723,036,447
	<u>5,037,996,109</u>	<u>(437,919,640)</u>	<u>4,600,076,469</u>	<u>558,595,668</u>	<u>7,934,759,999</u>	<u>47,907,613</u>	<u>47,562,278</u>	<u>73,209,870</u>	<u>2,019,343,632</u>	<u>10,681,379,060</u>

	December 31, 2020									
	Fair Value of Collateral Received									
	Gross Exposure LBP'000	Expected Credit Loss LBP'000	Net Exposure LBP'000	Pledged Funds LBP'000	First Degree Mortgage on Property LBP'000	Debt Securities LBP'000	Bank Guarantees LBP'000	Vehicles LBP'000	Other LBP'000	Total LBP'000
Performing loans	5,470,632,662	(152,306,517)	5,318,326,145	685,989,269	8,037,192,851	2,850,857	51,982,814	92,228,207	2,250,344,568	11,120,588,566
Non-performing loans	798,818,351	(255,430,798)	543,387,553	40,736,262	704,190,271	8,616,875	-	9,606,826	80,269,844	843,420,078
	<u>6,269,451,013</u>	<u>(407,737,315)</u>	<u>5,861,713,698</u>	<u>726,725,531</u>	<u>8,741,383,122</u>	<u>11,467,732</u>	<u>51,982,814</u>	<u>101,835,033</u>	<u>2,330,614,412</u>	<u>11,964,008,644</u>

B – Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

Regulatory requirements

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

Management of liquidity risk

Liquidity is the "Group's ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times." In 'business as usual' circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

Liquidity risk is defined as the risk of the Group's ability to meet its current and future payment obligations in full or on time.

Liquidity risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

a) Liquidity Measurement

Liquidity is measured on a “business as usual basis” using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc.
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing “the business as usual” assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank’s objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

b) The Contingency Funding Plan

Liquidity problems will usually arise only when the Group encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank’s resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Group and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Group (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis, the Treasury Department would immediately endeavour to sell the Group's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

Residual contractual maturities of financial assets and liabilities:

The tables below show the gross carrying value of the Group's financial assets and liabilities segregated by maturity (excluding provision for expected credit losses):

	December 31, 2021						Total LBP'000	
	With No Maturity LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	5 to 10 Years LBP'000		Over 10 Years LBP'000
FINANCIAL ASSETS								
Cash and deposits at central banks	475,790,747	3,855,133,639	74,621,250	529,132,500	628,024,500	1,113,503,038	1,961,010,620	8,637,216,294
Deposits with banks and financial institutions	-	699,790,343	-	-	-	-	-	699,790,343
Financial assets at fair value through profit or loss	12,261,031	15,178,999	39,480,921	2,954,013	2,712,269	278,796	15,736	72,881,765
Loans to banks	3,081,132	172,387,559	10,312,405	-	-	-	-	185,781,096
Loans and advances to customers	715,694,202	656,387,298	1,027,394,483	200,787,834	285,697,675	183,785,362	1,968,249,255	5,037,996,109
Loans and advances to related parties	-	19,115,001	3,641,246	-	-	251,156	22,688,934	45,696,337
Investment securities	1,442,086,836	233,301,690	229,766,460	580,499,289	466,167,745	151,266,331	1,399,776,161	4,502,864,512
Customers' liability under acceptances	-	16,996,279	3,205,134	-	-	-	-	20,201,413
Other financial assets	137,394,205	706,105	-	-	-	-	-	138,100,310
	<u>2,786,308,153</u>	<u>5,668,996,913</u>	<u>1,388,421,899</u>	<u>1,313,373,636</u>	<u>1,382,602,189</u>	<u>1,449,084,683</u>	<u>5,351,740,706</u>	<u>19,340,528,179</u>
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	-	378,426,370	145,230,787	48,911,504	-	-	-	572,568,661
Customers' and related parties' deposits	-	12,232,662,507	1,744,998,146	119,901,717	176,484,039	63,337,002	160,646,962	14,498,030,373
Liabilities under acceptance	-	16,996,279	3,205,134	-	-	-	-	20,201,413
Other borrowings	-	278,239,728	-	-	-	-	396,531,541	674,771,269
Certificates of deposit	-	1,830	668,038	-	-	-	-	669,868
Other financial liabilities	149,102,719	64,160,950	21,938,283	-	-	-	-	235,201,952
	<u>149,102,719</u>	<u>12,970,487,664</u>	<u>1,916,040,388</u>	<u>168,813,221</u>	<u>176,484,039</u>	<u>63,337,002</u>	<u>557,178,503</u>	<u>16,001,443,536</u>
Net Maturity Gap	<u>2,637,205,434</u>	<u>(7,301,490,751)</u>	<u>(527,618,489)</u>	<u>1,144,560,415</u>	<u>1,206,118,150</u>	<u>1,385,747,681</u>	<u>4,794,562,203</u>	<u>3,339,084,643</u>

December 31, 2020

	With No Maturity LBP'000	Up to 3 Months LBP'000		3 Months to 1 Year LBP'000		1 to 3 Years LBP'000		3 to 5 Years LBP'000		5 to 10 Years LBP'000		Over 10 Years LBP'000		Total LBP'000
FINANCIAL ASSETS														
Cash and deposits at central banks	666,176,805	2,486,236,848	297,975,000	578,759,400	940,830,750	1,219,466,258	2,461,085,572	8,650,530,633						
Deposits with banks and financial institutions	-	660,071,957	-	11,863,653	-	-	-	671,935,610						
Financial assets at fair value through profit or loss	14,475,272	7,982,249	41,580,848	3,236,460	7,206,543	1,826,789	1,161,878	77,470,039						
Loans to banks	16,300	191,740,838	29,337,413	-	-	-	-	221,094,551						
Loans and advances to customers	771,655,817	1,000,218,200	1,483,406,012	604,417,730	204,973,385	232,037,927	1,972,741,942	6,269,451,013						
Loans and advances to related parties	-	8,908,252	13,682,842	7,334,024	-	276,076	6,291,013	36,492,207						
Investment securities	-	94,767,945	276,718,311	805,978,448	350,930,855	179,136,443	1,447,099,515	5,233,917,962						
Customers' liability under acceptances	-	30,318,238	5,619,785	-	-	-	-	35,938,023						
Other financial assets	113,443,021	10,558,571	-	-	-	-	-	124,001,592						
	<u>3,645,053,660</u>	<u>4,490,803,098</u>	<u>2,148,320,211</u>	<u>2,011,589,715</u>	<u>1,503,941,533</u>	<u>1,632,743,493</u>	<u>5,888,379,920</u>	<u>21,320,831,630</u>						

FINANCIAL LIABILITIES

Deposits from banks and financial institutions	-	922,043,169	20,978,020	13,872,769	-	-	-	956,893,958						
Customers' and related parties' deposits	-	12,596,866,595	2,593,740,392	628,404,562	88,508,854	103,303,074	169,867,633	16,180,691,110						
Liabilities under acceptance	-	30,318,238	5,619,785	-	-	-	-	35,938,023						
Other borrowings	-	77,217,136	-	-	-	-	-	567,030,544						
Certificates of deposit	-	1,830	668,125	-	-	-	-	669,955						
Other financial liabilities	135,841,842	81,760,455	6,266,702	-	-	-	-	223,868,999						
	<u>135,841,842</u>	<u>13,708,207,423</u>	<u>2,627,273,024</u>	<u>642,277,331</u>	<u>88,508,854</u>	<u>103,303,074</u>	<u>659,681,041</u>	<u>17,965,092,589</u>						
Net Maturity Gap	<u>3,509,211,818</u>	<u>(9,217,404,325)</u>	<u>(478,952,813)</u>	<u>1,369,312,384</u>	<u>(1,415,432,679)</u>	<u>1,529,440,419</u>	<u>5,228,698,879</u>	<u>3,355,739,041</u>						

C – Market Risks

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

Management of market risks

a) Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

b) Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings group of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Group is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

Interest rate sensitivity analysis for financial assets and financial liabilities as at December 31, 2021:

	Interest Rate Sensitivity Balance Sheet													
	Floating						Fixed							
	Non-Interest Generating LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Grand Total LBP'000
Cash and deposits at central banks	2,501,034,081	-	-	-	-	-	162,997,945	1,668,950,718	74,621,250	529,132,500	628,054,500	3,072,455,300	5,973,184,268	8,637,216,294
Deposits with banks and financial institutions	89,954,157	262,962,723	-	-	-	-	262,962,723	346,873,463	-	-	-	-	346,873,463	699,790,343
Financial assets at fair value through profit or loss	12,369,452	-	-	-	-	-	-	15,070,560	39,480,838	2,954,013	2,712,269	294,533	60,512,313	72,881,765
Loans to banks	740,616	-	-	-	-	-	174,728,396	10,312,384	10,312,384	-	-	-	185,040,480	185,781,096
Loans and advances to customers	567,918,419	218,000,456	44,691,704	7,563,356	1,949,957,816	2,302,420,578	375,106,370	721,874,151	621,166,364	261,361,630	188,148,607	2,167,657,112	5,037,996,109	
Loans and advances to related parties	284,595	18,830,415	3,641,238	-	22,934,412	45,406,065	-	-	5,677	-	-	5,677	45,696,337	
Investment in securities	1,442,086,837	302,521,609	6,144,916	-	-	316,836,203	200,209,890	203,528,699	451,329,565	332,994,574	1,555,878,744	2,743,941,472	4,302,864,512	
Customers' liability under acceptance	20,201,413	-	-	-	-	-	-	-	-	-	-	-	20,201,413	
Other financial assets	138,100,310	965,313,148	54,477,858	82,207,246	15,733,034	3,090,623,514	2,780,939,197	1,049,817,322	1,604,588,119	1,225,092,993	4,816,772,184	11,477,214,785	19,343,528,179	
4,772,689,880	-	-	-	-	-	-	-	-	-	-	-	-	-	-
89,369,555	6,408,296	-	-	-	-	6,408,296	282,648,516	145,230,787	48,911,504	-	-	-	476,790,807	572,568,661
Customers and related parties' deposits at amortized cost	216,100,186	855,637,424	-	-	-	855,637,424	11,220,242,972	1,742,169,234	116,737,724	168,121,229	179,021,604	13,426,292,763	14,498,030,373	
Liabilities under acceptance	20,201,413	-	-	-	-	273,801,874	-	-	-	-	396,531,541	668,037	674,771,269	
Other borrowings	4,437,854	273,801,874	-	-	-	273,801,874	-	-	-	-	668,037	668,037	674,771,269	
Certificates of deposit	1,831	-	-	-	-	-	-	668,037	-	-	-	668,037	668,037	
Other financial liabilities	168,832,140	42,578,699	-	-	-	42,578,699	17,524,774	6,266,329	165,649,228	165,121,229	575,553,145	23,291,113	335,201,952	
498,992,982	1,178,426,323	-	-	-	-	1,178,426,323	11,520,416,262	1,894,334,397	1,65,649,228	1,65,121,229	575,553,145	14,324,074,261	16,001,443,526	
4,273,46,398	2,13,113,145	41,477,858	82,207,246	15,733,034	1,972,892,228	1,812,107,221	8,729,477,065	844,517,075	1,438,938,891	1,056,971,774	4,241,224,039	2,346,839,476	3,339,084,643	
Interest rate Gap	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Interest rate sensitivity analysis for financial assets and financial liabilities as at December 31, 2020:

	Interest Rate Sensitivity Balance Sheet													
	Floating					Fixed								
	Non-Interest Generating LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Grand Total LBP'000
FINANCIAL ASSETS														
Cash and deposits at central banks	1,327,100,161	141,304,714	-	-	-	-	141,304,714	2,341,829,635	297,975,000	299,871,000	563,955,750	3,678,493,473	7,182,125,758	8,650,530,633
Deposits with banks and financial institutions	91,943,866	247,211,643	-	-	-	-	247,211,643	320,133,233	-	12,646,868	-	-	332,780,101	671,935,610
Financial assets at fair value through profit or loss	7,453,206	-	-	-	-	-	-	15,005,418	41,580,848	3,236,460	7,206,543	2,987,564	70,016,833	77,470,039
Loans to banks	4,397,353	-	-	-	-	-	-	187,589,785	29,337,413	-	-	-	216,697,198	221,094,551
Loans and advances to customers	829,533,980	1,172,817,232	80,875,350	24,423,962	7,992,388	2,016,119,322	3,302,228,254	608,915,387	912,633,265	318,903,846	133,911,554	163,324,727	2,137,688,779	6,309,451,013
Loans and advances to related parties	210,572	22,686,353	-	5,419,497	-	6,567,089	34,673,119	1,235,053	344,424	9,039	-	-	1,608,516	36,492,207
Investment in securities	2,162,653,407	381,233,680	-	10,405,255	-	-	391,638,935	37,498,587	84,747,299	665,200,062	293,548,702	1,598,540,972	2,679,625,622	5,233,917,964
Customers' liability under acceptance	35,938,024	-	-	-	-	-	-	-	-	-	-	-	-	35,938,024
Other financial assets	74,309,103	-	-	-	-	-	-	-	-	-	-	-	-	74,309,103
	4,533,539,672	1,965,253,802	80,875,350	40,248,714	7,992,388	2,022,686,411	4,117,056,665	3,511,997,098	1,366,618,249	1,299,958,175	998,622,549	5,443,346,736	12,620,542,807	21,271,139,144
FINANCIAL LIABILITIES														
Deposits from banks and financial institutions	96,510,803	3,971,616	-	-	-	-	3,971,616	821,560,750	20,978,020	13,872,769	-	-	856,411,539	956,893,958
Customers and related parties' deposits at amortized cost	268,744,802	772,094,834	-	-	-	-	772,094,834	11,627,095,267	2,603,755,667	623,766,398	77,570,157	207,663,985	15,139,851,474	16,180,691,110
Liabilities under acceptance	35,938,023	-	-	-	-	-	-	-	-	-	-	-	-	35,938,023
Other borrowings	5,082,673	72,134,463	-	-	-	-	72,134,463	-	-	-	-	-	-	567,030,544
Certificates of deposit	1,830	-	-	-	-	-	-	-	668,125	-	-	-	668,125	669,955
Other financial liabilities	144,457,850	46,631,896	-	-	-	-	46,631,896	26,512,551	6,266,202	-	-	-	32,779,253	223,868,999
	550,735,981	894,832,809	-	-	-	-	894,832,809	12,475,068,568	2,631,668,514	637,639,167	77,570,157	697,477,393	16,519,533,799	17,965,092,289
Interest rate Cap	3,982,803,691	1,070,420,993	80,875,350	40,248,714	7,992,388	2,022,686,411	3,222,223,856	8,963,171,470	1,265,050,265	662,319,008	921,050,592	4,742,565,343	3,898,980,992	3,306,046,555

Interest Rate Sensitivity

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 rate financial assets and liabilities at the assumed rates. Given the prolonged nature of the economic crisis and the high levels of uncertainty the Group expects lower interest rates during 2021. However, the Group is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through its circulars. In addition, during 2020, ABL recommended all Lebanese banks to decrease the interest rates on both assets (loans) and liabilities (deposits). This was followed by a decision by ABL to cap the rates to BRR + 2 until the end of 2020. As a result, all interest rates on deposits across Lebanese banks were virtually the same, eliminating the competition.

Foreign Exchange Risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Group does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

At the outset the Group's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.
- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory ratios set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

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 rates, whereas there is high volatility and significant variance in the multiple unofficial exchange rates in the parallel markets that have emerged since the start of the economic crisis and the de-facto capital control on foreign currency withdrawals and transfers overseas, and therefore, 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 recognized in the consolidated financial statements once the official exchange rate is changed by the relevant authorities.

The table shown below gives details of the Group's exposure to currency risk:

	December 31, 2021						Total LBP'000
	LBP'000	USD LBP'000	EUR LBP'000	GBP LBP'000	AUD LBP'000	Other LBP'000	
ASSETS							
Cash and deposits at central banks	1,572,415,330	6,147,825,948	511,744,025	112,320,762	51,241,983	117,944,403	8,513,492,451
Deposits with banks and financial institutions	98,576,111	353,096,140	105,046,941	49,645,541	87,722,089	4,207,435	698,294,257
Financial assets at fair value through profit or loss	5,868,787	36,273,177	19,508,776	11,231,025	-	-	72,881,765
Loans to banks	-	99,883,728	39,093,050	23,735,367	-	20,376,889	183,089,034
Loans and advances to customers	1,113,498,780	1,052,276,411	27,254,571	28,066,602	2,089,233,711	289,746,394	4,600,076,469
Loans and advances to related parties	5,130,229	9,755,931	90,539	13,540	22,940,093	6,718,909	44,649,241
Investment securities	1,894,318,393	926,846,412	250,212	359	487,370,391	89,262,432	3,398,048,199
Customers' liability under acceptances	-	11,547,330	7,454,135	171,409	-	896,139	20,069,013
Investments in an associate	-	25,923,516	-	-	-	-	25,923,516
Assets acquired in satisfaction of loans	2,212,077	55,510,526	-	-	-	-	57,722,603
Property and equipment	216,230,676	40,395,188	1,176	-	50,073,162	12,528,515	319,228,717
Right of use assets	-	11,530,514	635,163	1,478,283	6,439,837	-	20,083,797
Goodwill	452,265	-	-	-	86,582,170	-	87,034,435
Other assets	132,156,983	4,035,062	98,745	101	38,935,754	9,698,049	184,924,694
	<u>5,040,859,631</u>	<u>8,774,899,883</u>	<u>711,177,333</u>	<u>226,662,989</u>	<u>2,920,539,190</u>	<u>551,379,165</u>	<u>18,223,518,191</u>
LIABILITIES							
Deposits from banks and financial institutions	88,812,986	271,598,074	166,564,184	3,171,667	4,940,542	37,481,208	572,568,661
Deposits from customers and related parties	2,947,717,391	8,481,368,267	436,463,153	160,406,957	2,193,860,473	278,214,132	14,498,030,373
Liabilities under acceptance	-	5,321,311	3,550,008	10,386,106	-	943,988	20,201,413
Other borrowings	381,076,007	19,893,388	-	-	273,801,874	-	674,771,269
Certificates of deposit	-	668,038	-	1,830	-	-	669,868
Lease liability	-	12,060,157	664,688	1,548,093	7,236,241	-	21,509,179
Other liabilities	168,394,318	83,024,648	20,606,522	30,245,407	1,605	36,654,930	338,927,430
Provisions	35,090,461	41,766,184	3,518,237	(25,289)	3,806,169	1,553,793	85,709,555
	<u>3,621,091,163</u>	<u>8,915,700,067</u>	<u>631,366,792</u>	<u>205,734,771</u>	<u>2,483,646,904</u>	<u>354,848,051</u>	<u>16,212,387,748</u>
Currencies to be delivered	-	33,790,812	4,854,984	-	-	17,805,226	56,451,022
Currencies to be received	-	(22,427,126)	(16,992,444)	(16,992,444)	(11,100,252)	(5,950,760)	(56,470,582)
Discount (net)	-	(2,461)	-	-	-	3,542	1,081
	-	<u>11,361,225</u>	<u>(12,137,460)</u>	<u>(12,137,460)</u>	<u>(11,100,252)</u>	<u>11,858,008</u>	<u>(18,479)</u>
Net exchange position	<u>1,419,768,468</u>	<u>(129,438,959)</u>	<u>79,810,541</u>	<u>8,790,758</u>	<u>425,792,034</u>	<u>208,389,122</u>	<u>2,013,111,964</u>

December 31, 2020

	LBP LBP'000	USD LBP'000	EUR LBP'000	GBP LBP'000	AUD LBP'000	Other LBP'000	Total LBP'000
ASSETS							
Cash and deposits at central banks	2,286,092,664	5,469,828,635	455,568,713	107,034,114	37,499,775	170,598,371	8,526,622,272
Deposits with banks and financial institutions	37,959,549	269,989,072	182,666,744	97,361,339	75,711,292	7,888,739	671,576,735
Financial assets at fair value through profit or loss	7,204,392	70,265,647	-	-	-	-	77,470,039
Loans to banks	1,348,681	176,271,558	12,306,878	29,136,649	-	-	219,063,766
Loans and advances to customers	1,493,765,154	1,842,820,383	65,083,666	30,809,101	2,119,205,616	310,029,778	5,861,713,698
Loans and advances to related parties	7,674,823	7,816,320	8,444,726	8,100,335	2,841,988	-	34,878,192
Investment securities	999,371,461	2,551,162,862	272,330	-	525,890,880	81,648,667	4,158,346,200
Customers' liability under acceptances	-	16,643,263	10,955,183	-	-	5,685,735	33,284,181
Investments in an associate	-	24,935,787	-	-	-	-	24,935,787
Assets acquired in satisfaction of loans	2,107,992	67,918,383	-	-	-	-	70,026,375
Property and equipment	225,686,397	76,211	-	40,227,332	51,401,913	13,995,668	331,387,521
Right of use assets	-	25,697,816	735,220	1,748,103	8,160,355	-	36,341,494
Goodwill	452,265	-	-	-	86,582,170	-	87,034,435
Other assets	44,396,300	33,066,420	567,098	4,130,012	38,806,143	3,035,619	124,001,592
	<u>5,106,039,678</u>	<u>10,556,492,337</u>	<u>736,600,558</u>	<u>318,546,985</u>	<u>2,946,100,132</u>	<u>592,882,577</u>	<u>20,256,682,287</u>

LIABILITIES

Deposits from banks and financial institutions	100,163,737	557,419,563	236,259,339	13,092,231	4,012,867	45,946,221	956,893,958
Customers' and related parties' deposits at amortized cost	3,251,085,977	9,395,708,534	501,709,862	113,736,486	2,536,553,680	381,896,571	16,180,691,110
Liabilities under acceptance	-	19,128,473	10,955,183	-	-	5,854,367	35,938,023
Other borrowings	463,194,382	31,701,700	-	-	72,134,462	-	567,030,544
Certificates of deposit	-	-	-	669,955	-	-	669,955
Lease liability	-	24,049,118	744,694	1,782,201	9,310,544	-	35,886,557
Other liabilities	131,026,667	146,815,573	15,061,809	3,592,706	33,171,374	2,583,762	332,251,891
Provisions	50,602,341	24,274,012	740,762	345,634	3,641,551	1,350,938	80,955,238
	<u>3,996,073,104</u>	<u>10,199,096,973</u>	<u>765,471,649</u>	<u>133,219,213</u>	<u>2,658,824,478</u>	<u>437,631,859</u>	<u>18,190,317,276</u>
Currencies to be delivered	-	99,712,974	50,899,819	8,309,004	97,922,800	21,318,841	278,163,438
Currencies to be received	-	(170,785,117)	(1,583,590)	(15,441,634)	-	(85,861,711)	(273,672,052)
Discount (net)	-	-	-	-	-	-	-
	<u>-</u>	<u>(71,072,143)</u>	<u>49,316,229</u>	<u>(7,132,630)</u>	<u>97,922,800</u>	<u>(64,542,870)</u>	<u>4,491,386</u>
Net exchange position	<u>1,109,986,574</u>	<u>286,323,241</u>	<u>20,445,138</u>	<u>178,195,142</u>	<u>385,198,454</u>	<u>90,707,848</u>	<u>2,070,856,397</u>

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 entities operating in Lebanon and will be realized/settled without recourse to foreign currency cash and/ or foreign bank accounts outside Lebanon (“fresh funds”). Hence these cannot be perceived to have an economic value equivalent to that of offshore foreign currency assets and liabilities and should be viewed and managed separately.

The tables below include segregation of onshore and offshore assets and liabilities in foreign currencies:

	December 31, 2021			Total LBP'000
	LBP LBP'000	Onshore foreign Currencies LBP'000	Offshore foreign Currencies LBP'000	
ASSETS				
Cash and deposits at central banks	1,572,415,330	6,618,779,510	322,297,611	8,513,492,451
Deposits with banks and financial institutions	98,576,111	207,489,538	392,228,608	698,294,257
financial assets at fair value through profit or loss	5,868,787	13,139,856	53,873,122	72,881,765
Loans to banks	-	-	183,089,034	183,089,034
Loans and advances to customers	1,113,498,780	985,888,298	2,500,689,391	4,600,076,469
Loans and advances to related parties	5,130,229	12,754,496	26,764,516	44,649,241
Investment securities	1,894,318,393	923,971,119	579,758,687	3,398,048,199
Customers' liability under acceptances	-	91,258	19,977,755	20,069,013
Investments in an associate	-	-	25,923,516	25,923,516
Assets acquired in satisfaction of loans	2,212,077	55,510,526	-	57,722,603
Property and equipment	216,230,676	431,917	102,566,124	319,228,717
Right of use assets	-	11,530,514	8,553,283	20,083,797
Goodwill	452,265	-	86,582,170	87,034,435
Other assets	<u>132,156,983</u>	<u>20,955,239</u>	<u>31,812,472</u>	<u>184,924,694</u>
	<u>5,040,859,631</u>	<u>8,850,542,271</u>	<u>4,334,116,289</u>	<u>18,225,518,191</u>
LIABILITIES				
Deposits from banks and financial institutions	88,812,986	384,560,246	99,195,429	572,568,661
Customers' and related parties' deposits	2,947,717,391	8,611,392,694	2,938,920,288	14,498,030,373
Liabilities under acceptance	-	91,258	20,110,155	20,201,413
Other borrowings	381,076,007	19,893,388	273,801,874	674,771,269
Certificates of deposit	-	-	669,868	669,868
Lease liability	-	12,060,157	9,449,022	21,509,179
Other liabilities	168,394,318	67,025,801	103,507,311	338,927,430
Provisions	<u>35,090,461</u>	<u>48,394,637</u>	<u>2,224,457</u>	<u>85,709,555</u>
	<u>3,621,091,163</u>	<u>9,143,418,181</u>	<u>3,447,878,404</u>	<u>16,212,387,748</u>
Currencies to be delivered	-	-	56,451,022	56,451,022
Currencies to be received	-	-	(56,470,582)	(56,470,582)
Premium (net)	-	-	1,081	1,081
	<u>-</u>	<u>-</u>	<u>(18,479)</u>	<u>(18,479)</u>
Net exchange position	<u>1,419,768,468</u>	<u>(292,875,910)</u>	<u>886,219,406</u>	<u>2,013,111,964</u>

	December 31, 2020			
	LBP	Onshore foreign	Offshore foreign	Total
	LBP'000	Currencies	Currencies	LBP'000
	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS				
Cash and deposits at central banks	2,286,092,664	5,586,266,033	654,263,575	8,526,622,272
Deposits with banks and financial institutions	37,959,549	29,750,696	603,866,490	671,576,735
financial assets at fair value through profit or loss	7,204,392	15,512,531	54,753,116	77,470,039
Loans to banks	1,348,681	11,722	217,703,363	219,063,766
Loans and advances to customers	1,493,765,154	1,643,930,080	2,724,018,464	5,861,713,698
Loans and advances to related parties	7,674,823	15,131,161	12,072,208	34,878,192
Investment securities	999,371,461	2,540,722,799	618,251,940	4,158,346,200
Customers' liability under acceptances	-	-	33,284,181	33,284,181
Investments in an associate	-	-	24,935,787	24,935,787
Assets acquired in satisfaction of loans	2,107,992	67,918,383	-	70,026,375
Property and equipment	225,686,397	-	105,701,124	331,387,521
Right of use assets	-	25,697,816	10,643,678	36,341,494
Goodwill	452,265	-	86,582,170	87,034,435
Other assets	44,396,300	41,127,010	38,478,282	124,001,592
	<u>5,106,059,678</u>	<u>9,966,068,231</u>	<u>5,184,554,378</u>	<u>20,256,682,287</u>
LIABILITIES				
Deposits from banks and financial institutions	100,163,737	43,330,230	813,399,991	956,893,958
Customers' and related parties' deposits	3,251,085,977	9,499,900,400	3,429,704,733	16,180,691,110
Liabilities under acceptance	-	879,544	35,058,479	35,938,023
Other borrowings	463,194,382	31,701,700	72,134,462	567,030,544
Certificates of deposit	-	-	669,955	669,955
Lease liability	-	24,049,118	11,837,439	35,886,557
Other liabilities	131,026,667	77,850,914	123,374,310	332,251,891
Provisions	50,602,341	24,333,672	6,019,225	80,955,238
	<u>3,996,073,104</u>	<u>9,702,045,578</u>	<u>4,492,198,594</u>	<u>18,190,317,276</u>
Currencies to be delivered	-	-	278,163,438	278,163,438
Currencies to be received	-	-	(273,672,052)	(273,672,052)
	<u>-</u>	<u>-</u>	<u>4,491,386</u>	<u>4,491,386</u>
Net exchange position	<u>1,109,986,574</u>	<u>264,022,653</u>	<u>696,847,170</u>	<u>2,070,856,397</u>

D –Other Operational Risks

Litigation Risk

Litigation risk arises from pending or potential legal proceedings against the Group and in the event that legal issues are not properly dealt with by the Group. Litigation that may arise, whether from lawsuits or from arbitration proceedings, may affect the operations of the Group as well as its results.

Since October 17, 2019, and as a result of the de-facto capital control and other measures adopted by Lebanese banks imposing various restrictions of free flow of customers' funds deposited with the banking sector, the Group has been subject to an increased litigation risk. Management is monitoring and assessing the impact of existing and/or potential litigation and claims against the Group in relation to these restrictive measures taking into consideration prevailing laws, regulations and local banking practices. However, due to recent development and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, management considers that this increase in litigations may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch. The amount cannot be determined presently. Although there are uncertainties with respect to outcomes of any litigation in connection with the adoption of the various restrictive measures, management considers that any associated claims are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

54. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

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

Financial assets and liabilities originated in Lebanon:

Due to the situation described in Note 1 and the unprecedented levels of uncertainty surrounding the economic and financial crisis that Lebanon, and particularly the banking sector, is witnessing, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads that are not reflective of the economic reality and market conditions. In the absence of reliable data, the Group did not disclose the fair value of financial assets and liabilities originated in Lebanon as required by IFRS 13 *Fair Value Measurements*.

Financial assets and liabilities not originated in Lebanon:

The tables below summarize the Group's financial assets and liabilities not originated in Lebanon as of December 31, 2021 and 2020:

		December 31, 2021				
Notes	Carrying Amount	Fair Value			Total	
	LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000		LBP'000
Financial assets measured at:						
<i>Fair value through profit or loss</i>						
<i>(excluding accrued interest receivable):</i>						
Foreign government treasury bills	7	53,873,123	-	53,873,123	-	53,873,123
		<u>53,873,123</u>	<u>-</u>	<u>53,873,123</u>	<u>-</u>	<u>53,873,123</u>
<i>Amortized cost:</i>						
Foreign Government bonds	11	100,784,865	-	101,546,046	-	101,546,046
Certificates of deposit issued by private sector	11	58,749,089	-	58,757,809	-	58,757,809
Bonds issued by financial private sector	11	419,058,424	-	419,503,094	-	419,503,094
		<u>578,592,378</u>	<u>-</u>	<u>579,806,949</u>	<u>-</u>	<u>579,806,949</u>

		December 31, 2020				
Notes	Carrying Amount	Fair Value			Total	
	LBP'000	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000		LBP'000
Financial assets measured at:						
<i>Fair value through profit or loss</i>						
<i>(excluding accrued interest receivable):</i>						
Foreign government treasury bills	7	54,753,115	-	54,753,115	-	54,753,115
		<u>54,753,115</u>	<u>-</u>	<u>54,753,115</u>	<u>-</u>	<u>54,753,115</u>
<i>Amortized cost:</i>						
Foreign Government bonds	11	102,696,790	-	104,157,069	-	104,157,069
Certificates of deposit issued by private sector	11	39,225,276	-	39,244,040	-	39,244,040
Bonds issued by financial private sector	11	472,315,450	-	478,174,211	-	478,174,211
		<u>614,237,516</u>	<u>-</u>	<u>621,575,320</u>	<u>-</u>	<u>621,575,320</u>

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

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

<u>Financial Assets</u>	<u>Date of Valuation</u>	<u>Valuation Technique and key Inputs</u>
At fair value through profit or loss:		
Foreign government treasury bills	December 31, 2021 and 2020	Average market price in inactive market
At amortized cost:		
Bonds issued by financial private sector	December 31, 2021 and 2020	Management estimate based on observable input in inactive market
Foreign government treasury bonds	December 31, 2021 and 2020	Average market price in inactive market
Foreign government treasury bonds	December 31, 2021 and 2020	Average market price in inactive market

There have been no transfers between Levels during the period.

55. SUBSEQUENT EVENTS

- a) On March 10, 2022, the Group learned from press sources that the Public Prosecutor in Mount Lebanon had issued a restraining order imposing a travel ban on the Chairmen of five Lebanese banks in connection with a financial corruption complaint, among them the Chairman of Bank of Beirut S.A.L. On March 14, 2022, The Group also learned from press sources that the Public Prosecutor in Mount Lebanon had issued a restraining order preventing the Bank from disposing of certain specific assets, i.e., shares and units of participation in other companies and real estate properties and cars. The decision also extended to some members of the Board of Directors, without knowing what is attributed to them. Based on advice from its legal counsel, the Bank and its Board of Directors submitted two lawsuits: the first, submitted to the Mount Lebanon Court of Appeal, for the removal of the Public Prosecutor who issued the restraining orders; and the second, presented before the General Assembly of the Court of Cassation, is a lawsuit against the State. However, the two courts have not yet been able to notify the two cases to the Mount Lebanon Public Prosecutor. The Group is awaiting for any further development; it being noted that to date, the Mount Lebanon Public Prosecutor has not taken any position regarding the aforementioned requests or taken any further steps following the restraining orders.
- b) In its meeting held on May 19, 2022 the Board of Directors resolved to close Cyprus Branch pursuant to the letter of the Central Bank of Lebanon dated March 11, 2022.
- c) In its meeting held on May 19, 2022 the Board of Directors resolved to sell its Oman Branch pending the approval of the Central Bank of Lebanon.

56. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2021 were approved by the Board of Directors in its meeting held on July 14, 2022.