

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Adverse Opinion

We have audited the consolidated financial statements of Byblos Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the "*Basis for Adverse Opinion*" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2020 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 at 31 December 2020, the Group holds balances with the Central Bank of Lebanon amounting to LL 14,762,945 million, a portfolio of Lebanese government debt securities and Certificate of deposits (under financial assets at amortized cost) totalling to LL 5,791,018 million, a portfolio of loans to the private sector amounting to LL 3,409,614 million and other balances with banks amounting to LL 418,878 million, concentrated in Lebanon which represent 86% of the Group's total assets as at 31 December 2020 (31 December 2019: 85%). In addition, other assets include a receivable from the Central Bank of Lebanon amounting to LL 315,091 million recognized based on the estimated present value of future cash flows expected to be received from leverage arrangements in local currency as further described in Notes 11 and 28.

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

Also, as disclosed in Note 46, management was unable to produce faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

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

Basis for Adverse Opinion (continued)

2. As disclosed in Note 46 to the consolidated financial statements, the Group holds unquoted equity instruments measured using unobservable data amounting to LL 65,629 million as at 31 December 2020 (2019: LL 65,712 million). It is not possible to determine the future effects that the economic crisis described in Note 1 would have on the carrying amounts of these assets. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.
3. As disclosed in Note 2 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying consolidated financial statements for the year ended 31 December 2020. Had the Group applied IAS 29, many elements in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2019, would have been materially different and also the disclosures for the year ended 31 December 2020 and 31 December 2019 would have been materially affected. The effects on the consolidated financial statements arising from the failure to apply IAS 29 have not been determined.
4. The events and conditions and, practices that would not qualify as normal course of business in a non-crisis environment described in Note 1 and the matters described in paragraph 1 above, affect the financial position, liquidity, solvency and profitability of the Group, expose the Group to increased litigation and regulatory risks and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.
5. As disclosed in Note 33 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried deferred revenues of LL 138,987 million as at 31 December 2019. This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements as these transactions constitute a departure from International Financial Reporting Standards (IFRS). During 2020, the Group wrote-back an amount of LL 138,987 million from deferred revenues, which was recorded under "Other operating income" in the consolidated income statement (2019: LL 16,507 million) which also constitutes a departure from IFRS.

Accordingly, "Loss for the year" ended 31 December 2020 should be increased by LL 138,987 million (2019: LL 16,507 million), and opening "Retained earnings" as at 1 January 2020 should be increased by the same amount (31 December 2019: "Other liabilities" should be decreased and "Total equity" should be increased by LL 138,987 million).

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

Emphasis of Matter

We draw attention to Notes 1 and 47.4 to the consolidated financial statements, which describe that the Group's assets and liabilities denominated in foreign currency are translated to Lebanese Liras as per the accounting policy on foreign currency transactions, at the official exchange rate prevailing at the end of the reporting period and that the actual realization and settlement of these assets and liabilities, respectively, could be materially different.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. 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.

Other Information Included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2020 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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.



Ernst & Young

24 May 2021
Beirut, Lebanon



BDO, Semaan, Gholam & Co

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

		2020 LL million	2019* Restated LL million
CONTINUING OPERATIONS			
Interest and similar income	6	1,906,799	2,393,747
Interest and similar expense	7	(1,078,266)	(2,024,438)
NET INTEREST INCOME		828,533	369,309
Fee and commission income	8	138,165	156,978
Fee and commission expense	8	(10,317)	(13,138)
NET FEE AND COMMISSION INCOME		127,848	143,840
Net (loss) gain from financial assets at fair value through profit or loss	9	(30,567)	17,580
Net (loss) gain from derecognition of financial assets at amortised cost	10	(143,217)	11,631
Non-interest revenues from financial assets at fair value through other comprehensive income		3,384	2,634
Other operating income	11	489,973	79,698
TOTAL OPERATING INCOME		1,275,954	624,692
Net impairment loss on financial assets	12	(1,062,602)	(422,891)
NET OPERATING INCOME		213,352	201,801
Personnel expenses	13	(190,494)	(186,172)
Other operating expenses	14	(111,971)	(126,587)
Depreciation of property, equipment and right-of-use assets	25	(23,052)	(23,228)
Amortisation of intangible assets	26	(5,501)	(4,302)
TOTAL OPERATING EXPENSES		(331,018)	(340,289)
OPERATING LOSS		(117,666)	(138,488)
Net (loss) gain from disposal of property, equipment and right-of-use assets		(605)	2,234
LOSS BEFORE TAX FROM CONTINUING OPERATIONS		(118,271)	(136,254)
Income tax expense	15	(35,281)	(36,903)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(153,552)	(173,157)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations, net of tax	53	(2,878)	(10,025)
LOSS FOR THE YEAR		(156,430)	(183,182)
Attributable to:			
Equity holders of the parent		(139,739)	(183,553)
Loss for the year from continuing operations		(136,861)	(173,528)
Loss for the year from discontinued operations		(2,878)	(10,025)
Non-controlling interests		(16,691)	371
(Loss) profit for the year from continuing operations		(16,691)	371
		(156,430)	(183,182)
		LL	LL
Loss per share			
Basic loss per share	16	(249)	(326)
Diluted loss per share	16	(168)	(231)
Loss per share from continuing operations			
Basic loss per share	16	(244)	(308)
Diluted loss per share	16	(164)	(216)
Loss per share from discontinued operations			
Basic loss per share	16	(5)	(18)
Diluted loss per share	16	(4)	(15)

* Restated for the effect of separate presentation of profit (loss) from discontinued operations and share information.

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 LL million	2019 LL million
Loss for the year from continuing operations		(153,552)	(173,157)
Loss for the year from discontinued operations		(2,878)	(10,025)
LOSS FOR THE YEAR		(156,430)	(183,182)
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to the income statement in subsequent periods:</i>			
Net unrealized loss from debt instruments at fair value through other comprehensive income		(6,408)	(30,557)
Income tax effect		968	4,129
Amounts reclassified to the consolidated income statement		34,010	-
		28,570	(26,428)
Exchange difference on translation of foreign operations		(10,890)	(2,237)
Net other comprehensive income (loss) to be reclassified to the income statement in subsequent periods		17,680	(28,665)
<i>Items not to be reclassified to the income statement in subsequent periods:</i>			
Net unrealized (loss) gain from equity instruments at fair value through other comprehensive income		(7,944)	202
Income tax effect		1,218	(29)
		(6,726)	173
Re-measurement (losses) gains on defined benefit plans	34 (a)	(13,332)	1,839
Net other comprehensive (loss) income not to be reclassified to the income statement in subsequent periods		(20,058)	2,012
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(2,378)	(26,653)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(158,808)	(209,835)
Attributable to:			
Equity holders of the parent		(143,312)	(208,453)
Non-controlling interests		(15,496)	(1,382)
		(158,808)	(209,835)

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 LL million	2019 LL million
ASSETS			
Cash and balances with central banks	17	15,405,366	14,941,646
Due from banks and financial institutions	18	1,739,827	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	19	199,660	356,710
Derivative financial instruments	20	3,109	703
Financial assets at fair value through profit or loss	21	66,239	83,551
Net loans and advances to customers at amortised cost	22	3,926,723	6,713,825
Net loans and advances to related parties at amortised cost	43	11,327	24,556
Debtors by acceptances		28,219	154,860
Financial assets at amortised cost	23	5,810,727	7,422,536
Financial assets at fair value through other comprehensive income	24	159,945	242,984
Property, equipment and right-of-use assets	25	314,544	337,006
Intangible assets	26	18,740	19,840
Assets obtained in settlement of debt	27	73,905	71,682
Other assets	28	488,194	125,608
Assets held for sale	53	31,459	-
TOTAL ASSETS		28,277,984	33,040,795
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	29	1,494,072	1,528,796
Due to banks and financial institutions	30	1,041,444	1,239,392
Derivative financial instruments	20	2,958	908
Customers' deposits at amortised cost	31	22,018,790	25,968,431
Deposits from related parties at amortised cost	43	402,132	225,634
Debt issued and other borrowed funds	32	9,534	441,828
Engagements by acceptances		28,503	155,119
Other liabilities	33	196,876	356,800
Provisions for risks and charges	34	236,181	183,307
Subordinated debt	35	420,942	429,792
Liabilities held for sale	53	75,323	-
TOTAL LIABILITIES		25,926,755	30,530,007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	36	684,273	684,273
Share capital – preferred shares	36	4,840	4,840
Share premium – common shares	36	229,014	229,014
Share premium – preferred shares	36	591,083	591,083
Non-distributable reserves	37	1,033,128	1,026,565
Distributable reserves	38	96,722	124,998
Treasury shares	39	(8,685)	(8,967)
(Accumulated losses) retained earnings		(79,256)	96,728
Revaluation reserve of real estate	40	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	41	(21,192)	(39,909)
Net results of the financial period		(139,739)	(183,553)
Foreign currency translation reserve		(62,097)	(52,918)
		2,333,780	2,477,843
NON-CONTROLLING INTERESTS		17,449	32,945
TOTAL EQUITY		2,351,229	2,510,788
TOTAL LIABILITIES AND EQUITY		28,277,984	33,040,795

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the parent												Non-controlling interests	Total	
	Common shares	Preferred shares	Share premium - common shares	Share premium - preferred shares	Non-distributable reserves	Distributable reserves	Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial assets at fair value through other comprehensive income	Net results of the financial period	Foreign currency translation reserve	Total		
	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million
Balance at 1 January 2020	684,273	4,840	229,014	591,083	1,026,565	124,998	(8,967)	96,728	5,689	(39,909)	(183,553)	(52,918)	2,477,843	32,945	2,510,788
Loss for the year	-	-	-	-	-	-	-	-	-	-	(139,739)	-	(139,739)	(16,691)	(156,430)
Other comprehensive income (loss)	-	-	-	-	-	-	-	(13,332)	-	18,938	-	(9,179)	(3,573)	1,195	(2,378)
Total comprehensive income (loss)	-	-	-	-	-	-	-	(13,332)	-	18,938	(139,739)	(9,179)	(143,312)	(15,496)	(158,808)
Transfer between reserves	-	-	-	-	6,563	1,759	-	(191,875)	-	-	183,553	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	(30,035)	-	30,035	-	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-	-	(812)	-	(221)	-	-	(1,033)	-	(1,033)
Treasury shares	-	-	-	-	-	-	282	-	-	-	-	-	282	-	282
Balance at 31 December 2020	684,273	4,840	229,014	591,083	1,033,128	96,722	(8,685)	(79,256)	5,689	(21,192)	(139,739)	(62,097)	2,333,780	17,449	2,351,229

	Attributable to equity holders of the parent											Non-controlling interests	Total		
	Common shares	Preferred shares	Share premium - common shares	Share premium - preferred shares	Non-distributable reserves	Distributable reserves	Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial assets at fair value through other comprehensive income	Net results of the financial period	Foreign currency translation reserve	Total		
	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million	L.L. million
Balance at 1 January 2019	684,273	4,840	229,014	591,083	982,040	116,652	(7,105)	77,050	5,689	(15,462)	238,940	(50,603)	2,856,411	38,698	2,895,109
(Loss) profit for the year	-	-	-	-	-	-	-	-	-	-	(183,553)	-	(183,553)	371	(183,182)
Other comprehensive income (loss)	-	-	-	-	-	-	-	1,839	-	(24,424)	-	(2,315)	(24,900)	(1,753)	(26,653)
Total comprehensive income (loss)	-	-	-	-	-	-	-	1,839	-	(24,424)	(183,553)	(2,315)	(208,453)	(1,382)	(209,835)
Appropriations of 2018 profits	-	-	-	-	44,525	8,346	-	186,069	-	-	(238,940)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,371)	(4,371)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(167,833)	-	-	-	-	(167,833)	-	(167,833)
Translation difference	-	-	-	-	-	-	-	(397)	-	(23)	-	-	(420)	-	(420)
Treasury shares	-	-	-	-	-	-	(1,862)	-	-	-	-	-	(1,862)	-	(1,862)
Balance at 31 December 2019	684,273	4,840	229,014	591,083	1,026,565	124,998	(8,967)	96,728	5,689	(39,909)	(183,553)	(52,918)	2,477,843	32,945	2,510,788

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 LL million	2019 LL million
OPERATING ACTIVITIES			
Loss before tax from continuing operations		(118,271)	(136,254)
Loss from discontinued operations		(2,878)	(10,025)
Loss before tax		(121,149)	(146,279)
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	25 & 26	28,553	27,530
Net impairment loss on financial assets	12	1,062,602	422,891
Loss (gain) on disposal of property, equipment and right-of-use assets		605	(2,234)
Gain on disposal of assets obtained in settlement of debt	11	(3,426)	(517)
Provisions for risks and charges, net		55,597	(42,575)
Unrealized fair value losses on financial instruments at fair value through profit or loss		25,100	397
Realized losses (gains) from financial assets		140,034	(27,918)
Derivative financial instruments		(356)	302
Other income resulting from leverage arrangements	11	(315,091)	-
Write-back of deferred revenues	11	(138,987)	(16,507)
Operating profit before working capital changes		733,482	215,090
Changes in operating assets and liabilities			
Due from central banks		963,936	1,375,294
Due to central banks		(30,656)	(2,354,373)
Due from banks and financial institutions		11,155	(3,023)
Financial assets at fair value through profit or loss		(7,944)	22,829
Due to banks and financial institutions		(52,189)	79,776
Net loans and advances to customers and related parties		2,657,725	1,374,882
Assets obtained in settlement of debt	27	(3,506)	(20,842)
Proceeds from sale of assets obtained in settlement of debt		4,709	803
Other assets		(54,809)	16,274
Customers' and related parties' deposits		(3,698,764)	(1,645,249)
Other liabilities		(19,995)	(12,697)
Cash from (used in) operations		503,144	(951,236)
Provisions for risks and charges paid	34	(6,636)	(4,393)
Taxation paid	15	(23,145)	(54,173)
Net cash from (used in) operating activities		473,363	(1,009,802)
INVESTING ACTIVITIES			
Financial assets at amortised cost		712,796	172,570
Financial assets at fair value through other comprehensive income		6,216	(18,699)
Loans to banks and financial institutions and reverse repurchase agreements		62,478	41,824
Purchase of property, equipment and right-of-use assets	25	(16,660)	(57,897)
Purchase of intangible assets	26	(4,749)	(6,419)
Proceeds from sale of property, equipment and right-of-use assets		15,059	8,945
Net cash from investing activities		775,140	140,324
FINANCING ACTIVITIES			
Debt issued and other borrowed funds		(432,294)	(9,473)
Subordinated debt		(8,850)	3,374
Treasury shares		282	(1,862)
Dividends paid to equity holders of the parent	52	-	(167,833)
Dividends paid to non-controlling interests		-	(4,371)
Lease liability payments		(3,731)	(6,203)
Net cash used in financing activities		(444,593)	(186,368)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		803,910	(1,055,846)
Net foreign exchange difference in respect of cash and cash equivalents		(11,816)	(9,174)
Cash and cash equivalents at 1 January		5,420,550	6,485,570
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	6,212,644	5,420,550
Operational cash flows from interest and dividends			
Interest paid		(1,231,737)	(2,042,065)
Interest received		1,921,652	2,333,662
Dividend received		291	2,768

The attached notes 1 to 54 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Central Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange. The Bank’s Board of Directors meeting dated 17 June 2020 approved the delisting of its GDR from the London SEAQ. The delisting became effective on 30 July 2020.

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

The consolidated financial statements were authorised for issue in accordance with the Board of Directors’ resolution on 21 May 2021.

1.1. Macroeconomic environment

The Group’s operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crises as well as deep recession that have reached unprecedented levels. Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and withdrawal of cash to private depositors, all of which added to the disruption of the country’s economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt and unemployment and poverty are rising fast and have reached unprecedented levels.

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

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

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

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

Lebanese Government's Financial Recovery Plan

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

Restructuring of the banking sector:

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

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

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

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

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

Alternative Plan submitted by Association of Banks in Lebanon

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

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

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

Alternative Plan submitted by Association of Banks in Lebanon (continued)

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

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

Beirut Port Explosion

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

COVID-19

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

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

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

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

1.2 Regulatory environment

During 2020 and up to the date of the approval of these consolidated financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the Platform Rate. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations.
- Basic Circular 150 issued on 9 April 2020 exempting Banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020 subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals ...)

1 CORPORATE INFORMATION (continued)**1.2 Regulatory environment (continued)**

- Basic Circular 151 issued on 21 April 2020 concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per the Platform Rate up to limits set by the bank. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars.
- Intermediate Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to current economic situation as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.
- Intermediate circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively). The circular however changed the requirement for the recognition of expected credit losses in the banks' financial statements from applying at a "Maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "Minimum". In addition, the circular introduced the following measures:
 - Allowing banks to constitute the expected credit losses on exposures to Lebanese Sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.
 - Allowing banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of COVID-19 pandemic, then the Bank must immediately downgrade the loan classification and staging to stage 3 (default).
 - Requesting from banks to finalize the assessment of the future financial position of their customers by 31 December 2020 and to estimate expected credit losses based on this assessment and recognize the financial impact in the statement of income for the year ended 31 December 2020.
 - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.
 - Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.
 - Changed the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain.
 - Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. However, under exceptional circumstances, the buffer may be drawn down during 2020 and 2021, however it must be rebuilt, progressively, starting 2022, by at least 0.75% each year, to reach the minimum required of 2.5% by end of 2024.

1 CORPORATE INFORMATION (continued)**1.2 Regulatory environment (continued)**

- Prepare and present to the Central Bank of Lebanon, a comprehensive plan, for rectifying non-compliances with the regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL) as well as other losses or provisions that the bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.
- Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortized over a period of 3 years (2022-2024 by 25% yearly).
- Basic circular 154 issued on 27 August 2020, aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019 and rectifying any non-compliance with regulatory ratios and banking regulations. The circular mainly introduced the following measures:
 - Requesting from banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in intermediate circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the bank to their normal levels as at before October 2019.
 - Requesting from banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than US\$ 500,000 or their equivalent in other foreign currencies, to deposit in 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019 and without a minimum threshold.
 - Requesting from banks to maintain current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.
 - Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalization needs, if any, to the Central Bank of Lebanon's Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.
- Intermediate circular 568 issued on 26 August 2020 allowing the payments of retail loans denominated in US Dollars in Lebanese Liras based on the official exchange rate of LL 1,507.5 per US dollar subject to the following conditions:
 - The client should be a Lebanese resident;
 - The client should not have a bank account denominated in US dollars; and
 - The housing loans granted to the client should not exceed US\$ 800,000 while the aggregate amount of retail loans should not exceed US\$ 100,000 per client.
- Intermediate circular 575 issued on 5 November 2020 states that Banks should book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2 capital based on the following binding conditions:
 - The Central Bank of Lebanon's central council investigating and approving at the expense of the concerned bank the validity of the revaluation process;
 - Raising the capital before 31 December 2021 as follows:
 - Add a maximum of one third of the revaluation gains under Tier 2 capital;
 - Increase common equity Tier 1 capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier 2 capital.
 - The revaluation and capital increase must be completed before 31 December 2021.

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

Assets and liabilities in foreign currency, transactions in foreign currency and foreign currency translation reserves, regardless of whether they are onshore or offshore, were reflected in these financial statements at the official exchange rate of 1,507.5 US\$ / LL in line with IAS 21 due to the lack of an alternative legal exchange mechanism. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official one: parallel exchange markets that are highly volatile, the Platform Rate, estimation exchange rates detailed in the Government's Financial Recovery Plan, in addition to different exchange rates adopted for commercial transactions purposes in Lebanon. Accordingly, translation of all assets and liabilities and foreign currency transactions at the official exchange rate does not always represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. In the absence of an alternative legal exchange mechanism, we are unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official exchange rate and / or alternative legal exchange mechanism. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognized in these consolidated financial statements once the revamping of the peg and / or a new legal exchange mechanism is implemented by the Lebanese Government. Foreign exchange currency mismatch is detailed in Note 47.4 to these consolidated financial statements.

As at 31 December 2020, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortized cost are recorded in these consolidated financial statements at the loss rates mentioned in Central Bank of Lebanon intermediate circular 567. With respect to Lebanese government Eurobonds held by the Group, management elected not to amortize the calculated expected credit losses over five years as permissible in the circular. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese Sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the Government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognized loss allowances, as well as their staging are detailed in Note 47.2 to these consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. The deterioration was further aggravated by the effects of the Covid-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese crisis, the Bank has been implementing a de-risking strategy by considerably reducing its assets size specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralized and specialized remedial function to proactively review and manage the quality of its various portfolios. The Bank has recorded significant amounts of expected credit losses during the last quarter of 2019 and the year ended 31 December 2020. Loss allowances on the Group's portfolio of these private loans have been estimated and recorded based on the best available information at the reporting date about past events, current conditions and forecasts of economic conditions combined with expert judgement. Maximum exposures to the credit risk of the Group's portfolio of private loans and the recognized loss allowances, as well as their staging are detailed in Note 47.2 to these consolidated financial statements.

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

The financial position of the Group, as reported in these consolidated financial statements, does not reflect the adjustments that would be required by IFRS as a result of the future government reform program, the deep recession, the currency crisis and the hyperinflation. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the Platform Rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its consolidated financial position.

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

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

Once the above uncertainties are resolved, a pro-forma consolidated statement of financial position of the Group will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the hyperinflation, the effects of the restructuring of the government debt securities, the effects of the restructuring of the Central Bank of Lebanon balance sheet and the effects on its private loan portfolio.

On 1 October 2020, the Bank received a letter from the Central Bank of Lebanon, referring to Basic Circular 154 and Intermediate Circular 567, and requesting from the Bank to submit a roadmap that sets out the following:

- The Bank's overall strategy for the years 2020 – 2024
- The Bank's assessment of its portfolio of private loans and expected credit losses as at 31 December 2020, as well as total realized and expected losses for the year 2020
- The amount of expected credit losses that have not been translated to foreign currencies
- The capital needs to comply with the minimum required capital and the measures and sources that will be relied upon to cover the shortfall
- The Bank's strategy with respect to its investments in foreign banks and branches
- The mechanism to rectify any non-compliance with banking circulars
- The measures that will be taken to rectify non-compliances with articles 154 and 153 of the Code of Money and Credit, if any
- The measures that will be taken to attract foreign liquidity or "fresh funds" and to cover the liquidity needs onshore and offshore

The roadmap was submitted to the Central Bank of Lebanon on 16 December 2020. However, a reasonable and credible roadmap can only be achieved once the many uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalization needs is accurately determinable.

The Bank has so far implemented a series of measures in relation to its key strategic objectives including:

- In accordance with Central Bank of Lebanon Intermediary Circular 567, banks are required to increase their own funds (equity) by an amount equal to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments. In this context, as of the date of authorization of these consolidated financial statements, the Extraordinary General Assembly of Shareholders held on 21 April 2021 verified and approved cash contributions to capital amounting to US\$ 270,000,000 and convertible to common shares. The final approval of the regulators is pending as of the date of these consolidated financial statements.
- The Bank submitted to the regulators its calculation as of 28 February 2021 reflecting a ratio of 3.42%. The approval of the regulators for meeting this ratio is pending as of the date of these consolidated financial statements.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

- Deleveraging the loan portfolio and increasing provisioning coverage during 2020 as gross loans at Byblos Bank SAL alone dropped by LL 2,511 billion compared to 31 December 2019.
- Creating the “fresh account” allowing individuals and companies to make unrestricted daily foreign currency transactions using fresh funds deposited in cash or received by transfer from abroad.
- The Bank is reducing its cost structure through the closure of branches and reducing the work force, thus generating annual savings.

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

The Bank is also uncertain whether the measures set out in its roadmap above would be sufficient to cover all its commitments as they become due and restore the activities of the Bank to normal pre-crisis levels. Such sufficiency and a reasonable and credible plan can only be achieved once the uncertainties from the prevailing crisis, the multitude of exchange rates, the hyperinflation, the Covid-19 pandemic, the explosion of the Beirut port, as well as the implementation of a clear national fiscal and economic recovery plan are resolved.

The Lebanese crisis which was set off during the last quarter of 2019, has imposed severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon in 2020. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar, during the current fiscal year, resulted into several practices and transactions that would not qualify as normal course of business in a non-crisis environment, and for which there are no directly observable prices or a governing legal/regulatory framework. Such practices and transactions expose the Bank to increased litigation and regulatory risks and negatively impact the financial position of the Bank, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the 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 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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

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

2 ACCOUNTING POLICIES (continued)**2.1 Basis of preparation (continued)**

The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 173% and 146%, respectively, as of December 2020. Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after 31 December 2020.

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

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

- (a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.
- (b) In summary, the restatement method under IAS 29 is as follows:
 - i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.
 - ii. Non-monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non-monetary items.
 - iii. Non-monetary items carried at historical cost or at the current value of a date prior to the end of the reporting period are restated using coefficients that reflect the variation recorded in the general level of prices from the date of acquisition or revaluation to the closing date of the reporting period, then comparing the restated amounts of such assets with the relevant recoverable values. Depreciation charges of property, plant and equipment and amortization charges of intangible assets recognized in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.
 - iv. Income and expenses are restated from the date when they were recorded, except for those profit or loss items that reflect or include in their determination the consumption of assets carried at the purchasing power of the currency as of a date prior to the recording of the consumption, which are restated based on the date when the asset to which the item is related originated; and except those profit or loss items originated from comparing two measurements expressed in the purchasing power of currency as of different dates, for which it is necessary to identify the compared amounts, restate them separately, and compare them again, but with the restated amounts.
 - v. At the beginning of the first year of application of the restatement method of consolidated financial statements in terms of the current measuring unit, the prior-year comparatives are restated in terms of the measuring unit current at the end of the current reporting period, the equity components, except for reserved earnings and undistributed retained earnings, shall also be restated, and the amount of undistributed retained earnings shall be determined by the difference between net assets restated at the date of transition and the other components of opening equity expressed as indicated above, once all remaining equity components are restated.

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

The Group uses the official exchange rate of 1,507.5 US\$/LL to translate balance and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Platform Rate" of approximately 3,900 US\$/LL, the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. Accordingly, since there is no official exchange or payment mechanism for transactions and balances denominated in foreign currencies, the Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the consolidated financial statements.

2 ACCOUNTING POLICIES (continued)**2.1 Basis of preparation (continued)**

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

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

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

Statement of compliance

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

Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expenses will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effects of netting arrangements are disclosed in Notes 17 and 29.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and its subsidiaries as at 31 December 2020. Details of the principal subsidiaries are disclosed in Note 3.

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

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

2 ACCOUNTING POLICIES (continued)**2.2 Basis of consolidation (continued)**

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

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

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

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

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

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

Non-controlling interests

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

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

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

2 ACCOUNTING POLICIES (continued)**2.3 New and Amended Standards and Interpretations**

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

Amendments to Interest Rate Benchmark Reform

On 26 September 2019, the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7' (the "amendments"). This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR"). These amendments did not have any significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

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

Amendments to IAS 1 and IAS 8 Definition of Material

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

2 ACCOUNTING POLICIES (continued)

2.4 Standards Issued but not Yet Effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments and interpretations are as follows:

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

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

As at 31 December 2020, the Group has not transitioned a financial instrument from an IBOR to risk-free-rate (RFR) and as such did not early adopt IBOR Reform Phase 2. The Group is currently assessing the impact of transitioning from an IBOR to RFR and the amendments of IBOR Reform Phase 2 on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

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

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

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

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

2 ACCOUNTING POLICIES (continued)**2.4 Standards Issued but not Yet Effective (continued)****Reference to the Conceptual Framework – Amendments to IFRS 3**

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

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

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

2.5 Summary of significant accounting policies**Business Combinations and Goodwill**

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

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

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

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

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

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

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

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

Foreign currencies

The consolidated financial statements are presented in Lebanese Lira (LL) which is also the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the step-by-step method of consolidation.

(i) Transactions and Balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain on financial assets at fair value through profit or loss" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(ii) Group companies

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Foreign currencies (continued)****(ii) Group companies (continued)**

The table below presents the exchange rates of the currencies used to translate assets, liabilities and income statement items of foreign branches and subsidiaries:

	2020		2019	
	Year-end rate LL	Average rate LL	Year-end rate LL	Average rate LL
US Dollar	1,507.5	1,507.5	1,507.5	1507.5
Euro	1,851.21	1,728.41	1,686.89	1,687.43
Armenian Dram	2.88	3.07	3.20	3.14
Iraqi Dinar	1.03	1.25	1.27	1.27
Syrian Pound	1.20	1.70	3.46	3.46

Financial Instruments – Initial recognition**(i) Date of recognition**

All financial assets and liabilities are initially recognised on the settlement date. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial measurement of financial instruments

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

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

(iii) Day 1 Profit or Loss

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

Financial Assets – Classification and Measurement

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial Assets – Classification and Measurement (continued)

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

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

Business Model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to Management.

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

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

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

The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group's business model for managing those financial assets changes, the Group is required to reclassify financial assets.

The SPPI Test

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

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

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Financial Assets – Classification and Measurement (continued)*****Financial Assets at Amortised Cost***

Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, Loans and Advances to Customers and Related Parties at Amortised Cost, and Financial Assets at Amortised Cost.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in “Interest and similar income” in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in “Net impairment loss on financial assets”. Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under “Net gain (loss) on derecognition of financial assets at amortised cost” in the consolidated income statement.

Financial Assets at Fair Value through Other Comprehensive Income***Debt Instruments at Fair Value through Other Comprehensive Income***

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Group can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognised under “Non-interest revenues from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’s right to receive payment of dividend is established in accordance with IFRS 15: “Revenue from contracts with customers”, unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

Financial Assets at Fair Value through Profit or Loss

Included in this category are those debt instruments that do not meet the conditions in “Financial assets at amortised cost” and “Financial assets at fair value through other comprehensive income” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of Significant Accounting Policies (continued)****Financial Assets – Classification and Measurement (continued)*****Financial Assets at Fair Value through Profit or Loss (continued)******Debt Instruments at Fair Value through Profit or Loss***

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

Equity Instruments at Fair Value through Profit or Loss

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

Financial Liabilities (other than financial guarantees, letters of credit and loan commitments) – Classification and Measurement

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

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

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Financial Liabilities (other than financial guarantees, letters of credit and loan commitments) – Classification and Measurement (continued)**

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

Debt Issued and Other Borrowed Funds

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

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

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

Due to Central Banks, Banks and Financial Institutions and Customers' and Related Parties' Deposits

After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, customers' and related parties' deposits are measured at amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

Derivatives Recorded at Fair Value through Profit or Loss

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

- a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (aka the “underlying”).
- b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include currency swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in “Net gain on financial assets at fair value through profit or loss” in the consolidated income statement, unless hedge accounting is applied, which is discussed in under “hedge accounting policy” below.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Embedded Derivatives

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

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

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

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

Reclassification of Financial Assets

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

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Derecognition of Financial Assets and Financial Liabilities*****Financial Assets******(i) Derecognition due to substantial modification of terms and conditions***

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

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

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

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

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

(ii) Derecognition other than for substantial modification

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of Financial Assets and Financial Liabilities (continued)

Financial Assets (continued)

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

A transfer only qualifies for derecognition if either:

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

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

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement, as "Other operating income" or "Other operating expenses".

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

Repurchase and Reverse Repurchase Agreements

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Repurchase and Reverse Repurchase Agreements (continued)**

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

Impairment of Financial Assets**(i) Overview of the ECL Principles**

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

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

(ii) Measurement of ECLs

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

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

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

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

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.

(iii) Forborne and modified loans

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

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- At least a 12-month probation period has passed,
- Three consecutive payments under the new repayment schedule have been made,
- The borrower has no past dues under any obligation to the Group,
- All the terms and conditions agreed to as part of the restructuring have been met.

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

(iv) Credit-impaired financial assets

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Impairment of Financial Assets (continued)****(v) Write Offs**

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

(vi) Debt Instruments at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the assets.

(vii) Collateral repossessed

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

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

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of Significant Accounting Policies (continued)****Fair value measurement (continued)**

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

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

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

Hedge accounting

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

Setting the Risk Management Strategy and Objectives

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

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

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

Qualifying Hedging Relationships

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

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of Significant Accounting Policies (continued)****Hedge accounting (continued)**

Hedge ineffectiveness is recognised in the consolidated income statement in “Net gain on financial assets at fair value through profit or loss”.

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

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

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

(i) Fair Value Hedges

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

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(i) Fair Value Hedges (continued)

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

(ii) Cash Flow Hedges

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

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

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

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

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

(iii) Hedge of Net Investments

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

Leases

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

Group as a Lessee

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Leases (continued)***(i) Right-of-use assets*

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

The right-of-use assets are presented within "Property, equipment and right-of-use assets" on the consolidated financial statements and are subject to impairment in line with the Group's policy as described under Impairment of non-financial assets.

Depreciation charge for right-of-use assets presented within "Depreciation of property, equipment and right-of-use assets" on the consolidated financial statements.

(ii) Lease liabilities

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

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

The Group's lease liabilities are included under "Other liabilities". Moreover, the interest charge on lease liabilities is presented within "Interest and similar expenses" from financial instruments measured at amortized cost in consolidated financial statements.

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

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Other rental expenses (including non-lease components paid to landlords) presented within other operating expenses.

Group as a Lessor

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue Recognition

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

(i) *Interest and similar income and expense*

The effective interest rate

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

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

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

Interest income and interest expense

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

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

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

Presentation

Interest income calculated using the effective interest method presented in the consolidated income statement includes:

- interest on financial assets at amortised cost; and
- interest on debt instruments measured at fair value through other comprehensive income.

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

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Revenue Recognition (continued)****(ii) Fee and commission income**

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

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

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

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

Fee Income from Providing Transaction Services

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

(iii) Dividend income

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

(iv) Net gain from financial instruments at fair value through profit or loss

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

(v) Insurance revenue

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporis method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Cash and cash equivalents

"Cash and cash equivalents" as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with central banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

Property and equipment

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

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Property and equipment (continued)**

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

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

Buildings	50 years
Office equipment and furniture	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Vehicles	4 years

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

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

Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. The Group’s intangible assets include the value of software development and key money.

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

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

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

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

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

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

• Software development	5 years
• Key money	10-15 years

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions for risks and charges

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

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Pensions and other post-employment benefits

The Group provides retirement benefits obligation to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

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

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

(i) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred Tax

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

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income are also recognised in other comprehensive income and not in the consolidated income statement.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised 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 recognised in profit or loss.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Dividends on Common Shares

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (Treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

Assets under management and assets held in custody and under administration

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

Customers' acceptances

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

Segment reporting

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

2.6 Significant accounting judgements and estimates

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

Judgements

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

Going concern

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

2 ACCOUNTING POLICIES (continued)**2.6 Significant accounting judgements and estimates (continued)****Judgements (continued)***Business model*

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

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

Contractual cash flows of financial assets

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

Deferred tax assets

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

Determining the lease term of contracts with renewal and termination options

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

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

The Group included the renewal period as part of the lease term for leases of head office and branches due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on the Group's operations if a replacement is not readily available. The renewal options for leases of motor vehicles (or other assets) were not included as part of the lease term because the Group has a policy of leasing motor vehicles (or other assets) for not more than five years and, hence, not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Estimates and assumptions

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

2 ACCOUNTING POLICIES (continued)**2.6 Significant accounting judgements and estimates (continued)****Estimates and assumptions (continued)***Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimation is required to establish fair values. The judgments and estimates include considerations of liquidity and model inputs such as credit risk (both own and counterparty) funding value adjustments, correlation and volatility.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

Impairment of non-financial assets

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

Pensions obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

Leases - estimating the incremental borrowing rate

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

Byblos Bank SAL

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3 GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

<u>Subsidiary</u>	<u>Percentage of ownership</u>		<u>Principal activity</u>	<u>Country of incorporation</u>
	<u>2020</u>	<u>2019</u>		
	%	%		
Byblos Bank Europe SA	99.95	99.95	Commercial Banking	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	63.95	63.95	Insurance	Lebanon
Adonis Brokerage House SAL	100.00	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	99.99	99.99	Investment banking	Lebanon
Byblos Bank Armenia CJSC	100.00	100.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	76.00	Insurance	Syria

4 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of the subsidiary that has material non-controlling interests are provided below:

Proportion of equity interests held by non-controlling interests:

	<u>2020</u>	<u>2019</u>
<u>Name</u>	<u>%</u>	<u>%</u>
Adonis Insurance and Reinsurance Co. (ADIR) SAL	36.05	36.05

The summarized financial information of this subsidiary are provided below. This information is based on amounts before inter-company eliminations:

Summarized income statement for the year ended 31 December:

	<u>Adonis Insurance and Reinsurance Co. (ADIR) SAL</u>	
	<u>2020</u>	<u>2019</u>
	<u>LL million</u>	<u>LL million</u>
Net interest income	7,437	16,519
Net fee and commission income	6,419	5,646
Net loss from financial assets at fair value through profit or loss	(205)	(1,087)
Other operating income	26,219	21,322
Net impairment loss on financial assets	(71,816)	(25,468)
Total operating expenses	(13,970)	(14,691)
Income tax expense	(1,047)	(1,486)
(Loss) profit for the year	(46,963)	755
Attributable to non-controlling interests	(16,930)	272
Dividends paid to non-controlling interests	-	4,371

4 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position as at 31 December:

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2020</i>	<i>2019</i>
	<i>LL million</i>	<i>LL million</i>
Cash and balances with central banks	2,862	1,015
Due from banks and financial institutions	36,986	23,143
Balances with Parent and Group entities	188,937	214,791
Financial assets at fair value through profit or loss	28,011	31,233
Net loans and advances at amortised cost	5,335	7,752
Financial assets at amortised cost	79,237	154,137
Financial assets at fair value through other comprehensive income	1,969	6,485
Property, equipment and right-of-use assets	21,851	22,021
Other assets	109,371	67,452
Deposits at amortised cost	(260,917)	(306,749)
Other liabilities	(25,188)	(22,476)
Provisions for risks and charges	(143,193)	(114,643)
Total equity	45,261	84,161
Attributable to non-controlling interests	16,317	30,340

Summarized cash flow information for the year ended 31 December:

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2020</i>	<i>2019</i>
	<i>LL million</i>	<i>LL million</i>
Operating	17,797	26,191
Investing	29,222	(2,202)
Financing	(1,019)	(10,036)
Net increase in cash and cash equivalents	46,000	13,953

5 SEGMENT INFORMATION

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of Management's measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

5 SEGMENT INFORMATION (continued)**A) Business Segments**

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking	Provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies, as well as all regular corporate and commercial banking activities.
Retail and Personal Banking	Provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular retail and private banking activities.
Treasury and Capital Markets	Provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers investment banking and brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.
Group Functions and Head Office	Consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

The following tables present net operating income information and financial position information in respect of the Group's reportable segments.

i) Net operating income information

	2020				
	<i>Corporate and Commercial Banking</i>	<i>Retail and Personal Banking</i>	<i>Treasury and Capital Markets</i>	<i>Group Functions and Head Office</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Net interest income	111,413	186,006	531,114	-	828,533
Net fee and commission income	48,987	70,030	1,817	7,014	127,848
Net loss from financial assets at fair value through profit or loss	-	-	(30,567)	-	(30,567)
Net loss from derecognition of financial assets at amortised cost	-	-	(143,217)	-	(143,217)
Net loss from financial assets at fair value through other comprehensive income	-	-	3,384	-	3,384
Other operating income	-	-	-	489,973	489,973
Net impairment loss on financial assets	(102,166)	(39,013)	(921,423)	-	(1,062,602)
Net operating income	58,234	217,023	(558,892)	496,987	213,352

5 SEGMENT INFORMATION (continued)**A) Business Segments (continued)****i) Net operating income information (continued)**

	2019 Restated				
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	Total LL million
Net interest income (expense)	159,005	264,724	(54,420)	-	369,309
Net fee and commission income	61,393	70,018	2,812	9,617	143,840
Net gain from financial assets at fair value through profit or loss	-	-	17,580	-	17,580
Net gain from derecognition of financial assets at amortised cost	-	-	11,631	-	11,631
Non-interest revenues from financial assets at fair value through other comprehensive income	-	-	2,634	-	2,634
Other operating income	-	-	-	79,698	79,698
Net impairment loss on financial assets	(48,879)	(40,803)	(333,209)	-	(422,891)
Net operating income	171,519	293,939	(352,972)	89,315	201,801

ii) Financial position information

	2020				
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	Total LL million
Total assets	2,171,544	1,794,725	23,441,517	838,739	28,246,525
Total liabilities	1,081,126	21,339,795	2,967,744	462,767	25,851,432

	2019				
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	Total LL million
Total assets	4,292,361	2,600,881	25,593,419	554,134	33,040,795
Total liabilities	1,229,012	24,965,053	3,640,716	695,226	30,530,007

Segment reporting assets and liabilities as at 31 December 2020 do not include those held for sale and amounting to LL 31,459 million and LL 75,323 million respectively.

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to LL 1,495,010 million (2019: LL 1,629,387 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	2020 LL million	2019 LL million
Interest and similar income		
Central Bank of Lebanon	1,332,949	1,324,454
Lebanese sovereign	162,061	304,933
	1,495,010	1,629,387

5 SEGMENT INFORMATION (continued)**B) Geographical Segments**

The Group operates in three geographical segments, Lebanon, Europe and other countries and as such, is subject to different risks and returns. The following tables show the distribution of the Groups' net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

	2020			
	Lebanon LL million	Europe LL million	Other LL million	Total LL million
Total operating income	1,188,273	47,216	40,465	1,275,954
Net impairment loss on financial assets	(1,045,411)	(3,872)	(13,319)	(1,062,602)
Net operating income¹	142,862	43,344	27,146	213,352
Non-current assets²	340,993	36,072	30,124	407,189
2019 Restated				
	Lebanon LL million	Europe LL million	Other LL million	Total LL million
Total operating income	522,697	70,938	31,057	624,692
Net impairment loss on financial assets	(413,856)	(6,447)	(2,588)	(422,891)
Net operating income¹	108,841	64,491	28,469	201,801
Non-current assets²	358,007	30,747	39,774	428,528

¹ Net operating income is attributed to the geographical segment on the basis of the location of the branch subsidiary responsible for reporting the results or advancing the funds.

² Non-current assets consist of property, equipment and right-of-use assets, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered in more than twelve months after the reporting date.

6 INTEREST AND SIMILAR INCOME

	2020 LL million	2019 Restated LL million
Interest and similar income		
Balances with central banks	1,276,112	1,227,574
Due from banks and financial institutions	35,023	101,185
Loans to banks and financial institutions and reverse repurchase agreements	7,556	12,213
Loans and advances to customers at amortised cost	366,339	647,983
Loans and advances to related parties at amortised cost (Note 43)	746	1,596
Financial assets at amortised cost	376,734	520,828
Debt instruments at fair value through other comprehensive income	9,016	14,759
	2,071,526	2,526,138
Tax on interest		
Balances with central banks	(127,610)	(102,261)
Financial assets at amortized cost	(37,117)	(30,130)
	(164,727)	(132,391)
Interest and similar income, net of tax	1,906,799	2,393,747

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7 INTEREST AND SIMILAR EXPENSE

	2020	2019
	<i>LL million</i>	<i>Restated LL million</i>
Due to central banks	132,390	108,136
Due to banks and financial institutions	29,499	45,920
Customers' deposits at amortised cost	858,257	1,794,168
Deposits from related parties at amortised cost (Note 43)	9,168	10,844
Debt issued and other borrowed funds	15,429	31,798
Subordinated debt	32,454	32,259
Lease liabilities (Note 33)	1,069	1,313
	<u>1,078,266</u>	<u>2,024,438</u>

8 NET FEE AND COMMISSION INCOME

	2020	2019
	<i>LL million</i>	<i>Restated LL million</i>
Fee and commission income		
Loans and advances	13,296	22,755
Letters of guarantee	10,862	12,461
Acceptances	4,125	8,924
Letters of credit	9,813	20,437
Credit cards	12,420	25,243
Domiciled bills	1,626	2,343
Checks for collection	3,898	3,771
Maintenance of accounts	16,476	16,681
Transfers	10,237	11,539
Safe rental	1,201	1,138
Portfolio commission	1,807	2,659
Commission on insurance related activities	11,232	11,387
Refund of banking services	9,818	12,572
Commission on foreign exchange transactions	18,530	-
Commission on cash withdrawal	6,754	1,647
Commission on banknotes deposits	2,598	1,971
Other commissions	3,472	1,450
	<u>138,165</u>	<u>156,978</u>
Fee and commission expense	<u>(10,317)</u>	<u>(13,138)</u>
Net fee and commission income	<u>127,848</u>	<u>143,840</u>

9 NET (LOSS) GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>Restated</i> <i>LL million</i>
<i>Interest and similar income from debt instruments</i>		
- Lebanese treasury bills and bonds	129	1,861
<i>(Loss) gain from sale of debt instruments</i>		
- Lebanese treasury bills and bonds	(259)	(888)
- Certificates of deposit issued by the Central Bank of Lebanon	-	231
- Debt securities issued by banks and financial institutions	8	106
	<u>(251)</u>	<u>(551)</u>
<i>Unrealized loss from revaluation of debt instruments</i>		
- Lebanese treasury bills and bonds	(27,369)	(9,373)
Net loss from debt instruments	<u>(27,491)</u>	<u>(8,063)</u>
<i>Equity instruments</i>		
- Gain (loss) from sale	96	(210)
- Unrealized gain from revaluation	2,268	8,405
- Dividend income	245	134
Net gain from equity instruments	<u>2,609</u>	<u>8,329</u>
Foreign exchange	(5,685)	17,314
	<u>(30,567)</u>	<u>17,580</u>

Foreign exchange includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading position.

10 NET (LOSS) GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management; or
- Currency risk management as a result of change in the currency base of deposits.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	<i>2020</i>	
	<i>Gains</i>	<i>Losses</i>
	<i>LL million</i>	<i>LL million</i>
Lebanese treasury bills	-	(87,013)
Time deposits with the Central Bank of Lebanon	-	(56,204)
	<u>-</u>	<u>(143,217)</u>
	<u>-</u>	<u>(143,217)</u>

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10 NET (LOSS) GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST (continued)

	<i>2019</i>	
	<i>Restated</i>	
	<i>Gains</i>	<i>Losses</i>
	<i>LL million</i>	<i>LL million</i>
		<i>Net</i>
		<i>LL million</i>
Lebanese treasury bills	-	(1,202)
Placements with the Central Bank of Lebanon	12,833	-
	<u>12,833</u>	<u>(1,202)</u>
		<u>11,631</u>

11 OTHER OPERATING INCOME

	<i>2020</i>	<i>2019</i>
	<i>LL million</i>	<i>Restated</i>
		<i>LL million</i>
Gain on present value of expected future cash flows from leverage arrangements	315,091	-
Write back of provisions for risks and charges (Note 34 (b))	3,936	37,723
Income from insurance related activities	20,055	18,554
Write-back of deferred revenues (Note 33 (b))	138,987	16,507
Rental income from assets obtained in settlement of debt	602	654
Net gain from sale of assets obtained in settlement of debt	3,426	517
Others	7,876	5,743
	<u>489,973</u>	<u>79,698</u>

Gain on present value of expected future cash flows from leverage arrangements:

During 2020, the Bank recognized a gain under "Other operating income" representing the present value of expected future cash flows from leverage arrangements with the Central Bank of Lebanon entered into during 2019. The gain was recorded against a receivable from the Central Bank of Lebanon under "Other assets". This accounting treatment was adopted by the Bank as it is permissible by Central Bank of Lebanon Intermediate Circular number 519 (Note 28).

12 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	<i>2020</i>	<i>2019</i>
	<i>LL million</i>	<i>LL million</i>
Remeasurements:		
Financial assets at amortised cost	755,796	192,801
Loans and advances to customers at amortised cost	159,443	99,753
Financial assets at fair value through other comprehensive income	80,162	4,144
Balances with central banks	68,890	139,162
Due from banks and financial institutions	11,433	987
Other assets	7,285	-
Financial guarantees and other commitments	3,875	111
Loans to banks and financial institutions and reverse repurchase agreements	65	179
Debtors by acceptances	65	-
Loans and advances to related parties at amortised cost	-	114
Bad debts written off	-	56
	<u>1,087,014</u>	<u>437,307</u>

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12 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS (continued)

	2020 LL million	2019 LL million
<i>Recoveries:</i>		
Loans and advances to customers at amortised cost	(22,148)	(10,026)
Due from banks and financial institutions	(1,512)	(1,961)
Balances with central banks	(696)	(2,353)
Loans and advances to related parties at amortised cost	(56)	-
Loans to banks and financial institutions and reverse repurchase agreements	-	(76)
	<u>(24,412)</u>	<u>(14,416)</u>
	<u>1,062,602</u>	<u>422,891</u>

13 PERSONNEL EXPENSES

	2020 LL million	2019 Restated LL million
Salaries and other related benefits	166,180	159,699
Social security contributions	18,575	21,170
Bonuses	1,383	1,374
Provision for employees' end of service benefits (Note 34 (a))	4,356	3,929
	<u>190,494</u>	<u>186,172</u>

14 OTHER OPERATING EXPENSES

	2020 LL million	2019 Restated LL million
Taxes on interest	4,943	5,601
Taxes and duties	8,504	9,733
Contribution to deposits guarantee fund	13,367	13,940
Rent and related charges under operating leases	2,798	2,796
Professional fees	10,933	11,153
Telecommunications and postage expenses	5,840	7,215
Board of Directors' attendance fees	3,479	1,003
Maintenance and repairs	18,021	17,842
Electricity and fuel	5,233	5,530
Travel and entertainment	746	2,282
Publicity and advertising	3,484	10,134
Subscriptions	3,970	4,421
Legal expenses	2,106	2,497
Insurance	1,131	1,065
Guarding fees	2,426	2,639
Printings and stationery	2,099	2,519
Donations	1,081	2,052
Provisions for risks and charges (Note 34 (b))	14,026	13,772
Others	7,784	10,393
	<u>111,971</u>	<u>126,587</u>

15 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2020 and 2019 are as follows:

	2020 <i>LL million</i>	2019 <i>Restated</i> <i>LL million</i>
Current income tax expense	4,987	14,520
Other taxes	50,808	22,383
Adjustment in respect of other taxes of prior years	(20,514)	-
	<u>35,281</u>	<u>36,903</u>

The components of operating profit before tax, and the differences between income tax expense reflected in the consolidated financial statements and the amounts calculated at the Lebanese tax rate, are shown in the table below:

	2020 <i>LL million</i>	2019 <i>Restated</i> <i>LL million</i>
Loss before income tax	(118,271)	(136,254)
Add (less): Results of differently taxed subsidiaries	34,896	(38,544)
Accounting loss before tax	<u>(83,375)</u>	<u>(174,798)</u>
Add:		
Non-tax deductible provisions	181,309	245,414
Other non-tax deductible charges	13,227	39,169
	<u>111,161</u>	<u>109,785</u>
Less:		
Release of provisions previously subject to income tax	(145,112)	(84,042)
Other non-taxable income	(52,201)	(3,655)
Taxable (loss) profit	<u>(86,152)</u>	<u>22,088</u>
Income tax expense at 17%	-	3,755
Income tax expense of differently taxed subsidiaries	4,987	10,765
Income tax expense recorded in the consolidated income statement	<u>4,987</u>	<u>14,520</u>

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

During 2020, other taxes include an amount of LL 50,808 million representing 2% on 2019 turnover as per Article No 20 of the Budget Law 6/2020.

15 INCOME TAX EXPENSE (continued)

The movement of current tax liabilities during the year is as follows:

	2020	2019
	LL million	Restated LL million
Balance at 1 January	40,132	57,402
Add: Charge for the year	35,281	36,903
Less: Paid during the year	(23,145)	(54,173)
Balance at 31 December (Note 33 (a))	<u>52,268</u>	<u>40,132</u>

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	<i>Deferred tax assets</i>		<i>Deferred tax liabilities</i>	
	2020	2019	2020	2019
	LL million	LL million	LL million	LL million
Fair value of financial instruments	<u>2,278</u>	<u>6,388</u>	<u>3,950</u>	<u>4,735</u>

16 LOSS PER SHARE

Basic loss per share is calculated by dividing the loss for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted loss per share is calculated by dividing the loss attributable to ordinary equity holders of the Bank (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential shares into ordinary shares.

The following table shows the loss and share data used in the basic loss per share calculation:

	2020	2019
	LL million	Restated LL million
Loss attributable to equity holders of the Bank from:		
Continuing and discontinued operations	(139,739)	(183,553)
Continuing operations	(136,861)	(173,528)
Discontinued operations	(2,878)	(10,025)
Weighted average number of shares outstanding	561,852,948	562,318,325
	2020	2019
	LL	Restated LL
Basic loss per share	(249)	(326)
Basic loss per share from continuing operations	(244)	(308)
Basic loss per share from discontinued operations	(5)	(18)

(*) The weighted average number of ordinary shares adopted for the computation of basic loss per share takes into account the weighted average number of treasury shares.

16 LOSS PER SHARE (continued)**Diluted loss per share**

The following table shows the loss and share data used in the diluted loss per share calculation:

	2020	2019
Weighted average number of ordinary shares for basic earnings per share	561,852,948	562,318,325
Effect of dilution:		
Convertible subordinated debt (Note 35)	108,030,685	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>669,883,633</u>	<u>679,518,325</u>
	2020	2019
	LL million	Restated LL million
Effect of convertible debt:		
Interest on convertible debt	32,454	32,259
Income tax	(5,517)	(5,484)
	<u>26,937</u>	<u>26,775</u>
Loss attributable to equity holders of the Bank adjusted for the effect of convertible debt from:		
Continuing and discontinued operations	(112,802)	(156,778)
Continuing operations	(109,924)	(146,753)
Discontinued operations	(2,878)	(10,025)
Diluted loss per share	(168)	(231)
Diluted loss per share from continuing operations	(164)	(216)
Diluted loss per share from discontinued operations	(4)	(15)

17 CASH AND BALANCES WITH CENTRAL BANKS

	2020	2019
	LL million	LL million
Cash on hand	295,262	189,004
Balances with the Central Bank of Lebanon:		
- Current accounts	1,332,562	404,426
- Time deposits	13,432,855	13,876,025
	<u>14,765,417</u>	<u>14,280,451</u>
Balances with Central Banks in other countries:		
- Current accounts	346,706	395,197
- Time deposits	490	544
	<u>347,196</u>	<u>395,741</u>
Accrued interest receivable	238,822	248,208
	<u>15,646,697</u>	<u>15,113,404</u>
Less: Allowance for expected credit losses (Note 47.2)	(241,331)	(171,758)
	<u>15,405,366</u>	<u>14,941,646</u>

17 CASH AND BALANCES WITH CENTRAL BANKS (continued)

During 2019, the Group and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualify for netting under the requirements of IAS 32. Accordingly, as at 31 December 2020, time deposits with the Central Bank of Lebanon amounting to LL 4,677,315 million (2019: LL 4,570,557 million) and term borrowings from the Central Bank of Lebanon (Note 29) are reported on a net basis on the consolidated statement of financial position.

Obligatory reserves:

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts with the Central Bank of Lebanon amounted to LL 2,621,896 million and LL 2,667,839 million respectively as at 31 December 2020 (2019: LL 2,861,045 million and LL 2,893,172 million respectively).
- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2020, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits and current accounts amounted to LL 66,895 million and LL 77,329 million respectively (2019: LL 99,293 million and LL 106,388 million respectively).

18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2020 LL million	2019 LL million
Current accounts	961,994	1,625,018
Time deposits	784,040	922,019
Pledged accounts	8,986	482
Accrued interest receivable	653	1,572
	<u>1,755,673</u>	<u>2,549,091</u>
Less: Allowance for expected credit losses (Note 47.2)	(15,846)	(3,803)
	<u>1,739,827</u>	<u>2,545,288</u>

Doubtful balances with banks and financial institutions and the related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross amount of these balances amounted to LL 2,422 million as of 31 December 2020 (2019: the same).

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19 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Loans to banks and financial institutions	76,106	122,600
Accrued interest receivable	115	563
	<u>76,221</u>	<u>123,163</u>
Discounted acceptances	107,260	214,356
Interest received in advance	(528)	(1,975)
	<u>106,732</u>	<u>212,381</u>
Reverse repurchase agreements	16,984	21,377
Accrued interest receivable	4	23
	<u>16,988</u>	<u>21,400</u>
	<u>199,941</u>	<u>356,944</u>
Less: Allowance for expected credit losses (Note 47.2)	(281)	(234)
	<u>199,660</u>	<u>356,710</u>

The Group purchased Armenian Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities are not included in the consolidated statement of financial position as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan and amounted to LL 16,988 million at 31 December 2020, including accrued interest (2019: LL 21,400 million).

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at year-end and are not indicative of either the market risk or credit risk.

Forwards and Futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

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20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2020			2019		
	<i>Assets</i>	<i>Liabilities</i>	<i>Notional</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Notional</i>
	<i>LL million</i>	<i>LL million</i>	<i>amount</i>	<i>LL million</i>	<i>LL million</i>	<i>amount</i>
			<i>LL million</i>			<i>LL million</i>
<i>Held for trading</i>						
Currency swaps	1,695	1,520	282,975	341	400	143,943
Forward foreign exchange contracts	1,414	1,438	60,393	362	508	184,723
	<u>3,109</u>	<u>2,958</u>	<u>343,368</u>	<u>703</u>	<u>908</u>	<u>328,666</u>

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	<i>LL million</i>	<i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Treasury bills	1,377	1,908
Eurobonds	-	13,135
	<u>1,377</u>	<u>15,043</u>
<i>Private sector and other securities</i>		
Equity securities and funds	64,862	68,508
	<u>66,239</u>	<u>83,551</u>

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2020	2019
	<i>LL million</i>	<i>LL million</i>
Commercial loans	2,537,835	4,414,477
Consumer loans	1,944,766	2,685,038
	<u>4,482,601</u>	<u>7,099,515</u>
Less: Allowance for expected credit losses (Note 47.2)	(555,878)	(385,690)
	<u>3,926,723</u>	<u>6,713,825</u>

Bad loans and related provisions and unrealized interest which fulfil certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 252,394 million as of 31 December 2020 (2019: LL 260,812 million).

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23 FINANCIAL ASSETS AT AMORTISED COST

	2020 LL million	2019 LL million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposits	2,818,959	3,037,376
Treasury bills (a)	2,242,335	2,665,192
Eurobonds	1,703,786	1,882,616
	<u>6,765,080</u>	<u>7,585,184</u>
Other sovereign		
Foreign governmental debt securities	18,934	53,178
Private sector and other securities		
Certificates of deposit issued by banks and financial institutions	-	3,051
Debt securities issued by banks and financial institutions	775	775
	<u>775</u>	<u>3,826</u>
	<u>6,784,789</u>	<u>7,642,188</u>
Less: Allowance for expected credit losses (Note 47.2)	(974,062)	(219,652)
	<u>5,810,727</u>	<u>7,422,536</u>

(a) As at 31 December 2020, Lebanese treasury bills amounting to LL 1,240,862 million were pledged against subsidized loans and term borrowings granted by the Central Bank of Lebanon with the same value (2019: LL 1,242,249 million) (Note 29).

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 LL million	2019 LL million
Lebanese sovereign and Central Bank of Lebanon		
Eurobonds	1,969	42,948
Other sovereign		
Foreign governmental debt securities	69,000	101,607
Private sector and other securities		
Debt securities issued by banks and financial institutions	8,881	10,011
Equity securities	80,095	88,418
	<u>88,976</u>	<u>98,429</u>
	<u>159,945</u>	<u>242,984</u>

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)***Equity instruments at fair value through other comprehensive income:***

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

	2020			2019		
	<i>Carrying amount</i>	<i>Cumulative fair value changes</i>	<i>Dividend income</i>	<i>Carrying amount</i>	<i>Cumulative fair value changes</i>	<i>Dividend income</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Unquoted shares:						
Banque de l'Habitat SAL	22,856	17,667	-	23,092	17,903	-
Intra Investment Company SAL	17,591	4,567	-	17,591	4,567	-
Interbank Payment Network (IPN) SAL	1,459	456	-	1,456	453	51
Arab Trade Financing Program	2,118	626	33	2,118	626	28
Others	1,969	154	13	2,117	302	-
Quoted shares:						
Jordan Ahli Bank	34,102	(46,312)	-	42,044	(38,370)	2,555
	80,095	(22,842)	46	88,418	(14,519)	2,634

Dividend income amounted to LL 46 million for the year ended 31 December 2020 (2019: LL 2,634 million) and resulted from equity instruments held at year end (2019: the same).

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	<i>Buildings</i>	<i>Motor vehicles</i>	<i>Furniture and equipment</i>	<i>Right of use assets</i>	<i>Deposits</i>	<i>Advance payments</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Cost:							
At 1 January 2020	327,685	2,825	245,243	31,227	749	8,752	616,481
Additions	1,529	17	11,616	626	1	2,871	16,660
Movements related to discontinued operations, net	-	-	119	-	-	-	119
Transfers	29	-	145	-	-	(174)	-
Disposals	(25)	(34)	(767)	(7,744)	-	-	(8,570)
Write-offs	-	-	(9,831)	-	-	-	(9,831)
Transfer to assets held for sale	-	(67)	(1,567)	(476)	-	-	(2,110)
Foreign exchange difference	(6,206)	(126)	(3,469)	(1,795)	14	(249)	(11,831)
At 31 December 2020	323,012	2,615	241,489	21,838	764	11,200	600,918
Depreciation:							
At 1 January 2020	73,638	2,565	199,279	3,993	-	-	279,475
Depreciation during the year	5,219	120	14,377	3,336	-	-	23,052
Depreciation related to discontinued operations	-	17	287	117	-	-	421
Related to disposals	(1)	(34)	(710)	(1,794)	-	-	(2,539)
Related to write-offs	-	-	(8,048)	-	-	-	(8,048)
Transfer to assets held for sale	-	(57)	(1,066)	(233)	-	-	(1,356)
Foreign exchange difference	(1,024)	(142)	(3,166)	(299)	-	-	(4,631)
At 31 December 2020	77,832	2,469	200,953	5,120	-	-	286,374
Net carrying value:							
At 31 December 2020	245,180	146	40,536	16,718	764	11,200	314,544

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

	<i>Buildings</i> <i>LL million</i>	<i>Motor</i> <i>vehicles</i> <i>LL million</i>	<i>Furniture</i> <i>and</i> <i>equipment</i> <i>LL million</i>	<i>Right</i> <i>of</i> <i>use assets</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance</i> <i>payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:							
At 1 January 2019	288,569	2,860	232,187	-	748	8,497	532,861
Impact of adopting IFRS 16 at 1 January 2019	-	-	-	31,227	-	-	31,227
Additions	39,922	42	16,552	-	4	1,377	57,897
Transfers	-	-	1,122	-	-	(1,122)	-
Disposals	(915)	(80)	(2,101)	-	-	-	(3,096)
Write-offs	-	-	(2,475)	-	-	-	(2,475)
Foreign exchange difference	109	3	(42)	-	(3)	-	67
At 31 December 2019	327,685	2,825	245,243	31,227	749	8,752	616,481
Depreciation:							
At 1 January 2019	69,109	2,307	189,482	-	-	-	260,898
Depreciation during the year	4,947	277	14,128	3,876	-	-	23,228
Depreciation related to discontinued operations	-	17	215	117	-	-	349
Related to disposals	(437)	(38)	(2,025)	-	-	-	(2,500)
Related to write-offs	-	-	(2,444)	-	-	-	(2,444)
Foreign exchange difference	19	2	(77)	-	-	-	(56)
At 31 December 2019	73,638	2,565	199,279	3,993	-	-	279,475
Net carrying value:							
At 31 December 2019	254,047	260	45,964	27,234	749	8,752	337,006

The cost of buildings at 31 December 2020 and 2019 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993 and approved by the Central Committee of the Central Bank of Lebanon. Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2020 (2019: the same) (Note 40).

Set out below is the breakdown of the carrying amounts of the Group's right-of-use assets and the movements during the period:

	<i>Branches</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:			
As at 1 January 2020	27,375	3,852	31,227
Additions	-	626	626
Disposals	(7,063)	(681)	(7,744)
Transfer to assets held for sale	(476)	-	(476)
Foreign exchange difference	(1,626)	(169)	(1,795)
At 31 December 2020	18,210	3,628	21,838
Depreciation:			
At 1 January 2020	3,455	538	3,993
Depreciation during the year	2,631	705	3,336
Depreciation related to discontinued operations	117	-	117
Related to disposals	(1,508)	(286)	(1,794)
Transfer to assets held for sale	(233)	-	(233)
Foreign exchange difference	(285)	(14)	(299)
At 31 December 2020	4,177	943	5,120
Net carrying value:			
At 31 December 2020	14,033	2,685	16,718

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

	<i>Branches LL million</i>	<i>Other LL million</i>	<i>Total LL million</i>
As at 1 January 2019	27,375	3,852	31,227
Depreciation expense	(3,455)	(538)	(3,993)
At 31 December 2019	<u>23,920</u>	<u>3,314</u>	<u>27,234</u>

During 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.

26 INTANGIBLE ASSETS

	<i>Key money LL million</i>	<i>Software development LL million</i>	<i>Total LL million</i>
Cost			
At 1 January 2020	2,303	54,472	56,775
Additions	-	4,749	4,749
Disposals	-	(634)	(634)
Foreign exchange difference	-	372	372
At 31 December 2020	<u>2,303</u>	<u>58,959</u>	<u>61,262</u>
Amortization			
At 1 January 2020	2,225	34,710	36,935
Charge for the year	36	5,465	5,501
Foreign exchange difference	-	86	86
At 31 December 2020	<u>2,261</u>	<u>40,261</u>	<u>42,522</u>
Net carrying value			
At 31 December 2020	<u>42</u>	<u>18,698</u>	<u>18,740</u>

	<i>Key money LL million</i>	<i>Software development LL million</i>	<i>Total LL million</i>
Cost			
At 1 January 2019	2,303	48,085	50,388
Additions	-	6,419	6,419
Disposals	-	(7)	(7)
Foreign exchange difference	-	(25)	(25)
At 31 December 2019	<u>2,303</u>	<u>54,472</u>	<u>56,775</u>
Amortization			
At 1 January 2019	2,150	30,511	32,661
Charge for the year	75	4,227	4,302
Related to disposals	-	(7)	(7)
Foreign exchange difference	-	(21)	(21)
At 31 December 2019	<u>2,225</u>	<u>34,710</u>	<u>36,935</u>
Net carrying value			
At 31 December 2019	<u>78</u>	<u>19,762</u>	<u>19,840</u>

27 ASSETS OBTAINED IN SETTLEMENT OF DEBT

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets which are, as such, included in assets obtained in settlement of debt. Gains or losses on disposal are recognised in the consolidated income statement for the year.

	2020 <i>LL million</i>	2019 <i>LL million</i>
Cost:		
At 1 January	81,508	61,231
Additions	3,506	20,842
Disposals	(3,132)	(576)
Foreign exchange difference	(192)	11
At 31 December	81,690	81,508
Impairment:		
At 1 January	9,826	9,826
Impairment for the year	84	-
Related to disposals	(2,125)	-
At 31 December	7,785	9,826
Net carrying value:		
At 31 December	73,905	71,682

28 OTHER ASSETS

	2020 <i>LL million</i>	2019 <i>LL million</i>
Receivables from Central Bank of Lebanon under leverage arrangements (a)	315,091	-
Obligatory deposits (b)	2,250	2,250
Prepaid expenses	1,529	4,117
Prepaid insurance	6,427	6,015
Prepaid maintenance	2,647	2,618
Printings and stationery	4,076	3,852
Electronic cards and regularization accounts	17,371	19,027
Insurance premiums receivable	4,178	2,835
Deferred tax assets (Note 15)	2,278	6,388
Reinsurers' share of technical reserves of subsidiary insurance companies	92,747	53,615
Hospitalization and medical care under collection	17,870	14,951
Foreign exchange position	12,800	-
Other debit balances	16,606	10,116
	495,870	125,784
Less: Allowance for expected credit losses	(7,676)	(176)
	488,194	125,608

a) *Receivables from Central Bank of Lebanon under leverage arrangements:*

During 2020, the Bank recognized a gain under "Other operating income" representing the present value of expected future cash flows from leverage arrangements with the Central Bank of Lebanon entered into during 2019. The gain was recorded against a receivable from the Central Bank of Lebanon under "Other assets". This accounting treatment was adopted by the Bank as it is permissible by Central Bank of Lebanon Intermediate Circular number 519 (Note 11).

28 OTHER ASSETS (continued)

- b) Obligatory deposits consist of deposits as a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

29 DUE TO CENTRAL BANKS

	2020 LL million	2019 LL million
Central Bank of Lebanon		
Subsidized loans	448,624	483,976
Term borrowings under leverage arrangements	1,013,862	1,013,862
Accrued interest payable	29,482	28,618
	<u>1,491,968</u>	<u>1,526,456</u>
Other central banks		
Current accounts	124	117
Term loans	1,947	2,190
Accrued interest payable	33	33
	<u>2,104</u>	<u>2,340</u>
	<u><u>1,494,072</u></u>	<u><u>1,528,796</u></u>

Subsidised Loans from the Central Bank of Lebanon

- The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LL 264,366 million as of 31 December 2020 (2019: LL 307,011 million).
- The Group obtained 3 loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha SAL. These loans were originally granted in the amount of LL 227,000 million netted by a discount of LL 42,742 million as at 31 December 2020 (2019: LL 227,000 million netted by a discount of LL 51,422 million) and are secured by the pledge of Lebanese treasury bills amounting to LL 227,000 million included under financial assets at amortised cost as of 31 December 2019 (2019: LL 227,000 million) (Note 23).
- During 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war. These loans were originally granted in the amount of LL 8,810 million, out of which LL 1,895 million matured during 2013, LL 5,528 million matured during 2015 and LL 1,387 million matured during 2020. These loans were secured by the pledge of Lebanese treasury bills amounting to LL 1,387 million included under financial assets at amortised cost as of 31 December 2019 (Note 23).

Term borrowings under leverage arrangements

Term borrowings under leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in Lebanese Lira, bearing an interest rate of 2% per annum and having maturities ranging between 2022 and 2035, fully invested in pledged Lebanese treasury bills and blocked term placements with the Central Bank of Lebanon in Lebanese Lira earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously the Group has further deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in Lebanese Lira at 10.5% per annum carrying the same maturities. During 2019, the Group and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placements with the Central Bank of Lebanon in Lebanese Lira. This agreement qualifies for netting under the requirements of IAS 32.

29 DUE TO CENTRAL BANKS (continued)***Term borrowings under leverage arrangements (continued)***

The below table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the consolidated statement of financial position. The table identifies the amounts that have been offset in the consolidated statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Leverage arrangements		
Gross amounts	5,691,177	5,584,419
Amounts offset against ⁽¹⁾		
Placements with the Central Bank of Lebanon (Note 17)	(4,677,315)	(4,570,557)
Net amounts reported on the consolidated statement of financial position	<u>1,013,862</u>	<u>1,013,862</u>
<i>Financial collateral</i>		
Lebanese treasury bills (Note 23)	<u>1,013,862</u>	<u>1,013,862</u>

⁽¹⁾ Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon have also been reported in the consolidated statement of financial position net of the amounts above.

30 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Current accounts	107,339	114,033
Term loans	462,677	576,425
Time deposits	398,869	486,545
Cash margins	67,087	54,256
Accrued interest payable	5,472	8,133
	<u>1,041,444</u>	<u>1,239,392</u>

31 CUSTOMERS' DEPOSITS AT AMORTISED COST

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Current accounts	9,554,170	4,465,961
Term deposits	11,919,159	20,272,009
Cash margins	488,908	1,021,601
Accrued interest payable	56,553	208,860
	<u>22,018,790</u>	<u>25,968,431</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

32 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>Maturity</i>	<i>Interest rate %</i>	<i>2020 LL million</i>	<i>2019 LL million</i>
Notes				
Issue 2011	24/06/2021	7.00	-	431,488
Accrued interest payable			-	616
			-	432,104
Debt issued				
Issue 2017	19/01/2021	7.50	9,331	9,517
Accrued interest payable			203	207
			9,534	9,724
			9,534	441,828

The General Assembly of the Association of Noteholders held on 19 June 2020 of Notes due on 2021 and issued by the Group during 2011 resolved, with majority of the votes, to modify the terms and conditions of the Notes as set out in the Trust Deed and in the summary of terms and conditions signed by the initial subscribers for the purposes of providing early redemption of the Notes in June 2020 and to modify the payment terms. Accordingly, the Group settled the outstanding balance of these Notes on 29 June 2020.

33 OTHER LIABILITIES

	<i>2020 LL million</i>	<i>2019 LL million</i>
Lease liabilities	14,845	24,803
Accrued expenses	26,939	33,822
Fixed assets suppliers	181	174
Unearned commission and interest	4,886	6,486
Cash margins related to companies under establishment	1,300	1,526
Insurance premiums received in advance	2,183	2,504
Payables to the National Social Security Fund	2,293	2,388
Advance payments linked to assets obtained in settlement of debt	470	47
Current tax liability (a)	66,931	65,307
Deferred tax liability (Note 15)	3,950	4,735
Put options on non-controlling interests	4,791	4,791
Deferred provision for Banque Pharaon & Chiha SAL loans portfolio	7,434	9,905
Deferred revenues (b)	-	138,987
Other creditors	60,673	61,325
	196,876	356,800

33 OTHER LIABILITIES (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2020 and 2019:

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Balance at 1 January	24,803	29,681
Interest expense (Note 7)	1,069	1,313
Movement related to discontinued operations, net	12	12
Paid during the year	(3,731)	(6,203)
Terminated during the year	(5,846)	-
Transfer to liabilities held for sale	(245)	-
Foreign exchange difference	(1,217)	-
Balance at 31 December	14,845	24,803

During 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.

(a) Current tax liability

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Income tax due (Note 15)	52,268	40,132
Withholding tax on salaries	2,548	2,546
Withholding tax on interest earned by customers	8,838	18,585
Value added tax	420	164
Other taxes	2,857	3,880
	66,931	65,307

(b) Deferred revenues

During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier 1.

As at 31 December 2019, the Group carried an amount of LL 138,987 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon that it did not recognize in the consolidated income statement in previous years. During 2020, the Group wrote-back an amount of LL 138,987 million from this balance which was recorded under "Other operating income" in the consolidated income statement (2019: LL 16,507 million) (Note 11).

34 PROVISIONS FOR RISKS AND CHARGES

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Technical reserves of insurance subsidiaries	140,666	112,544
Employees' end of service benefits (a)	47,427	36,323
Other provisions (b)	48,088	34,440
	<u>236,181</u>	<u>183,307</u>

(a) Employees' end of service benefits

The Group has two defined benefit plans covering substantially all of its employees. The first requires contributions to be made to the National Social Security Fund. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries, contributions paid to the National Social Security Fund and other requirements outlined in the Lebanese Labor Law. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

Movement in the provision for employees' end of service benefits during the year was as follows:

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Balance at 1 January	36,323	38,655
<i>Costs charged to the income statement (Note 13):</i>		
Service costs	1,618	1,537
Net interest	2,738	2,392
	<u>4,356</u>	<u>3,929</u>
<i>Re-measurement losses (gains) in other comprehensive income:</i>		
Experience adjustments	(4,929)	(1,839)
Economic assumptions	18,261	-
	<u>13,332</u>	<u>(1,839)</u>
End of service benefits paid during the year	(6,636)	(4,393)
Foreign exchange	52	(29)
Balance at 31 December	<u>47,427</u>	<u>36,323</u>

Defined benefit plans in Lebanon constitute more than 95% of the Group's retirement obligation. The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

	<i>2020</i>	<i>2019</i>
Economic assumptions		
Discount rate	6.5%	9.5%
Salary increase	25%	3.0%
Expected annual rate of return on NSSF contributions	3.0%	5.0%
Treatment of bonus	None	Last 2-years average as a % of basic

34 PROVISIONS FOR RISKS AND CHARGES (continued)*(a) Employees' end of service benefits (continued)*

	2020	2019
Demographic assumptions		
Retirement age	Earliest of 64 or completion of 20 contribution years	Earliest of 64 or completion of 20 contribution years
Pre-termination mortality rate	None	None
Pre-termination turnover rates (age related with average of)	3.5% for NSSF and 7.5% for WCA	2.0% for NSSF and 4.0% for WCA

A quantitative sensitivity analysis for the significant assumptions is shown below:

	<i>Discount rate</i>		<i>Future salary increase</i>	
	<i>increase LL million</i>	<i>decrease LL million</i>	<i>increase LL million</i>	<i>decrease LL million</i>
Impact on net defined benefit obligations				
2020	(314)	322	1,122	(1,097)
2019	(790)	841	1,750	(1,557)

The sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

(b) Other provisions

	2020 LL million	2019 LL million
Provisions for contingencies	35,062	24,712
Provisions for ECL on financial guarantees and commitments	8,081	5,690
Other	4,945	4,038
	<u>48,088</u>	<u>34,440</u>

Movement in other provisions during the year was as follows:

	2020 LL million	2019 LL million
At 1 January	34,440	59,508
Charge for the year (Note 14)	14,026	13,772
Write back during the year (Note 11)	(3,936)	(37,723)
Provisions for ECL on financial guarantees and commitments	3,875	111
Foreign exchange	(317)	(1,228)
At 31 December	<u>48,088</u>	<u>34,440</u>

35 SUBORDINATED DEBT

	2020 LL million	2019 LL million
Nominal value	441,514	441,514
Unamortised discount	(8,327)	(12,049)
Accrued interest payable	22,128	327
Repurchased/exchanged	(34,373)	-
	<u>420,942</u>	<u>429,792</u>

35 SUBORDINATED DEBT (continued)

On 21 December 2012, the Group signed a US\$ 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US\$ 300 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	30,000
Note's issue price:	US\$ 10,000
Note's nominal value:	US\$ 10,000
Date of issue:	21 December 2012
Maturity:	21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US\$ 2.5 per share or US\$ 125 per GDR
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's at a conversion price of US\$ 2.5 per share or US\$ 125 per GDR.

On 17 June 2020, in light of the developments in the Lebanese Republic, the Group announced that it will not make the interest payments on the subordinated debt which is due on 30 June 2020.

The Extraordinary General Assembly of the Shareholders held on 21 April 2021 resolved the following:

- The exchange of convertible subordinated debt with a nominal value of US\$ 20,380,000 with new bonds maturing in 2031 and payable locally; and
- The repurchase of convertible subordinated debt with a nominal value of US\$ 200,520,000 and their cancellation.

During 2020, the Bank repurchased/exchanged convertible subordinated debt with a nominal value and accrued interest amounting to US\$ 28,550,000 and US\$ 1,351,327 respectively (out of which convertible subordinated debt with a nominal value amounting to US\$ 7,100,000 pertains to a consolidated subsidiary). In addition, convertible subordinated debt with a nominal value and accrued interest amounting to US\$ 172,970,000 and US\$ 9,382,266 was repurchased/exchanged by the Bank between the balance sheet date and 29 March 2021.

The convertible subordinated loan was recorded at issuance as follows:

	<i>LL million</i>
Nominal value of convertible bonds	452,250
Equity component	(31,618)
Liability component	<u>420,632</u>

The equity component of the convertible subordinated loan is recorded in equity under "Non-distributable reserves" (Note 37).

36 SHARE CAPITAL

	2020			2019		
	No of shares	Share capital LL million	Share premium LL million	No of shares	Share capital LL million	Share premium LL million
Common shares	565,515,040	684,273	229,014	565,515,040	684,273	229,014
Preferred shares						
- Series 2008	2,000,000	2,420	295,154	2,000,000	2,420	295,154
- Series 2009	2,000,000	2,420	295,929	2,000,000	2,420	295,929
	<u>4,000,000</u>	<u>4,840</u>	<u>591,083</u>	<u>4,000,000</u>	<u>4,840</u>	<u>591,083</u>

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2019: the same).

36 SHARE CAPITAL (continued)***Preferred shares******i) Series 2008 Preferred Shares***

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium:	US\$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US\$ as the difference between the total issue of US\$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US\$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 96
Share's nominal value:	LL 1,210
Issue premium:	US\$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US\$ as the difference between the total issue of US\$ (000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US\$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US\$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Listing of shares

As of 31 December 2020 and 2019, the Bank's shares were listed as follows:

	2020	2019	2020	2019
	Stock exchange	Stock exchange	No of shares	No of shares
Ordinary shares	Beirut	Beirut	502,284,240	502,278,190
Global depository receipts (*)	Beirut London SEAQ and Beirut		1,264,616	1,264,737
Preferred shares	Beirut	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

The Bank's Board of Directors meeting dated 17 June 2020 approved the delisting of its GDR from the London SEAQ. The delisting became effective on 30 July 2020.

37 NON-DISTRIBUTABLE RESERVES

	<i>Legal reserve LL million</i>	<i>General reserve LL million</i>	<i>Reserves for capital increase LL million</i>	<i>Equity component of convertible subordinated debt LL million</i>	<i>Other reserves LL million</i>	<i>Total LL million</i>
Balance at 1 January 2020	355,200	334,390	127,665	31,618	177,692	1,026,565
Transfer between reserves	1,198	-	-	-	5,365	6,563
Balance at 31 December 2020	356,398	334,390	127,665	31,618	183,057	1,033,128
Balance at 1 January 2019	333,324	326,116	124,291	31,618	166,691	982,040
Appropriations from retained earnings	21,876	8,274	3,374	-	11,001	44,525
Balance at 31 December 2019	355,200	334,390	127,665	31,618	177,692	1,026,565

Legal reserve

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

During 2020, the Bank and different subsidiaries transferred to legal reserve an amount of LL 1,198 million (2019: LL 21,876 million) as required by the laws applicable in the countries in which they operate.

Reserves for capital increase

During 2019, the Group transferred LL 3,374 million to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

General reserve

According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to General Reserves, the balance of Reserves for General Banking Risks and General Reserves for Loans and Advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution.

Other reserves

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinated debt.
- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2020, the Group transferred an amount of LL 5,365 million from retained earnings to other reserves in this respect (2019: LL 11,001 million).
- As of 31 December 2020, "Other reserves" include reserves of LL 136,159 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2019: LL 118,987 million).

38 DISTRIBUTABLE RESERVES

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
General reserves	95,696	123,972
Other capital reserves	1,026	1,026
	<u>96,722</u>	<u>124,998</u>

General reserves

The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
At 1 January	123,972	115,626
Appropriation from retained earnings	1,759	8,346
Transfer to retained earnings	(30,035)	-
At 31 December	<u>95,696</u>	<u>123,972</u>

Other capital reserves

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Premium on capital increase of Byblos Bank Armenia CJSC	1,026	1,026

39 TREASURY SHARES

Movement of treasury shares recognised in the statement of financial position for the years 2020 and 2019 was as follows:

Year ended 31 December 2020

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount US\$(000)</i>	<i>No. of shares</i>	<i>Amount US\$(000)</i>
At 1 January 2020	3,304,292	5,037	11,257	911
Sales of treasury shares	(108,827)	(187)	-	-
At 31 December 2020	<u>3,195,465</u>	<u>4,850</u>	<u>11,257</u>	<u>911</u>
Total treasury shares in LL million				<u>8,685</u>

Year ended 31 December 2019

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount US\$(000)</i>	<i>No. of shares</i>	<i>Amount US\$(000)</i>
At 1 January 2019	2,263,019	3,808	11,172	906
Acquisitions of treasury shares	1,041,273	1,229	85	5
At 31 December 2019	<u>3,304,292</u>	<u>5,037</u>	<u>11,257</u>	<u>911</u>
Total treasury shares in LL million				<u>8,967</u>

40 REVALUATION RESERVE OF REAL ESTATE

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Revaluation reserve	5,689	5,689

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

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

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
At 1 January	(39,909)	(15,462)
Net changes in fair values during the year	(14,352)	(28,524)
Amounts reclassified to the consolidated income statement	31,104	-
Net changes in deferred taxes	2,186	4,100
Difference on exchange	(221)	(23)
Balance at 31 December	(21,192)	(39,909)

42 CASH AND CASH EQUIVALENTS

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Cash and balances with central banks	4,918,335	3,400,000
Due from banks and financial institutions	1,689,727	2,471,288
Loans to banks and financial institutions and reverse repurchase agreements	149,649	244,156
	6,757,711	6,115,444
Less: Due to central banks	(32,793)	(36,861)
Less: Due to banks and financial institutions	(512,274)	(658,033)
Cash and cash equivalents at 31 December	6,212,644	5,420,550

Cash and balances with central banks include amounts of LL 2,260,929 million as at 31 December 2020 (2019: LL 2,534,217 million) representing mandatory reserve deposits and balances.

Cash and cash equivalents include balances in foreign currencies that are subject to unofficial capital controls and restricted transfers outside Lebanon. Accordingly, these balances are not considered readily convertible to known amounts of cash in the denomination currency without a risk of changes in value. However, the Group maintains their classification as cash and cash equivalents as they are freely transferrable within the Lebanese territory. These balances were as follows as at 31 December 2020 and 31 December 2019:

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Balances with central banks	3,911,313	2,544,717
Due from banks and financial institutions	399,099	176,510
Loans to banks and financial institutions and reverse repurchase agreements	41,088	21,259
	4,351,500	2,742,486

31 December 2020

43 RELATED PARTY TRANSACTIONS

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

A list of the Group's principal subsidiaries is shown in Note 3. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

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

Related party balances included in the Group's consolidated statement of financial position are as follows as of 31 December:

	31 December 2020			31 December 2019		
	Key management personnel LL million	Other LL million	Total LL million	Key management personnel LL million	Other LL million	Total LL million
Due from banks and financial institutions	-	6,029	6,029	-	7,267	7,267
Loans and advances	2,308	9,019	11,327	7,688	16,868	24,556
Due to banks and financial institutions	-	91,487	91,487	-	99,545	99,545
Deposits	83,402	318,730	402,132	94,669	130,965	225,634
Debt issued and other borrowed funds	-	9,331	9,331	606	11,045	11,651
Subordinated debt	121	3,739	3,860	314	4,323	4,637
Guarantees received	3,719	10,471	14,190	6,963	14,993	21,956
Guarantees given	41	34	75	23	144	167
Commitments (including acceptances)	2,320	55	2,375	2,135	1,912	4,047

Related party transactions included in the Group's consolidated income statement are as follows for the year ended 31 December:

	31 December 2020			31 December 2019		
	Key management personnel LL million	Other LL million	Total LL million	Key management personnel LL million	Other LL million	Total LL million
Interest income on due from banks and financial institutions	-	1	1	-	194	194
Interest income on loans and advances	205	541	746	422	1,174	1,596
Interest expense on deposits	2,942	6,226	9,168	7,620	3,224	10,844
Interest expense on due to banks and financial institutions	-	2,207	2,207	-	3,969	3,969
Interest expense on debt issued and other borrowed funds	-	97	97	42	887	929
Interest expense on subordinated debt	-	-	-	20	278	298
Rent expense	-	229	229	-	573	573

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC), a shareholder, whereby the latter makes available a non-committed trade finance guarantee facility to the Group up to US\$ 50 million. During 2020, this limit was cancelled, and the facilities issued by IFC are being granted on a case by case basis. As at 31 December 2020, guarantees issued by IFC amounted to LL 3,240 million (2019: LL 18,428 million).

Compensation of the Key Management Personnel of the Group

	2020 LL million	2019 LL million
Short-term benefits ¹	9,563	13,495

¹ Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**Credit-related commitments and contingent liabilities**

The Group enters into various commitments, guarantees and other contingent liabilities which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients' default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

	2020		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	64,134	64,134
Other guarantees	103,930	418,298	522,228
	<u>103,930</u>	<u>482,432</u>	<u>586,362</u>
Commitments			
Documentary credits	22,952	82,306	105,258
Loan commitments	-	750,360	750,360
	<u>22,952</u>	<u>832,666</u>	<u>855,618</u>
	2019		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	147,574	147,574
Other guarantees	125,716	710,835	836,551
	<u>125,716</u>	<u>858,409</u>	<u>984,125</u>
Commitments			
Documentary credits	101,135	238,770	339,905
Loan commitments	-	1,130,645	1,130,645
	<u>101,135</u>	<u>1,369,415</u>	<u>1,470,550</u>

Guarantees (including standby letters of credit)

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance guarantees, advance payment guarantees and tender guarantees.

Documentary credits

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

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit-related commitments and contingent liabilities (continued)

Loan commitments

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

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

Investment commitments

The Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LL 6,679 million as of 31 December 2020 (2019: LL 6,966 million).

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims in Lebanon and abroad, mainly those relating to the restrictive measures in place with respect to the withdrawal of funds and transfers abroad and a civil action filed in US federal courts in the US District Court in the Eastern District of New York (EDNY) against eleven Lebanese banks including Byblos Bank SAL asserting primary and secondary liability claims under the Anti-Terrorism Act ("ATA").

The extent of the impact of these matters cannot always be predicted but may materially impact the Group's operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 34.

Other commitments and contingencies

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2016 to 31 December 2020 and the review of the National Social Security Fund (NSSF) for the period from 1 November 2014 to 31 December 2020. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

Commitments resulting from credit facilities received

The Group has several commitments and covenants resulting from credit facilities, term loans and subordinated debts with non-resident financial institutions. The Group is in breach with some of the financial covenants which were calculated based on the recorded figures and does not take into consideration the adjustments that may result from the resolution of the uncertainties in Note 1. Due to the high level of uncertainties and the lack of observable reliable indicators and the high gap in currency rates, the Group is unable to estimate in a reasonable manner the impact of these matters on its covenant calculation.

45 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2020</i> <i>LL million</i>	<i>2019</i> <i>LL million</i>
Assets held in custody and under administration	1,105,758	1,790,341

Assets held in custody and under administration

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support functions and activities including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Quoted Market Prices – Level 1

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

Valuation Technique Using Observable Inputs – Level 2

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

Valuation Technique Using Significant Unobservable Inputs – Level 3

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

Effects of exchange rates on the fair value measurements

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

46.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

	2020			
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets:				
Derivative financial instruments:				
Currency swaps	-	1,695	-	1,695
Forward foreign exchange contracts	-	1,414	-	1,414
Financial assets at fair value through profit or loss:				
Lebanese treasury bills and bonds	-	-	1,377	1,377
Equity securities and funds	45,226	-	19,636	64,862
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills and bonds	1,969	-	-	1,969
Foreign governmental debt securities	-	69,000	-	69,000
Debt securities issued by banks and financial institutions	-	8,881	-	8,881
Equity securities	34,102	-	45,993	80,095
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	1,520	-	1,520
Forward foreign exchange contracts	-	1,438	-	1,438
	2019			
	Valuation techniques			
	Quoted market price Level 1 LL million	Observable inputs Level 2 LL million	Unobservable inputs Level 3 LL million	Total LL million
Assets:				
Derivative financial instruments:				
Currency swaps	-	341	-	341
Forward foreign exchange contracts	-	362	-	362
Financial assets at fair value through profit or loss:				
Lebanese treasury bills and bonds	13,135	-	1,908	15,043
Equity securities and funds	49,170	-	19,338	68,508
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills and bonds	42,948	-	-	42,948
Foreign governmental debt securities	-	101,607	-	101,607
Debt securities issued by banks and financial institutions	-	10,011	-	10,011
Equity securities	42,044	-	46,374	88,418
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	400	-	400
Forward foreign exchange contracts	-	508	-	508

There were no transfers between levels during 2020 (2019: the same).

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**46.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (continued)**

Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value (continued)

Assets and liabilities carried at fair value using a valuation technique categorized within Level 2 or Level 3

Government bonds and other debt instruments

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds and other debt instruments.

Funds and Equity Shares of Non-listed Entities

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

Equity shares of non-listed entities comprise mainly the Group's strategic investments are generally classified at fair value and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on whether the financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

Reconciliation of fair value measurement of financial assets in unquoted equity shares:

	2020	2019
	LL million	LL million
Balance at 1 January	46,374	43,552
Re-measurement recognised in other comprehensive income	(381)	2,822
	<u>45,993</u>	<u>46,374</u>

46.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

Comparison of carrying and fair values for financial assets and liabilities not held at fair value:

Financial assets and liabilities concentrated in Lebanon

These assets and liabilities consist of balances with the Central Bank of Lebanon and Lebanese Banks, Lebanese government securities, loans and advances to customers and related parties, due to the Central Bank of Lebanon and Lebanese Banks, customers and related parties deposits, and debt issued and other borrowed funds. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in Note 1 and the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities.

Financial assets and liabilities not concentrated in Lebanon

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

47 RISK MANAGEMENT

47.1 INTRODUCTION

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

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

Group risk management structure

The Board of Directors is primarily responsible for establishing / approving the Group's strategic direction and approving the nature and levels of risk the Group is willing to take. The Board has established four committees to assist in carrying out its responsibilities:

Risk Committee: It is primarily responsible to formulate the risk appetite statement for the Group through establishing a comprehensive set of internal risk limits and other qualitative risk statements that clearly define the amount of risks the Board is willing to take and those risks the Board wishes to avoid, and monitors compliance with the risk appetite statement. It provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity, interest rate and operational risks of the Group. It also oversees the process and outcome of the ICAAP (Internal Capital Adequacy Assessment Process), IFRS 9 and Recovery Plan. It discusses and approves risk policies.

Anti-Money Laundering and Compliance Committee: It has been established according to BDL basic circular number 83 dated 18/05/2001. The mission of the committee is to ensure the Group's compliance with anti-money laundering laws (namely Law Number 318 dated 20 April 2001 and BDL circular number 83 dated 18 May 2001) and all amendments thereto. The committee has an oversight responsibility over the Group's compliance program (set of policies, procedures, resources and systems) for detecting and preventing all forms of money laundering as well as preventing any of the Group's entities from being misused by individuals or organizations to circumvent or violate local and international sanctions, laws, and regulations.

Audit Committee: monitors the Group's accounting practices and external reporting, and reviews the audit reports covering the Group's operations and takes appropriate actions / decisions.

Remuneration, Nomination and Corporate Governance Committee: ensures that the Group has coherent remuneration policies and practices, and that proper succession plans for board members and senior managers are in place. It is also responsible to make sure that corporate governance principles and the code of conduct are well established at the Group to warrant the confidence of shareholders, investors and stakeholders.

The above Board Committees are composed of mostly independent / non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to Senior Management, through the following diverse committees that have been established:

Executive Committee: acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman/General Manager, the Head of Group Consumer Banking Division, the Head of Group Financial Markets and Financial Institutions Division, the Head of Group Commercial Banking Division, the Head of Group Risk Management Division and the Head of Foreign Banking Unit.

Central Credit Committee (CCC): is the highest credit authority in the Group after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of capital, which requires the joint approval of the Chairman and the CCC. Credit proposals exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower amount credit proposals to various sub-committees.

47 RISK MANAGEMENT (continued)**47.1 INTRODUCTION (continued)****Group risk management structure (continued)**

Assets and Liabilities Committee (ALCO): whose mission is to manage the statement of financial position in compliance with the main objectives of the Group, in terms of growth, liquidity and interest income. Its role encompasses the review, approval and implementation of the Group's strategies regarding liquidity and interest rate, foreign exchange and trading activities through decisions on size and duration of mismatched positions and on pricing.

Risk Committee (Management): whose task is to formulate and enforce guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by the Group Risk Management and issues related to the implementation of Basel III projects. The committee discusses and approves risk policies, risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the preparation of risk reports and the framework and results relating to processes (such as ICAAP, IFRS 9 Impairment, Recovery Planning) before submission to the Board.

The Group also established two other committees concerned with risk management and compliance, being: *The Operational Risk Management Committee* and the *Compliance and Anti-Money Laundering Committee*. The Operational Risk Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Group's KYC and sanction policies.

Group Internal Audit Division

The Group Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic disciplined and risk based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained and where weaknesses are identified, they are reported to Senior Management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems and reports its recommendations accordingly.

The GIA also ensures that the Group is in compliance with the rules and regulations in different jurisdictions where the Group is operating, the Central Banks and Banking Control Commission requirements, Board of Directors and management directives and implemented policies and procedures.

Risk Management

The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision and Basel Capital Accord texts (Basel III) to measure and assess the risks identified under the pillars I and II, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

Risk Management Framework

The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are being reviewed annually or upon need in order to be aligned with the changes related to the internal and external environment of the Group. The set of basic principles that governs the risk management framework of the Group are developed based on the following:

Business Line Accountability: Business lines are accountable for managing the risks associated with their activities and establish tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

Strategic Level Risk Management, encompasses the risk management functions performed by senior management and the Board. It includes defining the Group's risk appetite, formulating strategy and policies for managing risk and establishing adequate systems and controls to ensure that the Group's aggregate risk profile is within acceptable tolerance levels.

47 RISK MANAGEMENT (continued)**47.1 INTRODUCTION (continued)****Risk Management Framework (continued)**

Analytical Level Risk Management, encompasses the risk management, within the authority delegated by the Strategic Level to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

Tactical Level Risk Management, encompasses risk management activities performed by individuals who take risk on the Group's behalf such as the front office and loan origination functions.

The Risk Charter is complemented by risk specific policies and procedures enabling the unification of the risk culture and practice. Risk management is applied through the implementation of these risk policies / limits approved by the Board and that are put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear and documented decision making process.

47.2 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department of the Group's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective action.

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

During 2020 and 2019, the 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. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its assets size, ii) increasing collection capacity across various business lines, iii) increasing provisions for expected credit losses on different portfolios, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified as Stage 3.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.1 Expected Credit Losses****47.2.1.1 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 estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving the forward-looking economic scenarios; iv) approving staging classifications on a name-by-name basis for material exposures and v) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements 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.

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

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 actual and future economic scenarios, which are set by economists within the Group's Research Department using independent models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum semi-annually, to come up with actual Point-in-Time PD. This was specifically critical during 2020 where Lebanon's GDP had sharply decreased by an estimated 25% in 2020, following a negative growth of 7.20% in 2019 to reflect the worsening economic prospect on the loan portfolio ECL measurement.

47.2.1.2 Definition of default and cure

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 realising 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 and after obtaining the approval of the Credit Committee. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed, ii) three consecutive payments under the new repayment schedule have been made, iii) the borrower has no past dues under any obligation to the Group, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.1 Expected Credit Losses (continued)****47.2.1.2 Definition of default and cure (continued)**

In response to the Covid-19 outbreak in Lebanon (February 2020), the deteriorating economic environment that ensued after the Lebanese government had defaulted on the Eurobonds (7 March 2020), and then after 4 August 2020 Beirut port blast, the Lebanese legislator promulgated a series of laws: no. 160, 177 and 185 relating to the suspension of legal proceedings for unpaid loans with deadlines extended till 2021. Law 177 (13 May 2020) relating to ease the Covid-19 pandemic effect on the economic sectors had suspended loan repayment and interest capitalization for 6 months starting 1 April 2020. The Bank complied with these measures and reflected them on its SICR and impairment definition. Therefore, the Bank amended its IFRS 9 ECL policy accordingly by adding a 90 days' extension period to stages 1 and 2.

47.2.1.3 The Group's internal rating and PD estimation process

The Group's independent Credit Risk Department operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated in 1 to 7 performing bands using internal grades with "+" and "-" modifiers. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. The Corporate rating model was reviewed in a validation and calibration consultancy that led to the creation in early 2018 of a new rating and PD scale. The analysis was based on the Group's historical default history, whereby the central default tendency was adjusted with conservatism to account for a low default and data portfolio. The final through-the-cycle (TTC) PD scale was mapped to Moody's Corporate default scale. TTC PDs are then adjusted for IFRS 9 ECL calculations to incorporate point-in-time (PIT) and forward-looking information, and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate, on quarterly basis.

Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risk department analyses publicly available information such as financial information and other external data, e.g., available external ratings published by international rating agencies such as Moody's, Standard and Poor's and Fitch, and assigns the external rating. With respect to exposures to the Central Bank of Lebanon and Lebanese sovereign, Intermediate Circular 567 modified the regulatory ECLs levels, previously set in its Intermediate Circular 543 issued on 3 February 2020. Regulatory ECL on exposures to Lebanese sovereign bonds in foreign currency was increased from 9.45% to 45%, while regulatory ECLs on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currency and exposures to the Central Bank of Lebanon in local currency remained unchanged (0%, 1.89% and 0% respectively). This circular however changed the requirement for the recognition of ECL in the banks' financial statements from a "Maximum" level to a "Minimum" one. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Group was unable to estimate in a reasonable manner ECL on this exposure and accordingly, as applicable, the loss rate mentioned in Intermediate Circular 567 was adopted. With respect to Lebanese government Eurobonds held by the Group, management elected not to amortize the calculated expected credit losses over five years as permissible by the circular.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit rating model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, leverage ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Account behaviour, payment holidays provided, repayment history and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.1 Expected Credit Losses (continued)****47.2.1.3 The Group's internal rating and PD estimation process (continued)***Corporate and small business lending (continued)*

- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

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

Consumer lending and retail mortgages

Consumer lending comprises unsecured and secured personal loans, secured auto loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are scored by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

The Group also relies on account behaviour to predict the probability of default within a specific timeframe. This is primarily based on the repayment history of consumer borrowers.

For the estimation of expected losses for retail products, the Group uses currently the loss approach by product based on the net flow of exposures from one days-past-due bucket to another, taking into consideration payment holidays and the unlikely to pay criteria. This estimation incorporates a forward-looking component in line with IFRS 9.

47.2.1.4 Exposure at Default

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

47.2.1.5 Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated using information on the counterparty, the collateral type and coverage, recovery costs of any collateral that is integral to the financial asset and other criteria. For portfolios in respect of which the Group has limited historical data, credit external opinion benchmark against related regulators is used to supplement the internally available data.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.1 Expected Credit Losses (continued)****47.2.1.6 Significant increase in credit risk**

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

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For determining whether there has been a significant increase in credit risk, the Group uses a quantitative test based on movement in the internal credit rating of the counterparty (which reflects the movement of the PD).

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained in "Definition of default and cure" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in "Grouping financial assets measured on a collective basis"), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

47.2.1.7 Expected Life

With the exception of credit cards and other revolving facilities the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. This includes overdraft facilities falling under Stage 2 whereby we assign a maturity of 3 years even though the contractual maturity is one year.

47.2.1.8 Forward Looking Information

The Group incorporates forward-looking information at the level of Probability of Default.

On the PD level, the Group formulates three economic scenarios: a base case, which is the median scenario assigned with a certain probability of occurring, and two other scenarios, one upside and one downside, each assigned a specific chance of occurring, then, a weighted average PD is generated and used for the calculation of the ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, organizations such as World Bank and the International Monetary Fund, IIF and selected private-sector and academic forecasters. A team of specialists within the Group's Credit Risk Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios of the PD. It is the Economic and Research department of the Bank who provides and regularly updates, at least annually, the economic scenarios and GDP forecasts.

The Group has identified the real GDP growth among other, as the key driver of expected credit losses for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The expected credit losses' 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. With respect to countries other than Lebanon, the impact on expected credit losses is not material. With respect to Lebanon, the environment is subject to rapid change due to the effects of the economic crisis, COVID-19 and uncertainties disclosed in Note 1. Future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts (depending on the longevity of the crisis and the COVID-19 pandemic). Forecasts and scenarios are based on the best available information at the reporting date, combined with expert judgment.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.2 Overview of modified and forbore loans**

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

From a risk management point of view, once an asset is forbore or modified, the Group's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forbore during the year, with the related modification loss suffered by the Group.

	2020 <i>LL million</i>	2019 <i>LL million</i>
Amortised costs of financial assets modified during the year	66,581	92,738

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.3 Financial Assets and ECLs by stage

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

	Gross exposure			Total LL million	Impairment allowance			Total LL million	Net exposure LL million
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million		Stage 1 LL million	Stage 2 LL million	Stage 3 LL million		
31 December 2020									
Balances with central banks	15,351,435	-	-	15,351,435	(241,331)	-	-	(241,331)	15,110,104
Due from banks and financial institutions	1,319,869	433,843	1,961	1,755,673	(4,100)	(9,785)	(1,961)	(15,846)	1,739,827
Loans to banks and financial institutions and reverse repurchase agreements	195,700	4,241	-	199,941	(174)	(107)	-	(281)	199,660
Net loans and advances to customers at amortised cost	3,149,155	684,139	649,307	4,482,601	(123,143)	(104,112)	(328,623)	(555,878)	3,926,723
Net loans and advances to related parties at amortised cost	8,115	3,684	-	11,799	(153)	(319)	-	(472)	11,327
Financial assets at amortised cost	2,838,668	-	3,946,121	6,784,789	(25,462)	-	(948,600)	(974,062)	5,810,727
Financial guarantees and other commitments	1,419,142	22,838	-	1,441,980	(6,648)	(1,433)	-	(8,081)	1,433,899
Total	24,282,084	1,148,745	4,597,389	30,028,218	(401,011)	(115,756)	(1,279,184)	(1,795,951)	28,232,267

	Gross exposure			Impairment allowance			Net exposure	
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million
31 December 2019								
Balances with central banks	14,923,760	-	640	14,924,400	(171,118)	-	(640)	(171,758)
Due from banks and financial institutions	2,535,224	12,062	1,805	2,549,091	(1,419)	(579)	(1,805)	(3,803)
Loans to banks and financial institutions and reverse repurchase agreements	356,944	-	-	356,944	(234)	-	-	(234)
Net loans and advances to customers at amortised cost	5,739,000	913,744	446,771	7,099,515	(94,566)	(49,257)	(241,867)	(385,690)
Net loans and advances to related parties at amortised cost	21,368	3,361	-	24,729	(78)	(95)	-	(173)
Financial assets at amortised cost	7,642,188	-	-	7,642,188	(219,652)	-	-	(219,652)
Financial guarantees and other commitments	2,429,867	24,808	-	2,454,675	(4,801)	(889)	-	(5,690)
Total	33,648,351	953,975	449,216	35,051,542	(491,868)	(50,820)	(244,312)	(787,000)
				</				

31 December 2020

47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.3 Financial Assets and ECLs by stage (continued)

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

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2020	94,566	49,257	241,867	385,690
Charge for the year (Note 12)	28,335	55,122	75,986	159,443
Write-offs	(96)	-	(9,085)	(9,181)
Other movements	-	-	31,525	31,525
Recoveries (Note 12)	-	-	(22,148)	(22,148)
Transfer from off-financial position	-	-	7,565	7,565
Foreign exchange difference	338	(267)	2,913	2,984
Balance at 31 December 2020	123,143	104,112	328,623	555,878

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2019	62,125	18,442	230,378	310,945
Charge for the year (Note 12)	35,525	30,687	33,541	99,753
Write-offs	(2,308)	-	(15,838)	(18,146)
Other movements	-	-	24,101	24,101
Recoveries (Note 12)	-	-	(10,026)	(10,026)
Transfer to off-financial position	(312)	-	(20,682)	(20,994)
Foreign exchange difference	(464)	128	393	57
Balance at 31 December 2019	94,566	49,257	241,867	385,690

Net re-measurements and reallocations include re-measurements as a result of changes in the size of portfolios, reclassifications between stages and risk parameter changes.

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with central banks:

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2020	171,118	-	640	171,758
Charge for the year (Note 12)	68,890	-	-	68,890
Recoveries (Note 12)	(56)	-	(640)	(696)
Foreign exchange difference	1,379	-	-	1,379
Balance at 31 December 2020	241,331	-	-	241,331

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47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.3 Financial Assets and ECLs by stage (continued)**

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2019	33,561	205	2,562	36,328
Charge for the year (Note 12)	139,162	-	-	139,162
Recoveries (Note 12)	(226)	(205)	(1,922)	(2,353)
Foreign exchange difference	(1,379)	-	-	(1,379)
Balance at 31 December 2019	171,118	-	640	171,758

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortized cost:

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2020	219,652	-	-	219,652
Charge for the year (Note 12)	-	-	755,796	755,796
Transfer between stages	(193,830)	-	193,830	-
Foreign exchange difference	(360)	-	(1,026)	(1,386)
Balance at 31 December 2020	25,462	-	948,600	974,062

2019
LL million

Balance as of 1 January	25,223
Charge for the year (Note 12)	192,801
Recoveries (Note 12)	-
Foreign exchange difference	1,628
At 31 December	219,652

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.4 Analysis of risk concentrations

Geographical location analysis

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

	2020				2019			
	Lebanon LL million	Europe LL million	Others LL million	Total LL million	Lebanon LL million	Europe LL million	Others LL million	Total LL million
Balances with central banks	14,762,945	251,659	95,500	15,110,104	14,357,398	256,085	139,159	14,752,642
Due from banks and financial institutions	414,750	594,437	730,640	1,739,827	170,048	879,285	1,495,955	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	4,128	82,645	112,887	199,660	11,625	124,082	221,003	356,710
Derivative financial instruments	1,695	1,414	-	3,109	456	247	-	703
Financial assets at fair value through profit or loss:								
<i>Lebanese treasury bills and bonds</i>	1,377	-	-	1,377	15,043	-	-	15,043
Net loans and advances to customers at amortised cost								
<i>Commercial</i>	1,655,713	145,910	332,980	2,134,603	3,507,839	143,360	494,229	4,145,428
<i>Consumer</i>	1,663,215	54,959	73,946	1,792,120	2,438,971	51,815	77,611	2,568,397
Net loans and advances to related parties at amortised cost	10,729	598	-	11,327	23,841	715	-	24,556
Debtors by acceptances	9,818	2,292	16,109	28,219	98,153	264	56,443	154,860
Financial assets at amortised cost								
<i>Lebanese treasury bills and bonds</i>	2,997,522	-	-	2,997,522	4,353,978	-	-	4,353,978
<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	2,793,496	-	-	2,793,496	3,011,554	-	-	3,011,554
<i>Foreign governmental debt securities</i>	-	18,934	-	18,934	-	53,178	-	53,178
<i>Certificates of deposit issued by banks and financial institutions</i>	-	-	-	-	3,051	-	-	3,051
<i>Debt securities issued by banks and financial institutions</i>	-	775	-	775	-	775	-	775
Financial assets at fair value through other comprehensive income:								
<i>Lebanese treasury bills</i>	1,969	-	-	1,969	42,948	-	-	42,948
<i>Foreign governmental debt securities</i>	-	69,000	-	69,000	-	101,607	-	101,607
<i>Debt securities issued by banks and financial institutions</i>	-	8,881	-	8,881	-	10,011	-	10,011
	<u>24,317,357</u>	<u>1,231,504</u>	<u>1,362,062</u>	<u>26,910,923</u>	<u>28,034,905</u>	<u>1,621,424</u>	<u>2,484,400</u>	<u>32,140,729</u>

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.4 Analysis of risk concentrations (continued)

Industrial analysis

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

	2020							
Financial services and brokerage L.L. million	Government L.L. million	Consumers L.L. million	Retail and wholesale L.L. million	Construction and materials L.L. million	Manufacturing L.L. million	Services and utilities L.L. million	Agriculture L.L. million	Total L.L. million
Balances with central banks								
Central Bank of Lebanon	14,762,945	-	-	-	-	-	-	14,762,945
Other Central Banks	347,159	-	-	-	-	-	-	347,159
Due from banks and financial institutions	1,739,827	-	-	-	-	-	-	1,739,827
Loans to banks and financial institutions and reverse repurchase agreements	199,660	-	-	-	-	-	-	199,660
Derivative financial instruments	3,109	-	-	-	-	-	-	3,109
Financial assets at fair value through profit or loss	1,377	-	-	-	-	-	-	1,377
Net loans and advances to customers at amortised cost								
Commercial	7,044	-	807,153	340,636	484,815	440,840	54,115	2,134,603
Consumer	-	1,792,120	-	-	-	-	-	1,792,120
Net loans and advances to related parties at amortised cost								
Commercial	-	-	3,388	5,335	-	-	-	8,723
Consumer	-	2,604	-	-	-	-	-	2,604
Debtors by acceptances	-	-	14,274	118	3,698	9,159	970	28,219
Financial assets at amortised cost								
Lebanese treasury bills	2,997,522	-	-	-	-	-	-	2,997,522
Certificates of deposit issued by the Central Bank of Lebanon	2,793,496	-	-	-	-	-	-	2,793,496
Foreign governmental debt securities	18,934	-	-	-	-	-	-	18,934
Debt securities issued by banks and financial institutions	775	-	-	-	-	-	-	775
Financial assets at fair value through other comprehensive income								
Lebanese treasury bills	1,969	-	-	-	-	-	-	1,969
Foreign governmental debt securities	69,000	-	-	-	-	-	-	69,000
Debt securities issued by banks and financial institutions	8,881	-	-	-	-	-	-	8,881
	20,999,446	1,794,724	824,815	346,089	488,513	449,999	55,085	26,910,923
1,952,252								

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47.2.4 Analysis of risk concentrations (continued)

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

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

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

	2020					
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
Balances with central banks	15,110,104	-	-	-	-	15,110,104
Due from banks and financial institutions	1,739,827	-	-	-	-	1,739,827
Loans to banks and financial institutions and reverse repurchase agreements	199,660	(225)	(16,984)	-	-	182,451
Derivative financial instruments	3,109	-	-	-	-	3,109
Financial assets at fair value through profit or loss	1,377	-	-	-	-	1,377
Net loans and advances to customers at amortised cost:						
Commercial loans	2,134,603	(60,618)	(37,620)	-	(890,979)	1,145,386
Consumer loans	1,792,120	(91,814)	-	-	(1,191,276)	509,030
Net loans and advances to related parties at amortised cost	11,327	(16)	-	-	(2,076)	9,235
Financial assets at amortised cost	5,810,727	-	-	-	-	5,810,727
Financial assets at fair value through other comprehensive income	79,850	-	-	-	-	79,850
	<u>26,882,704</u>	<u>(152,673)</u>	<u>(54,604)</u>	<u>-</u>	<u>(2,084,331)</u>	<u>24,591,096</u>
Financial guarantees	64,134	(4,948)	-	-	-	59,186
Documentary credits (including acceptances)	133,503	(3,193)	-	-	-	130,310
	<u>27,080,341</u>	<u>(160,814)</u>	<u>(54,604)</u>	<u>-</u>	<u>(2,084,331)</u>	<u>24,780,592</u>
Utilized collateral						
Surplus of collateral before undrawn credit lines		(160,814)	(54,604)	-	(2,084,331)	(2,084,331)
		(396,069)	(136,030)	(84,014)	(3,035,605)	(3,035,605)
Guarantees received from banks, financial institutions and customers		<u>(556,883)</u>	<u>(190,634)</u>	<u>(84,014)</u>	<u>(5,119,936)</u>	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 750,360 million as at 31 December 2020.

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.5 Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2019					
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
Balances with central banks	14,752,642	-	-	-	-	14,752,642
Due from banks and financial institutions	2,545,288	-	-	-	-	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	356,710	(10,987)	(21,400)	-	-	324,323
Derivative financial instruments	703	-	-	-	-	703
Financial assets at fair value through profit or loss	15,043	-	-	-	-	15,043
Net loans and advances to customers at amortised cost:						
Commercial loans	4,145,428	(317,398)	(105,080)	(53)	(1,409,963)	2,312,934
Consumer loans	2,568,397	(305,478)	(170)	-	(1,568,760)	693,989
Net loans and advances to related parties at amortised cost	24,556	(5,839)	-	-	(2,994)	15,723
Financial assets at amortised cost	7,422,536	-	-	-	-	7,422,536
Financial assets at fair value through other comprehensive income	154,566	-	-	-	-	154,566
	<u>31,985,869</u>	<u>(639,702)</u>	<u>(126,650)</u>	<u>(53)</u>	<u>(2,981,717)</u>	<u>28,237,747</u>
Financial guarantees						
Documentary credits (including acceptances)	147,574	(8,627)	-	-	-	138,947
	494,765	(20,426)	-	-	-	474,339
	<u>32,628,208</u>	<u>(668,755)</u>	<u>(126,650)</u>	<u>(53)</u>	<u>(2,981,717)</u>	<u>28,851,033</u>
Utilized collateral						
Surplus of collateral before undrawn credit lines		(668,755)	(126,650)	(53)	(2,981,717)	
		(408,033)	(158,135)	(71,333)	(2,734,096)	
Guarantees received from banks, financial institutions and customers		<u>(1,076,788)</u>	<u>(284,785)</u>	<u>(71,386)</u>	<u>(5,715,813)</u>	

The surplus of collateral mentioned above presented before offsetting additional credit commitments given to customers amounting to LL 1,130,645 million as at 31 December 2019.

47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.5 Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

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

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

The main types of collateral obtained are as follows:

- *Securities*: the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees*: the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential)*: the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

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

Given its business model, the Group manages liquidity at the entity level independently while keeping sight of intra-group dependencies. The Group recognizes that its ability to meet its liquidity requirements may come under increasing pressure under the deteriorating operating environment. On this backdrop, the management is keeping a close daily monitoring of the liquidity to safeguard it as much as possible.

The following outlines the monitoring process that takes place at the entity level, with some elaborate reference to Lebanon given the ongoing crisis.

Monitoring process

Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Group's activities. On a daily basis, a report of highly liquid assets showing the change in the position compared to the previous day, and submits it to the members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly

A weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Lebanon.

47 RISK MANAGEMENT (continued)

47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Monitoring process (continued)

Monthly

Tables are prepared indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO.

Quarterly

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

Periodic

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

As part of the Group's procedures for monitoring and managing liquidity risk, the Group sets out a response in the event of liquidity difficulties.

Furthermore, the Group has stipulated a series of procedures for monitoring and managing liquidity risk. This includes setting up actions to be taken on response to potential liquidity stress events.

The Group's Liquidity Policy are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval. The approved policy is notified to the Central Bank of Lebanon.

As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

Liquidity ratios

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The ratio of foreign currency liquid assets to foreign currency total deposits is prepared daily by Finance and disclosed to concerned parties. Foreign currency liquid assets are defined as foreign currency bonds and current account available placements with banks, excluding foreign branches and subsidiaries maturing within thirty days.

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 balances with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Bank submitted to the regulators its calculation as of 28 February 2021 reflecting a ratio of 3.42%. The approval of the regulators for meeting this ratio is pending as of the date of these consolidated financial statements.

Sources of funding

Customer deposits were the main funding source of the Group as at 31 December 2020 and 2019. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

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47 RISK MANAGEMENT (continued)

47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Sources of funding (continued)

The Group stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the loans to deposits ratio, which compare loans and advances to customers as a percentage of deposits from customers.

	<i>LL</i>		<i>Foreign currencies</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	%	%	%	%
Year-end	35%	30%	13%	24%
Maximum	36%	30%	19%	30%
Minimum	35%	26%	13%	24%
Average	36%	27%	16%	28%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted repayment obligations. The contractual maturities were determined based on the period remaining to each maturity as per the consolidated statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	<i>2020</i>					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Total LL million</i>
Financial liabilities						
Due to central banks	14,325	23,907	126,319	1,454,682	574,351	2,193,584
Due to banks and financial institutions	423,453	92,132	145,417	346,953	96,530	1,104,485
Derivative financial instruments	2,958	-	-	-	-	2,958
Customers' deposits at amortised cost	14,977,652	1,652,827	3,560,751	2,173,953	130,367	22,495,550
Deposits from related parties at amortised cost	370,978	-	4,436	28,145	93	403,652
Debt issued and other borrowed funds	9,534	-	-	-	-	9,534
Engagements by acceptances	9,741	17,935	827	-	-	28,503
Subordinated debt	71,923	201,368	-	119,243	50,693	443,227
Total undiscounted financial liabilities	15,880,564	1,988,169	3,837,750	4,122,976	852,034	26,681,493

	<i>2019</i>					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Total LL million</i>
Financial liabilities						
Due to central banks	18,611	23,808	124,387	1,329,597	846,881	2,343,284
Due to banks and financial institutions	463,173	198,778	134,628	365,637	162,282	1,324,498
Derivative financial instruments	908	-	-	-	-	908
Customers' deposits at amortised cost	12,261,361	3,846,706	6,567,450	4,147,633	223,680	27,046,830
Deposits from related parties at amortised cost	143,550	20,712	36,019	113,301	12,276	325,858
Debt issued and other borrowed funds	-	207	31,658	456,834	-	488,699
Engagements by acceptances	57,257	66,116	20,608	11,138	-	155,119
Subordinated debt	-	7,594	22,047	498,259	-	527,900
Total undiscounted financial liabilities	12,944,860	4,163,921	6,936,797	6,922,399	1,245,119	32,213,096

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47 RISK MANAGEMENT (continued)**47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)***Analysis of financial liabilities by remaining contractual maturities (continued)*

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date on which it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2020					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	5,973	79	18,086	39,515	481	64,134
Documentary credits	8,059	74,570	21,449	1,180	-	105,258
Commitments to lend	750,360	-	-	-	-	750,360
	<u>764,392</u>	<u>74,649</u>	<u>39,535</u>	<u>40,695</u>	<u>481</u>	<u>919,752</u>

	2019					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	-	-	31,494	115,496	584	147,574
Documentary credits	63,683	155,026	116,009	5,187	-	339,905
Commitments to lend	1,130,645	-	-	-	-	1,130,645
	<u>1,194,328</u>	<u>155,026</u>	<u>147,503</u>	<u>120,683</u>	<u>584</u>	<u>1,618,124</u>

47.4 MARKET RISK

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

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Group's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Group's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Group Risk Management division sets the framework necessary for identification, measurement and management of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities that mature or are re-priced in a given period. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management.

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible to 100 basis points parallel changes in interest rates, with all other variables held constant, of the Group's income statement.

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 novel and prolonged nature of current economic crisis and the high levels of uncertainties, 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 issuance of Intermediary Circulars 536 and 544.

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47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 34 to these consolidated financial statements.

The effect of any future associated hedges made by the Group is not accounted for.

Currency	Decrease in basis points	2020	2019
		Effect on net interest income LL million	Effect on net interest income LL million
LL	100 basis point	5,944	18,890
US Dollar	100 basis point	18,546	12,136
Euro	100 basis point	1,174	1,603

The Group's interest sensitivity position based on the contractual re-pricing date at 31 December is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customer demand deposits.

	2020					Non interest bearing items LL million	Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million		
ASSETS							
Cash and balances with central banks	3,116,603	-	509,890	5,226,662	4,494,922	2,057,289	15,405,366
Due from banks and financial institutions	680,034	54,370	43,838	-	1,631	959,954	1,739,827
Loans to banks and financial institutions and reverse repurchase agreements	68,546	80,670	35,152	15,292	-	-	199,660
Derivative financial instruments	-	-	-	-	-	3,109	3,109
Financial assets at fair value through profit or loss	-	-	-	1,344	-	64,895	66,239
Net loans and advances to customers at amortised cost	1,938,587	361,118	1,264,034	207,230	96,035	59,719	3,926,723
Net loans and advances to related parties at amortised cost	5,388	2	605	6	-	5,326	11,327
Debtors by acceptances	-	-	-	-	-	28,219	28,219
Financial assets at amortised cost	72,063	75,000	202,952	3,825,604	852,001	783,107	5,810,727
Financial assets at fair value through other comprehensive income	49	3,500	8,615	49,916	28,116	69,749	159,945
Total	5,881,270	574,660	2,065,086	9,326,054	5,472,705	4,031,367	27,351,142
LIABILITIES							
Due to central banks	14,580	6,824	28,032	1,025,273	389,728	29,635	1,494,072
Due to banks and financial institutions	311,459	84,882	149,981	291,216	92,381	111,525	1,041,444
Derivative financial instruments	-	-	-	-	-	2,958	2,958
Customers' deposits at amortised cost	8,671,433	1,597,267	3,175,329	2,138,933	122,095	6,313,733	22,018,790
Deposits from related parties at amortised cost	21,551	-	3,115	26,811	-	350,655	402,132
Debt issued and other borrowed funds	-	-	-	-	-	9,534	9,534
Engagements by acceptances	-	-	-	-	-	28,503	28,503
Subordinated debt	-	-	-	407,141	-	13,801	420,942
Total	9,019,023	1,688,973	3,356,457	3,889,374	604,204	6,860,344	25,418,375
Total interest sensitivity gap	(3,137,753)	(1,114,313)	(1,291,371)	5,436,680	4,868,501	(2,828,977)	1,932,767

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47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

	2019						
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Non interest bearing items</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
ASSETS							
Cash and balances with central banks	2,299,482	-	-	5,697,741	5,879,347	1,065,076	14,941,646
Due from banks and financial institutions	730,732	116,591	71,599	3,580	-	1,622,786	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	135,070	107,853	90,687	23,100	-	-	356,710
Derivative financial instruments	-	-	-	-	-	703	703
Financial assets at fair value through profit or loss	-	-	517	7,877	6,608	68,549	83,551
Net loans and advances to customers at amortised cost	3,487,114	593,416	1,752,668	373,357	140,146	367,124	6,713,825
Net loans and advances to related parties at amortised cost	14,298	119	2,579	15	-	7,545	24,556
Debtors by acceptances	-	-	-	-	-	154,860	154,860
Financial assets at amortised cost	-	154,113	664,808	3,300,402	3,239,008	64,205	7,422,536
Financial assets at fair value through other comprehensive income	98	278	15,904	44,518	97,377	84,809	242,984
Total	6,666,794	972,370	2,598,762	9,450,590	9,362,486	3,435,657	32,486,659
LIABILITIES							
Due to central banks	21,056	7,056	28,233	891,152	552,532	28,767	1,528,796
Due to banks and financial institutions	351,817	190,135	115,294	287,799	151,233	143,114	1,239,392
Derivative financial instruments	-	-	-	-	-	908	908
Customers' deposits at amortised cost	8,866,677	3,686,902	5,803,125	3,919,552	200,837	3,491,338	25,968,431
Deposits from related parties at amortised cost	11,780	-	33,546	64,944	30,763	84,601	225,634
Debt issued and other borrowed funds	-	-	-	441,006	-	822	441,828
Engagements by acceptances	-	-	-	-	-	155,119	155,119
Subordinated debt	-	-	-	429,465	-	327	429,792
Total	9,251,330	3,884,093	5,980,198	6,033,918	935,365	3,904,996	29,989,900
Total interest sensitivity gap	(2,584,536)	(2,911,723)	(3,381,436)	3,416,672	8,427,121	(469,339)	2,496,759

Currency risk

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates and exchange rate volatility in general. The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Lira. Most of these financial assets and liabilities are in US Dollars, Euros. As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple markets, this does not always represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the change in the official exchange rate and /or a legal exchange mechanism is implemented by the Lebanese Government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47 RISK MANAGEMENT (continued)

47.4 MARKET RISK (continued)

Currency risk (continued)

Following is the consolidated statement of financial position as of 31 December 2020 and 31 December 2019 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL. Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset.

	2020		
	LL million	Foreign currencies in LL million	Total LL million
ASSETS			
Cash and balances with central banks	2,109,520	13,295,846	15,405,366
Due from banks and financial institutions	14,558	1,725,269	1,739,827
Loans to banks and financial institutions and reverse repurchase agreements	-	199,660	199,660
Derivative financial instruments	1,695	1,414	3,109
Financial assets at fair value through profit or loss	1,377	64,862	66,239
Net loans and advances to customers at amortised cost	1,496,377	2,430,346	3,926,723
Net loans and advances to related parties at amortised cost	569	10,758	11,327
Debtors by acceptances	-	28,219	28,219
Financial assets at amortised cost	2,796,024	3,014,703	5,810,727
Financial assets at fair value through other comprehensive income	25,209	134,736	159,945
Property, equipment and right-of-use assets	253,281	61,263	314,544
Intangible assets	16,346	2,394	18,740
Assets obtained in settlement of debt	(5,004)	78,909	73,905
Other assets	451,513	36,681	488,194
Assets held for sale	-	31,459	31,459
TOTAL ASSETS	7,161,465	21,116,519	28,277,984
LIABILITIES AND EQUITY			
Due to central banks	1,477,893	16,179	1,494,072
Due to banks and financial institutions	11,224	1,030,220	1,041,444
Derivative financial instruments	1,522	1,436	2,958
Customers' deposits at amortised cost	4,317,324	17,701,466	22,018,790
Deposits from related parties at amortised cost	9,546	392,586	402,132
Debt issued and other borrowed funds	-	9,534	9,534
Engagement by acceptances	-	28,503	28,503
Other liabilities	142,469	54,407	196,876
Provisions for risks and charges	225,933	10,248	236,181
Subordinated debt	-	420,942	420,942
Liabilities held for sale	-	75,323	75,323
TOTAL LIABILITIES	6,185,911	19,740,844	25,926,755
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Non-distributable reserves	637,335	395,793	1,033,128
Distributable reserves	78,362	18,360	96,722
Treasury shares	-	(8,685)	(8,685)
Retained earnings	(97,317)	18,061	(79,256)
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	15,347	(36,539)	(21,192)
Net results of the financial period – profit	(164,520)	24,781	(139,739)
Foreign currency translation reserves	(62,097)	-	(62,097)
NON-CONTROLLING INTERESTS	16,325	1,124	17,449
TOTAL EQUITY	1,118,237	1,232,992	2,351,229
TOTAL LIABILITIES AND EQUITY	7,304,148	20,973,836	28,277,984

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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47 RISK MANAGEMENT (continued)

47.4 MARKET RISK (continued)

Currency risk (continued)

	2019		
	LL million	Foreign currencies in LL million	Total LL million
ASSETS			
Cash and balances with central banks	2,887,532	12,054,114	14,941,646
Due from banks and financial institutions	149,761	2,395,527	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	60	356,650	356,710
Derivative financial instruments	456	247	703
Financial assets at fair value through profit or loss	1,588	81,963	83,551
Net loans and advances to customers at amortised cost	1,927,554	4,786,271	6,713,825
Net loans and advances to related parties at amortised cost	3,506	21,050	24,556
Debtors by acceptances	-	154,860	154,860
Financial assets at amortised cost	4,154,898	3,267,638	7,422,536
Financial assets at fair value through other comprehensive income	21,544	221,440	242,984
Property, equipment and right-of-use assets	269,767	67,239	337,006
Intangible assets	19,222	618	19,840
Assets obtained in settlement of debt	(7,098)	78,780	71,682
Other assets	103,586	22,022	125,608
TOTAL ASSETS	9,532,376	23,508,419	33,040,795
LIABILITIES AND EQUITY			
Due to central banks	1,507,102	21,694	1,528,796
Due to banks and financial institutions	11,450	1,227,942	1,239,392
Derivative financial instruments	701	207	908
Customers' deposits at amortised cost	6,441,049	19,527,382	25,968,431
Deposits from related parties at amortised cost	10,791	214,843	225,634
Debt issued and other borrowed funds	-	441,828	441,828
Engagement by acceptances	-	155,119	155,119
Other liabilities	287,218	69,582	356,800
Provisions for risks and charges	154,379	28,928	183,307
Subordinated debt	-	429,792	429,792
TOTAL LIABILITIES	8,412,690	22,117,317	30,530,007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Non-distributable reserves	636,534	390,031	1,026,565
Distributable reserves	106,623	18,375	124,998
Treasury shares	-	(8,967)	(8,967)
Retained earnings	84,956	11,772	96,728
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	15,527	(55,436)	(39,909)
Net results of the financial period – profit	(216,765)	33,212	(183,553)
Foreign currency translation reserves	(52,918)	-	(52,918)
NON-CONTROLLING INTERESTS	30,349	2,596	32,945
TOTAL EQUITY	1,299,108	1,211,680	2,510,788
TOTAL LIABILITIES AND EQUITY	9,711,798	23,328,997	33,040,795

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47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Currency risk (continued)***The Group's Exposure to Currency Risk*

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

	2020 <i>LL million</i>	2019 <i>LL million</i>
ASSETS		
Cash and balances with central banks	12,824,909	11,446,490
Due from banks and financial institutions	414,635	10,320
Loans to banks and financial institutions and reverse repurchase agreements	4,241	7,959
Financial assets at fair value through profit or loss	20,460	34,340
Net loans and advances to customers at amortised cost	1,907,843	4,139,265
Net loans and advances to related parties at amortised cost	10,160	20,335
Debtors by acceptances	9,562	103,930
Financial assets at amortised cost	2,995,376	3,240,865
Financial assets at fair value through other comprehensive income	19,569	64,532
Assets obtained in settlement of debt	76,370	76,115
Other assets	24,066	12,412
TOTAL ASSETS	18,307,191	19,156,563
LIABILITIES AND EQUITY		
Due to central banks	14,074	19,354
Due to banks and financial institutions	12,494	31,686
Customers' deposits at amortised cost	16,667,365	17,735,958
Deposits from related parties at amortised cost	378,695	127,385
Debt issued and other borrowed funds	-	441,828
Engagement by acceptances	9,562	104,188
Other liabilities	29,502	37,679
Provisions for risks and charges	5,815	20,064
Subordinated debt	420,942	429,792
TOTAL LIABILITIES	17,538,449	18,947,934
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
Share premium – common shares	229,013	229,013
Share premium – preferred shares	591,083	591,083
Non-distributable reserves	249,014	249,125
Distributable reserves	18,040	18,040
Treasury shares	(8,685)	(8,967)
Retained earnings	46	42
Change in fair value of financial assets at fair value through other comprehensive income	(12,320)	(39,563)
TOTAL EQUITY	1,066,191	1,038,773
TOTAL LIABILITIES AND EQUITY	18,604,640	19,986,707

47 RISK MANAGEMENT (continued)

47.4 MARKET RISK (continued)

Equity price risk

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

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

Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Group's equities at 31 December 2020 would have increased other comprehensive income by LL 1,705 million and net income by LL 2,261 million (2019: LL 2,102 million and LL 2,459 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

47.5 OPERATIONAL RISK

Operational risk is the risk of loss or damage arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To keep operational risk under control, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks remain within the Group's desired risk appetite boundaries and internal controls standards. The framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Group's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines Senior Managers including the Chief Risk Officer and the General Manager.

The framework for managing and controlling operational risks encompasses various tools including Risk and Control Assessment (RCA), operational risk event reporting and loss database management and key risk indicators (KRIs). The RCA is performed by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are being established to facilitate the operational risk monitoring in a forward looking manner with pre-defined escalation triggers. The Group gives particular attention to preventive measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

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47 RISK MANAGEMENT (continued)**47.5 OPERATIONAL RISK (continued)**

The Group's operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact - along with natural disasters and terrorism/ vandalism events. As to the latter the Group purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, political violence, and Director's and officers' liability.

48 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. The maturity profile of the Group's assets and liabilities at 31 December is as follows:

	2020		
	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	5,519,493	9,885,873	15,405,366
Due from banks and financial institutions	1,739,827	-	1,739,827
Loans to banks and financial institutions and reverse repurchase agreements	184,536	15,124	199,660
Derivative financial instruments	3,109	-	3,109
Financial assets at fair value through profit or loss	34	66,205	66,239
Net loans and advances to customers at amortised cost	1,749,670	2,177,053	3,926,723
Net loans and advances to related parties at amortised cost	5,986	5,341	11,327
Debtors by acceptances	28,219	-	28,219
Financial assets at amortised cost	538,143	5,272,584	5,810,727
Financial assets at fair value through other comprehensive income	12,320	147,625	159,945
Property, equipment and right-of-use assets	-	314,544	314,544
Intangible assets	376	18,364	18,740
Assets obtained in settlement of debt	-	73,905	73,905
Other assets	485,944	2,250	488,194
TOTAL ASSETS	10,267,657	17,978,868	28,246,525
LIABILITIES			
Due to central banks	72,192	1,421,880	1,494,072
Due to banks and financial institutions	646,647	394,797	1,041,444
Derivative financial instruments	2,958	-	2,958
Customers' deposits at amortised cost	19,971,419	2,047,371	22,018,790
Deposits from related parties at amortised cost	375,027	27,105	402,132
Debt issued and other borrowed funds	9,534	-	9,534
Engagements by acceptances	28,503	-	28,503
Other liabilities	196,876	-	196,876
Provisions for risks and charges	-	236,181	236,181
Subordinated debt	22,129	398,813	420,942
TOTAL LIABILITIES	21,325,285	4,526,147	25,851,432
NET	(11,057,628)	13,452,721	2,395,093

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48 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2019		Total LL million
	Less than one year LL million	More than one year LL million	
ASSETS			
Cash and balances with central banks	3,496,620	11,445,026	14,941,646
Due from banks and financial institutions	2,541,708	3,580	2,545,288
Loans to banks and financial institutions and reverse repurchase agreements	334,295	22,415	356,710
Derivative financial instruments	703	-	703
Financial assets at fair value through profit or loss	558	82,993	83,551
Net loans and advances to customers at amortised cost	3,621,497	3,092,328	6,713,825
Net loans and advances to related parties at amortised cost	15,428	9,128	24,556
Debtors by acceptances	143,722	11,138	154,860
Financial assets at amortised cost	872,441	6,550,095	7,422,536
Financial assets at fair value through other comprehensive income	16,488	226,496	242,984
Property, equipment and right-of-use assets	-	337,006	337,006
Intangible assets	-	19,840	19,840
Assets obtained in settlement of debt	-	71,682	71,682
Other assets	123,358	2,250	125,608
TOTAL ASSETS	11,166,818	21,873,977	33,040,795
LIABILITIES			
Due to central banks	75,556	1,453,240	1,528,796
Due to banks and financial institutions	779,362	460,030	1,239,392
Derivative financial instruments	908	-	908
Customers' deposits at amortised cost	22,153,577	3,814,854	25,968,431
Deposits from related parties at amortised cost	169,833	55,801	225,634
Debt issued and other borrowed funds	823	441,005	441,828
Engagements by acceptances	143,981	11,138	155,119
Other liabilities	217,813	138,987	356,800
Provisions for risks and charges	-	183,307	183,307
Subordinated debt	327	429,465	429,792
TOTAL LIABILITIES	23,542,180	6,987,827	30,530,007
NET	(12,375,362)	14,886,150	2,510,788

49 LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 44) and in the event that legal issues are not properly dealt with by the Group. Since 17 October 2019, the Group has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Group in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

50 POLITICAL RISK

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

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 Group recognizes that the adequacy of its capital levels may come under increasing pressure should the deteriorated operating environment be prolonged and depending also on any measures taken by the government and the regulating authorities.

Central Bank of Lebanon's Intermediate circular 567 issued on 26 August 2020 introduced several key changes in the calculation of regulatory capital adequacy ratios. These changes include:

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

<i>Type of financial instrument</i>	<i>2020</i>	<i>2019</i>
Exposures to Central Bank of Lebanon in foreign currencies	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Liras	0 %	0 %
Lebanese Government securities in foreign currencies	45 %	9.45 %
Lebanese Government securities in Lebanese Liras	0 %	0 %

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

As disclosed in Note 54, the Extraordinary General Assembly of Shareholders held on 21 April 2021 verified and approved cash contributions to capital amounting to US\$ 270,000,000 and convertible to common shares. The final approval of the regulators is pending as of the date of these consolidated financial statements.

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

As a result, the levels of Common Equity Tier 1 and Tier 2 Capital reported below increased by LL 5,689 million and decreased by LL 1,978 million respectively at 31 December 2020 compared to 31 December 2019.

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

The Group did not draw down its capital conservation buffer as at 31 December 2020.

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

51 CAPITAL MANAGEMENT (continued)

- Exceptionally for 2020 and 2021, allowing banks to include provisions for expected credit losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to Credit Risk Weighted Assets). Such provisions included under CET 1 should be amortized over a period of 3 years starting 2022 and ending in 2024 by 25% yearly. *As a result, the levels of Common Equity Tier 1 and Tier 2 Capital reported below increased by LL 246,763 million and decreased by LL 209,359 million respectively at 31 December 2020 compared to 31 December 2019.*

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
31 December 2020			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%
31 December 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%
		2020	2019
		LL million	LL million
Risk-weighted assets:			
Credit risk		24,967,661	28,112,794
Market risk		310,884	462,819
Operational risk		1,516,344	1,220,024
Total risk-weighted assets		26,794,889	29,795,637

The regulatory capital as of 31 December is as follows:

	2020	2019
	LL million	LL million
Tier 1 capital	2,499,235	2,115,101
<i>Of which: common Tier 1</i>	<i>1,903,308</i>	<i>1,519,170</i>
Tier 2 capital	448,492	783,948
Total capital	2,947,727	2,899,049

The capital adequacy ratio as of 31 December is as follows:

	2020	2019
Capital adequacy – Common Tier 1	7.10%	5.10%
Capital adequacy – Tier 1	9.33%	7.10%
Capital adequacy – Total capital	11.00%	9.73%

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

Byblos Bank SAL

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52 DIVIDENDS PAID

	2020 LL million	2019 LL million
<i>Dividends paid during the year</i>		
Equity dividends on ordinary shares: LL 212 per share	-	119,889
Distributions to preferred shares – 2008 series: US\$ 8.00 per share	-	24,224
Distributions to preferred shares – 2009 series: US\$ 8.00 per share	-	24,224
	-	168,337
Less: dividends on treasury shares	-	(504)
	-	167,833

In accordance with the Central Bank of Lebanon Intermediate Circular 567, the Board of Directors does not propose the payment of dividends for 2020 and 2019.

53 ASSETS AND LIABILITIES HELD FOR SALE

Banking Operations in Cyprus

The Bank's Board of Directors meeting held on 11 December 2020 resolved to close/liquidate its branch in Cyprus. On 12 May 2021, the Bank signed an agreement for the sale and purchase of this branch subject to conditions precedent, which are yet to be satisfied as of the date of authorization of these consolidated financial statements. No impairment for Byblos Bank Cyprus branch has been recognised under IFRS 5 as at 31 December 2020. Impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration cash collateral and potential reductions to be made pursuant to the contract.

Assets and liabilities included in the disposal group classified as held for sale are as follows:

	2020 Cyprus Operations LL million
Cash and balances with central banks	22,485
Due from banks and financial institutions	2,824
Loans and advances to customers at amortised cost	5,367
Property and equipment and right-of-use assets	754
Other assets	29
Total assets classified as held for sale	31,459
Customers' deposits at amortized cost	74,379
Other liabilities	942
Provisions for risks and charges	2
Total liabilities classified held for sale	75,323
Net assets classified as held for sale	(43,864)

The carrying value of the disposal group is stated after the elimination of internal balances receivable and payable between Byblos Bank Cyprus branch and the remaining entities within the Group amounting to LL 57,695 million and LL 14,876 million respectively. Internal balances have been considered in determining the carrying value of the disposal groups held for sale for the purposes of measuring the disposal group at the lower of carrying amount and fair value less costs to sell.

Byblos Bank SAL

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53 ASSETS AND LIABILITIES HELD FOR SALE (continued)

Banking Operations in Cyprus (continued)

The disposal group above meets the requirements for presentation as a discontinued operation. As such, the results, which have been presented as the profit after tax in respect of the discontinued operation on the face of the Group's consolidated income statement, are analysed in the consolidated income statement below:

	2020 <i>LL million</i>	2019 <i>LL million</i>
Interest and similar income	261	597
Interest and similar expense	(1,143)	(8,381)
Net interest expense	(882)	(7,784)
Fee and commission income	193	227
Fee and commission expense	(23)	(23)
Net fee and commission income	170	204
Net (loss) gain on financial assets at fair value through profit or loss	(186)	39
Other operating income	6	2
Total operating loss	(892)	(7,539)
Net write-back of impairment loss on financial assets	69	-
Net operating loss	(823)	(7,539)
Personnel expenses	(864)	(802)
Other operating expenses	(773)	(1,173)
Depreciation of property and equipment and right-of-use assets	(421)	(349)
Total operating expenses	(2,058)	(2,324)
Loss before tax	(2,881)	(9,863)
Income tax	3	(162)
Loss for the year	(2,878)	(10,025)

The cash flows attributed to the discontinued operations are as follows:

	2020 <i>LL million</i>	2019 <i>LL million</i>
Net cash flows used in operating activities	(52,156)	(202,186)
Net cash flows (used in) from investing activities	(79)	1,176
Net cash flows used in financing activities	-	(472)
Net decrease in cash and cash equivalents	(52,235)	(201,482)

54 SUBSEQUENT EVENTS

Cash contribution to capital

The Extraordinary General Assembly of Shareholders held on 21 April 2021 verified and approved cash contributions to capital amounting to US\$ 270,000,000 and convertible to common shares. The final approval of the regulators is pending as of the date of these consolidated financial statements.

Other subsequent events

Other subsequent events are disclosed in Notes 1, 35 and 53 to these consolidated financial statements.