Building a better working world

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9 November 2021

PRIVATE AND CONFIDENTIAL

Dr Antonios Ghorayeb
Chairman
LiBank SAL (Levant Investment Bank)
Beirut
Lebanon

Dear Dr Ghorayeb

LIBANK SAL (LEVANT INVESTMENT BANK)
AUDIT FOR THE YEAR ENDED 31 DECEMBER 2020

We have pleasure in enclosing five copies of the separate English financial statements of Libank SAL (Levant Investment Bank) for the year ended 31 December 2020 together with our report thereon duly signed.

Yours sincerely
for Ernst & Young

Nadim Dimashkieh
Partner

for BDO, Semaan, Gholam & Co.

Antoine Gholam
Partner

Enclosures: As stated above.

LIBANK SAL
(LEVANT INVESTMENT BANK)

SEPARATE FINANCIAL STATEMENTS

31 DECEMBER 2020

Building a better working world

Ernst & Young p.c.c.
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LIBANK SAL (LEVANT INVESTMENT BANK)

Adverse opinion

We have audited the separate financial statements of LiBank SAL (Levant Investment Bank) (the "Bank"), which comprise the separate statement of financial position as at 31 December 2020, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate 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 separate financial statements do not present fairly the financial position of the Bank as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for adverse opinion

1. As disclosed in Note 39.2.4 to the separate financial statements, the Bank holds balances with the Central Bank of Lebanon amounting to LL (000) 219,161,439, a portfolio of Lebanese government treasury securities and Certificate of deposits totaling LL (000) 109,263,240, and other balances with banks and other assets amounting to LL (000) 14,726,929, concentrated in Lebanon which represent 71% of the Bank's total assets as at 31 December 2020 (31 December 2019: 67%). As disclosed in Note 1, the accompanying separate financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amounts of the above assets and related disclosures that would result from resolution of the uncertainties described in Note 1, which prevailed since the last quarter of 2019 and the future effects of the economic crisis and the implementation of government reforms and restructuring plans. Also, as disclosed in Note 38, management was unable to produce a faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these separate 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 separate 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 separate financial statements have not been determined. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.

2. Further, as disclosed in Note 2 to the separate financial statements, the Bank did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying separate financial statements for the year ended 31 December 2020. Had the Bank applied IAS 29, many elements in the accompanying separate 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 separate financial statements arising from the failure to apply IAS 29 have not been determined.

Basis for adverse opinion (continued)

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

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 separate financial statements* section of our report. We are independent of the Bank in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate 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 matters

1. As disclosed in Note 19, during 2018, the Bank proceeded with the revaluation of sections 68, 69, 222 and 223 of block B of plot number 39 of Rmeil area in Beirut. As at 31 December 2020, the finalization of this transaction is pending the necessary regulatory approvals. Our opinion is not modified in respect of this matter.

2. We draw attention to Notes 1 and 39.4 (b) to the separate financial statements, which describe that the Bank's assets and liabilities denominated in foreign currency are translated to Lebanese Pounds as per the accounting policy on foreign currency transactions, at the official exchange rate prevailing at the end of the reporting period and that the actual realization and settlement of these assets and liabilities, respectively, could be materially different.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate 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.

Responsibilities of management and those charged with governance for the separate financial statements

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

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

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

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

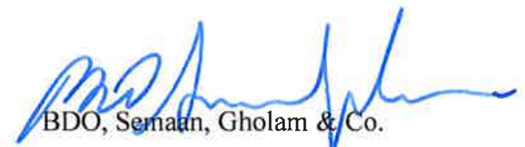
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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



BDO, Semaan, Gholam & Co.

9 November 2021
Beirut, Lebanon

SEPARATE INCOME STATEMENT

For the year ended 31 December 2020

	Notes	*2020* *LL (000)*	*2019* *LL (000)*
Interest and similar income	3	**10,807,575**	11,673,885
Interest and similar expense	4	**(6,389,664)**	(11,584,793)
Net interest income		**4,417,911**	89,092
Fee and commission income	5	**1,571,506**	1,246,057
Fee and commission expense	5	**(367,741)**	(253,702)
Net fee and commission income	5	**1,203,765**	992,355
Net gain on financial assets at fair value through profit or loss	6	**15,099,794**	5,984,700
Net gain from derecognition of financial assets at amortized cost		**-**	48,240
Non-interest revenues from financial assets at fair value through other comprehensive income	14	**10,018**	280,563
Share of (losses) profits from investments in subsidiaries and associates	17&18	**(3,894,991)**	236,686
Provisions for risks and charges	27	**(305,539)**	-
Total operating income		**16,530,958**	7,631,636
Net impairment loss on financial assets	7	**(3,061,419)**	(4,394,373)
Net operating income		**13,469,539**	3,237,263
Personnel expenses	8	**(6,650,116)**	(4,400,137)
Other operating expenses	9	**(5,212,282)**	(3,260,478)
Depreciation of property and equipment	19	**(426,300)**	(627,621)
Amortization of intangible assets	20	**(74,734)**	(109,267)
Total operating expenses		**(12,363,432)**	(8,397,503)
PROFIT (LOSS) BEFORE TAX		**1,106,107**	(5,160,240)
Income tax expense	10	**(5,264,876)**	(212,648)
LOSS FOR THE YEAR		**(4,158,769)**	(5,372,888)

The accompanying notes 1 to 43 form part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020 LL (000)**	*2019 LL (000)*
LOSS FOR THE YEAR		**(4,158,769)**	(5,372,888)
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to the separate income statement in subsequent periods:			
Net unrealized gain from debt instruments at fair value through other comprehensive income		**314,967**	368,468
Other comprehensive income to be reclassified to the separate income statement in subsequent periods		**314,967**	368,468
Items not to be reclassified to the separate income statement in subsequent periods:			
Net unrealized gain from equity instruments at fair value through other comprehensive income		**4,321,647**	2,786,440
Other comprehensive income not to be reclassified to the separate income statement in subsequent periods		**4,321,647**	2,786,440
OTHER COMPREHENSIVE INCOME FOR THE YEAR	32	**4,636,614**	3,154,908
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**477,845**	(2,217,980)

The accompanying notes 1 to 43 form part of these separate financial statements.

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	*2020* *LL (000)*	*2019* *LL (000)*
ASSETS			
Cash and balances with the Central Bank	11	**222,998,385**	61,999,635
Due from banks and financial institutions	12	**10,664,817**	10,461,168
Financial assets at fair value through profit or loss	13	**87,768,244**	118,742,190
Loans and advances to customers at amortized cost	15	**28,987,735**	52,116,169
Loans and advances to related parties at amortized cost	34	**771,207**	815,036
Financial assets at amortized cost	16	**30,983,115**	37,221,134
Financial assets at fair value through other comprehensive income	14	**31,656,873**	21,793,642
Investments in subsidiaries	17	**25,807,403**	9,849,009
Investments in associates	18	**1,480,968**	3,933,130
Property and equipment	19	**11,996,278**	12,113,550
Intangible assets	20	**195,470**	200,082
Non-current assets held for sale		**806,701**	806,701
Other assets	21	**27,693,437**	12,069,942
TOTAL ASSETS		**481,810,633**	342,121,388
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Bank	22	**8,140,232**	7,629,363
Due to banks and financial institutions	23	**21,759,464**	40,798,223
Customers' deposits at amortized cost	24	**323,998,144**	179,127,139
Deposits from related parties at amortized cost	25	**31,837,843**	6,483,731
Other liabilities	26	**15,941,237**	44,036,153
Provisions for risks and charges	27	**789,680**	256,545
TOTAL LIABILITIES		**402,466,600**	278,331,154
EQUITY			
Share capital	28	**60,000,000**	60,000,000
Cash contribution to capital	29	**15,075,000**	-
Non-distributable reserves	31	**1,820,829**	1,820,829
Distributable reserves	31	**5,472**	4,518
Retained earnings		**1,196,655**	4,204,317
Revaluation reserve of real estate	19	**2,721,049**	2,721,049
Cumulative changes in fair value of financial assets at fair value through other comprehensive income	32	**2,683,797**	412,409
Net results of the financial year		**(4,158,769)**	(5,372,888)
TOTAL EQUITY		**79,344,033**	63,790,234
TOTAL LIABILITIES AND EQUITY		**481,810,633**	342,121,388
OFF-SEPARATE STATEMENT OF FINANCIAL POSITION ACCOUNTS			
Financial instruments under custody	33	**294,002,151**	214,414,727
Fiduciary deposits	33	**14,914,494**	1,507,500

The separate financial statements were authorized for issuance by the Board of Directors and signed on its behalf on 9/11/2021 by:

Antonios Hanna Ghorayeb
Chairman

The accompanying notes 1 to 43 form part of these separate financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)
SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

			Non-distributable reserves			Distributable reserves					
	Share capital LL (000)	*Cash contribution to capital LL (000)*	*Legal reserve LL (000)*	*General reserve LL (000)*	*Total LL (000)*	*General reserves LL (000)*	*Cumulative changes in fair value of financial assets at fair value through other comprehensive income LL (000)*	*Revaluation reserve of real estate LL (000)*	*Retained earnings LL (000)*	*Net results of the financial year LL (000)*	*Total equity LL (000)*
Balance at 1 January 2019	60,000,000	-	365,716	1,452,226	1,817,942	427,531	1,105,015	2,721,049	506,823	28,877	66,607,237
Appropriation of 2018 profits	-	-	2,887	-	2,887	-	-	-	25,990	(28,877)	-
Total comprehensive loss for the year - 2019	-	-	-	-	-	-	3,154,908	-	-	(5,372,888)	(2,217,980)
Disposal of equity instruments at fair value through other comprehensive income (Note 32)	-	-	-	-	-	-	(3,847,514)	-	3,847,514	-	-
Dividends distributed (Note 30)	-	-	-	-	-	(423,990)	-	-	(176,010)	-	(600,000)
Translation difference	-	-	-	-	-	977	-	-	-	-	977
Balance as at 31 December 2019	60,000,000	-	368,603	1,452,226	1,820,829	4,518	412,409	2,721,049	4,204,317	(5,372,888)	63,790,234
Appropriation of 2019 losses	-	-	-	-	-	-	-	-	(5,372,888)	5,372,888	-
Cash contribution to capital (Note 29)	-	15,075,000	-	-	-	-	-	-	-	-	15,075,000
Total comprehensive income (loss) for the year – 2020	-	-	-	-	-	-	4,636,614	-	-	(4,158,769)	477,845
Disposal of equity instruments at fair value through other comprehensive income (Note 32)	-	-	-	-	-	-	(2,365,226)	-	2,365,226	-	-
Translation difference	-	-	-	-	-	954	-	-	-	-	954
Balance as at 31 December 2020	**60,000,000**	**15,075,000**	**368,603**	**1,452,226**	**1,820,829**	**5,472**	**2,683,797**	**2,721,049**	**1,196,655**	**(4,158,769)**	**79,344,033**

The accompanying notes 1 to 43 form part of these separate financial statements.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	*2020 LL (000)*	*2019 LL (000)*
OPERATING ACTIVITIES			
Profit (loss) for the year before tax		**1,106,107**	(5,160,240)
Adjustments for:			
Depreciation of property and equipment	19	**426,300**	627,621
Amortization of intangible assets	20	**74,734**	109,267
Provisions for risks and charges	27	**305,539**	-
Net impairment loss on financial assets	7	**3,061,419**	4,394,373
Provision for employees' end of service benefits	27	**236,331**	156,941
Share of losses (profits) from investments in subsidiaries and associates	17&18	**3,894,991**	(236,686)
Net unrealized revaluation gain of financial assets at fair value through profit or loss	6	**(174,057)**	(559,066)
		8,931,364	(667,790)
Changes in operating assets and liabilities:			
Balances with banks and the Central Bank		**(20,345,462)**	(14,139,863)
Loans and advances to customers at amortized cost		**21,168,289**	(6,642,886)
Loans and advances to related parties at amortized cost		**43,829**	5,459
Movement of financial assets, net		**30,340,788**	(31,006,203)
Customers' deposits at amortized cost		**144,871,005**	37,173,646
Deposits from related parties at amortized cost		**25,354,112**	2,956,242
Non-current assets held for sale		-	(806,701)
Other assets		**(20,407,959)**	(6,093,461)
Other liabilities		**(28,561,397)**	35,327,344
Cash from operations		**161,394,569**	16,105,787
Provisions for risks and charges paid		**(8,735)**	(13,761)
Net cash from operating activities		**161,385,834**	16,092,026
INVESTING ACTIVITIES			
Acquisition of property and equipment	19	**(393,081)**	(250,644)
Acquisition of intangible assets	20	-	(42,127)
Investments in subsidiaries and associates		**(17,401,223)**	(4,159,457)
Net cash used in investing activities		**(17,794,304)**	(4,452,228)
FINANCING ACTIVITIES			
Cash contribution to capital	29	**15,075,000**	-
Dividends paid	30	-	(600,000)
Net cash from (used in) financing activities		**15,075,000**	(600,000)
INCREASE IN CASH AND CASH EQUIVALENTS		**158,666,530**	11,039,798
Net effect of foreign exchange		**954**	977
Cash and cash equivalents at 1 January		**(22,125,022)**	(33,165,797)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35	**136,542,462**	(22,125,022)

The accompanying notes 1 to 43 form part of these separate financial statements.

1 CORPORATE INFORMATION

LiBank SAL (the "Bank") is a Lebanese joint stock company which was incorporated in 2012 and registered under No. 1015811 at the commercial registry of Beirut and under No. 139 on the banks' list published by the Central Bank of Lebanon. The headquarters of the Bank are located in Ashrafieh, Sofil Center, Beirut, Lebanon.

The Bank provides a wide range of medium and long-term banking services and is governed by the Lebanese laws especially the Commercial Law, the Money and Credit Act, Legislative Decree No. 50 dated 15 July 1983 related to investment banks and to medium and long-term credit banks in addition to the regulations of the Central Bank of Lebanon and the Banking Control Commission.

The Bank was exempt from income taxes on profits as per the provisions of Legislative Decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

The Bank obtained the permit for commencement of activities from the Central Bank of Lebanon on 14 January 2013.

1.1 Macroeconomic environment

The Bank's operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis and 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 withdrawals of cash to private depositors, all of which added to the disruption of the country's economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt, and unemployment and poverty are rising fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies lead to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 US$/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Lira, impacting intensely the purchasing power of the Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index.

During 2020 in an attempt to control the high rise in prices and to compensate for the loss in the purchasing power of the Lebanese people, the Central Bank of Lebanon, through several circulars, introduced the following measures:

(a) subsidized imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 US$/LL (the official exchange rate).
(b) introduced the Platform Rate, currently at 3,900 US$ / LL, to be used only in specific circumstances.
(c) subsidized imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate.
(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 towards hyperinflation and major economic collapse.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

Lebanese Government's Financial Recovery Plan

On 30 April 2020, the Council of Ministers approved the Lebanese government's Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated FX mismatches, embedded losses and resizing the banking sector (see below); a strong phased fiscal adjustment, focused on improving tax compliance, streamlining expenditure and reforming the public sector; growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; 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 to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalisation needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

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

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

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

Alternative Plan submitted by Association of Banks in Lebanon

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

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

The ABL approach deploys five strategic priorities allowing a prompt and sustainable economic and financial recovery in the wake of expected IMF (or 'the Fund') Balance of Payments ('BoP') support requested on May 1st by the Government:
I. A debt restructuring process that minimizes the damaging consequences to the nearly 3 million domestic bank depositors and to the economy as a whole, while priming the economy for a faster recovery and higher medium-term potential growth
II. A sustainable medium-term fiscal strategy leaving a significant fiscal space to finance much-needed social measures, including an Expanded Social Safety Net to fight poverty and concrete steps against social exclusion
III. A monetary and exchange rate unification policy that addresses the massive external imbalances while containing considerable inflationary pressures and avoiding hyperinflation
IV. A financial sector restructuring based on an orderly banking sector approach on a case-by-case basis when needed, upgrading regulatory matters to international standards
V. A strong diversification strategy of the economy as well as much-needed structural reforms including anticorruption measures, a lower cost of Doing Business in the country as well as reforms that reduce the size of the informal sector

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.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

COVID-19 (continued)

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 authorisation of issue of these separate financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

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

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

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

- 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 the current economic situation as assessed by the Bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

- Intermediate Circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively). The circular however changed the requirement for the recognition of expected credit losses in the banks' separate financial statements from applying at a "maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "minimum".

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

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 finalise 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 recognise 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.
- 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 amortised over a period of 3 years (2022-2024 by 25% yearly).

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- 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 banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in Intermediate Circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the Bank to their normal levels as at before October 2019.
  - Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019, and without a minimum threshold.
  - Requesting from banks to maintain a current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the Bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.
  - Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalisation 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.
  - The housing loans granted to the client should not exceed USD 800,000 while the aggregate amount of retail loans should not exceed USD 100,000 per client.

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

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank

Assets and liabilities in foreign currency, regardless of whether they are onshore or offshore, were reflected in these separate financial statements at the official exchange rate of 1,507.5 USD/LBP, 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 high volatile, the Platform Rate, estimated exchange rates detailed in the Government's Financial Recovery Plan, in addition to different exchange rates adopted for commercial transactions purpose in Lebanon. Accordingly, translation of all assets and liabilities and foreign currency transactions at the official exchange rate does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the separate financial statements. In the absence of an alternative legal exchange mechanism, we are unable to estimate the effects on these separate financial statements and these separate 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 recognised in these separate financial statements once the revamping of the peg and/or a new legal exchange mechanism is implemented by the Lebanese government. FX currency mismatch is detailed in Note 39.4 (b) to the separate 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 amortised cost are recorded in these separate financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these separate 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 separate 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 recognised loss allowances, as well as their staging are detailed in Note 39.2 to the separate 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 derisking strategy by considerably reducing its assets size, specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralised and specialised 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 Bank's portfolio of these private loans have been estimated 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 Bank's portfolio of private loans and the recognised loss allowances, as well as their staging, are detailed in Note 39.2 to these separate financial statements.

The financial position of the Bank, as reported in these separate 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 financial position.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

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

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

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

On October 1st 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 realised and expected losses for the year 2020.
- The amount of expected credit losses that have not been translated yet to foreign currencies.
- The capital needs to comply with the minimum required capital and the measures and sources that will be relied upon to cover the shortfall, when existing.
- The Bank's strategy with respect to its investments in foreign banks and branches.
- The mechanism to rectify any non-compliance with regulatory requirements.
- The measures that will be taken to rectify non-compliances with articles 154 and 153 of the Code of Money and Credit, if any.
- The measures that will be taken to attract foreign liquidity or "fresh funds" and to cover liquidity onshore and offshore commitments.

The roadmap was submitted to the Central Bank of Lebanon on 24 March 2021. However, a reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

The Bank has so far implemented a series of measures in relation to these 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 separate financial statements, the General Assembly of Shareholders held on 30 June 2020 verified and approved cash contributions to capital amounting to US$ 10,000,000 (equivalent to LL (000) 15,075,000) and convertible to common shares. The final approval of the Central Bank of Lebanon was obtained on 7 June 2021. In addition, the General Assembly of Shareholders held on 7 June 2021, approved the draft agreements related to cash contribution to capital amounting to US$ 9,900,000 (equivalent to LL (000) 14,924,250). The Bank received the preliminary approval by the Central Bank of Lebanon and a final approval is pending as of the date of these separate financial statements.
- The Bank has submitted to the regulators for compliance with the Central Bank of Lebanon Basis Circular 154 requiring banks to meet the 3% liquidity ratio with foreign banks, and it was approved by the Central Bank of Lebanon.
- Deleveraging the loan portfolio and increasing provisioning coverage during 2020 as gross loans at the Bank significant dropped compared to 31 December 2019.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

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

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 Bank's financial position, future cashflows, results of operations, regulatory ratios and covenants. The Bank's realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The separate financial statements are prepared under the historical cost convention as modified for the restatement of financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income which are measured at fair value and the revaluation of buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class.

The separate financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL (000)) except when otherwise indicated.

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

The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Therefore, entities whose functional currency is the Lebanese Lira should restate their separate 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 summarised below:

(a) Separate 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 amortisation charges of intangible assets recognised 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 separate 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 separate 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 separate financial statements. However, Management estimates such effects to be significant. This situation must be taken into account when interpreting the information reported by the Bank in the accompanying separate financial statements including its separate statement of financial position, separate income statement, separate statement of comprehensive income and cash flow statement.

The Bank uses the official exchange rate of 1,507.5 USD/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 USD/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 Bank is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or of the separate financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT 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 separate financial statements to Management, shareholders and other users.

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

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

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

Financial assets and financial liabilities are generally reported gross in the separate 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 Bank 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 separate statement of financial position. Income and expenses will not be offset in the separate income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank. The effects of netting arrangements are disclosed in Notes 11 and 22.

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

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 separate financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations (continued)

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 separate financial statements make on the basis of those separate 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 separate 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 separate financial statements of, nor is there expected to be any future impact to the Bank.

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 separate financial statements of the Bank.

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

2.3 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 Bank not opting for early adoption. These have therefore not been applied in preparing these separate 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 Bank 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 Bank is currently assessing the impact of transitioning from an IBOR to RFR and the amendments of IBOR Reform Phase 2 on its separate financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

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

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

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

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

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

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

Reference to the Conceptual Framework – *Amendments to IFRS 3*
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Separate 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 Separate financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively and the Bank is currently assessing the impact the amendments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

Onerous Contracts – Costs of Fulfilling a Contract – ***Amendments to IAS 37***
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments and these amendments are not expected to have a material impact on the Bank.

2.4 Summary of significant accounting policies

Foreign currency translation
The separate financial statements are presented in Lebanese Lira which is the Bank's presentation currency.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the separate statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income or loss" in the separate income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment, at which time they are recognized in the separate income statement.

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

Financial instruments – initial recognition

(i) Date of recognition
All financial assets and liabilities are initially recognized 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 recognized in profit or loss, the transaction costs are recognized as revenue or expense when the instrument is initially recognized. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss
When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, the Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the separate 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 recognized in the separate income statement when the inputs become observable, or when the instrument is derecognized. On initial recognition, financial assets are classified as measured at: amortized 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 amortized 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial Assets – Classification and Measurement
On initial recognition, financial assets are classified as measured at: amortized 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 measured at amortized 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 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.

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

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

On initial recognition, the Bank 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 Bank is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business Model
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. 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 Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial Assets – Classification and Measurement (continued)

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

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

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

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

Financial Assets at Amortized Cost
Balances with the Central Bank, Due from Banks and Financial Institutions, Loans and Advances to Customers and Related Parties at Amortised Cost and Financial Assets at Amortised Cost
These financial assets are initially recognized 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 amortized cost using the EIR, less expected credit losses. Amortized 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 separate income statement. The losses arising from impairment are recognized in the separate income statement in "net impairment losses on financial assets". Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "net gain from derecognition of financial assets at amortized cost" in the separate income statement.

Financial Assets at Fair Value through Other Comprehensive Income
These financial assets are initially recognized 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. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Debt Instruments at Fair Value through Other Comprehensive Income
The Bank measures debt instrument at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial Assets – Classification and Measurement (continued)

Financial Assets at Fair Value through Other Comprehensive Income (continued)

Equity Instruments at Fair Value through Other Comprehensive Income
Upon initial recognition, the Bank 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 recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the separate income statement on disposal of the investments.

Dividends on these investments are recognized under "Dividend income on financial assets at fair value through other comprehensive income" in the separate income statement when the Bank'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 amortized cost*" and "*financial assets through other comprehensive income*" above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value
These financial assets are recorded in the separate statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognized as revenue or expense when the instrument is initially recognized. Changes in fair value and interest income are recorded under "net gain on financial assets at fair value through profit or loss" in the separate 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 separate 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 Bank 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 separate 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 separate 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 separate income statement.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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 amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized 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 recognized in a business combination in accordance with IFRS 3.

The Bank 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 Bank'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 instruments is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value though profit and loss are recorded in the separate 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 though profit and loss due to changes in the Bank's own credit risk. Such changes in fair value are recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the separate income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the separate income statement.

Interest incurred on financial liabilities designated at fair value through profit and 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.

Due to Central Bank, Banks and Financial Institutions and Customers' and Related Parties' Deposits
After initial measurement, due to central bank, banks and financial institutions, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments
The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the separate financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortisation recognized in the separate income statement, and an ECL provision. The premium received is recognized in the separate income statement in "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 Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

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

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

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

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

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

Derecognintion of Financial Assets and Liabilities

Financial Assets

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognintion of Financial Assets and Liabilities (continued)

Financial Assets (continued)

(i) Derecognition due to substantial modification of terms and conditions (continued)
If the modification of a financial asset measured at amortized cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized 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 derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of Financial Assets and Financial Liabilities (continued)

Financial Assets (continued)

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

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

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

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the separate 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 amortized 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 recognized 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 recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Impairment of Financial Assets

(i) Overview of the ECL Principles
The Bank records the allowance for expected credit losses based on 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 Bank measures ECLs based on a 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 Bank 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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Bank expects to recover.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

(ii) Measurement of ECLs (continued)

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 derecognized 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, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

The Bank 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 similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

(iii) Forborne and modified loans

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

When the loan has been renegotiated or modified but not derecognized, the Bank also reassesses whether there has been a significant increase in credit risk. The Bank 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 24-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:

- All of its facilities has to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period; and
- The customer does not have any contract that is more than 30 days past due.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of Financial Assets (continued)

(iv) Debt Instruments at Fair Value through Other Comprehensive Income
The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the separate 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 amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

(v) Collateral repossessed
The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently, these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the separate 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.

(vi) Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortized 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 data:
- 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 Bank on terms that the Bank 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.

(vii) Write Offs
The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment losses on financial assets".

Fair value measurement
The Bank measures financial instruments, such as, derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

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

The Bank's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

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

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

Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting (continued)

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. 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 at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the separate income statement in "Net gain from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the separate income statement.

(i) Fair value hedges
For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the separate income statement in "Net gain from financial instruments at fair value through profit or loss". Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the separate statement of financial position and is also recognized in "Net gain from financial instruments at fair value through profit or loss" in the separate income statement.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the separate income statement.

(ii) Cash flow hedges
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the separate income statement.

When the hedged cash flow affects the separate income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the separate income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

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

Within its risk management and edging strategies, the Bank differentiates between micro and macro cash-flow hedging strategies as set out in the following subsections:

Micro Fair Value Hedge
Micro cash flow hedge relationships relate to distinctly identifiable assets or liabilities, hedged by one, or a few, hedging instruments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting (continued)

Micro Fair Value Hedge (continued)

The Bank's micro cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued floating rate euro notes due to changes in interest rate risk and/or foreign currency risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

Macro Fair Value Hedge
It is the Bank's strategy to apply macro cash flow hedge accounting to minimise the variability in future interest cash flows on non-trading variable rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Bank's projected balance sheet including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Bank aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

(iii) Hedge of a net investment
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 recognized directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the separate income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in other comprehensive statement is transferred to the separate income statement.

Leases
The Bank 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.

Bank as a Lessee
The Bank applies a single recognition and measurement approach for its lease, except for short-term leases and leases of low-value assets. The Bank recognizes a lease liability to make lease payments and a right-of-use asset representing the right to use the underlying asset.

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Leases (continued)

Bank as a Lessee (continued)

(ii) Lease liability
At the commencement date of the lease, the Bank recognizes a lease liability 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 Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized 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 Bank 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 liability 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 Bank's lease liability is included under "other liabilities". Moreover, the interest charge on lease liability is presented within "interest and similar expenses" from financial instruments measured at amortized cost in the separate financial statements.

(iii) Short-term leases and leases of low-value assets
The Bank 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 recognized 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.

Bank as a Lessor
Leases in which the Bank 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense

The effective interest rate
Interest income and expense are recognized in the separate income statement applying the EIR method for all financial instruments measured at amortized 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 amortized 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 recognized in profit or loss. In those cases, the fees are recognized as revenue or expense when the instrument is initially recognized.

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

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:
- interest on financial assets at amortized cost;
- interest on debt instruments measured at fair value through other comprehensive income;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

(i) Interest and similar income and expense (continued)

Presentation (continued)
Interest expense presented in the statement of profit or loss and other comprehensive income includes:
- financial liabilities measured at amortized cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

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 separate income statement.

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

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management 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 recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized 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 recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend income
Dividend income is recognized when the right to receive the payment is established.

(iv) Net gain from financial assets 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.

Cash and cash equivalents
Cash and cash equivalents as referred to in the separate statement of cash flows comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

Property and equipment
Property and equipment, except for buildings, 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. When significant parts of property and equipment are required to be replaced at intervals, the Bank 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 separate 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Property and equipment (continued)
Buildings are measured at fair value less accumulated depreciation and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuators with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

Building	50 years
Computer hardware	5 years
Motor vehicles	10 years
Furniture and fixture	12.5 years
Equipment	12.5 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial year and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the separate income statement as an expense.

Property and equipment is derecognized 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 recognized in "Net gain from sale or disposal of fixed assets" in the separate income statement in the year the asset is derecognized.

Intangible assets
The Bank's other intangible assets include the value of software license. An intangible asset is recognized 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 Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the separate income statement in the expense category consistent with the function of the intangible asset.

Amortization 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	5 years

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Investments in subsidiaries
Investments in subsidiaries are carried at cost less impairment. Subsidiaries are entities which the Bank controls, normally where it holds more than 50% of the voting power.

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

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

The Bank's investments in its associates are accounted for using the equity method.

After application of the equity method, the Bank determines whether it is necessary to recognise an impairment loss on its investments in its associates. At each reporting date, the Bank determines whether there is objective evidence that the investments in the associates are impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associates and their carrying value, and then recognises the loss within 'Share of profits from investments in associates" in the separate income statement.

Non-current assets held for sale and discontinued operations
Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. 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.

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 separate 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 Bank 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 separate income statement.

Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)
A previously recognized 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 recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the separate income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

Employees' retirement benefits obligation
For the Bank and its branches operating in Lebanon, retirement benefits obligation subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final retirement benefits obligation due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final retirement benefits obligation due to employees. The Bank provides for retirement benefits obligation on that basis. Retirement benefits obligation for employees at foreign branches are accrued for in accordance with the laws and regulations of the respective countries in which the branches are located.

Provisions for risks and charges
Provisions are recognized when the Bank 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. The expense relating to any provision is presented in the separate income statement net of any reimbursement.

The Bank 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 Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank 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 Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its separate financial statements.

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

Assets held in custody and under administration
The Bank provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Bank and accordingly are recorded as off financial position items.

Taxes
Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank 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 Bank operates and generates taxable income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Taxes (continued)

(i) Current Tax (continued)
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 separate 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 separate 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 separate 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 separate 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 separate 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 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

2.5 Significant accounting judgments and estimates

The preparation of the Bank's separate financial statements requires management to make judgements, 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 Bank'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 separate financial statements:

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

Business model
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets
The Bank exercises 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 Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

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.

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 Bank based its assumptions and estimates on parameters available when the separate 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 Bank. Such changes are reflected in the assumptions when they occur.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- The Bank's internal credit rating model;
- The Bank'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 Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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

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 Bank 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 Bank.

3 INTEREST AND SIMILAR INCOME

	2020 *LL (000)*	*2019* *LL (000)*
Balances with the Central Bank	**4,144,284**	2,985,499
Due from banks and financial institutions	**1,406,200**	463,732
Loans and advances to customers at amortized cost	**2,959,366**	3,931,391
Loans and advances to related parties at amortized cost (Note 34)	**52,772**	54,700
Financial assets at amortized cost	**841,282**	2,935,540
Debt instruments at fair value through other comprehensive income	**1,403,671**	1,303,023
	10,807,575	11,673,885

4 INTEREST AND SIMILAR EXPENSE

	2020 *LL (000)*	*2019* *LL (000)*
Due to Central Bank	**773,240**	437,671
Due to banks and financial institutions	**1,168,944**	3,544,626
Customers' deposits at amortized cost	**4,311,060**	7,441,991
Deposits from related parties at amortized cost (Note 34)	**136,420**	160,505
	6,389,664	11,584,793

5 NET FEE AND COMMISSION INCOME

	2020 *LL (000)*	*2019* *LL (000)*
Fee and commission income		
Brokerage and custody	**619,780**	315,197
Asset management	**174,421**	559,648
Loans and advances	**225,287**	156,061
Consultation and advisory	**16,203**	5,758
Fiduciary activities	**342**	161,740
Other commissions	**535,473**	47,653
	1,571,506	1,246,057
Fee and commission expense	**(367,741)**	(253,702)
	1,203,765	992,355

6 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 *LL (000)*	*2019* *LL (000)*
Interest and similar income from debt instruments at fair value through profit or loss	**3,802,229**	3,824,386
Net (loss) gain on foreign exchange	**(11,373,497)**	237,508
Net unrealized revaluation gain on financial assets at fair value through profit or loss	**174,057**	559,066
Net realized gain on disposal of financial assets at fair value through profit or loss	**22,497,005**	1,363,740
	15,099,794	5,984,700

7 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2020	*2019*
	LL (000)	*LL (000)*
New and increased impairment allowances:		
Balances with the Central Bank	**(423,737)**	1,038,087
Deposits with banks and financial institutions	**(293,606)**	216,912
Loans and advances to customers at amortised cost	**1,960,145**	964,983
Financial assets at amortised cost	**1,818,617**	2,174,391
	3,061,419	4,394,373

8 PERSONNEL EXPENSES

	2020	*2019*
	LL (000)	*LL (000)*
Salaries and wages	**4,168,904**	2,469,836
Social security contributions	**427,785**	362,356
Chairman and General Manager remunerations (Note 34)	**856,125**	730,229
Committee members remunerations (Note 34)	**283,067**	236,677
Transportation allowances	**75,772**	84,645
Insurance	**169,751**	135,207
Other employee benefits	**432,381**	224,246
Provision for employees' end of service benefits (Note 27)	**236,331**	156,941
	6,650,116	4,400,137

9 OTHER OPERATING EXPENSES

	2020	*2019*
	LL (000)	*LL (000)*
Professional fees	**1,418,950**	564,637
Taxes and related charges	**1,205,254**	1,010,800
Registration and subscription fees	**570,645**	424,084
Donations	**360,375**	13,561
Repair and maintenance	**347,136**	234,197
Stationery and office supplies	**226,017**	30,772
Travel expenses	**196,055**	206,852
Consultancy fees (Note 34)	**180,900**	180,900
Rent and related charges	**117,659**	113,365
Insurance expenses	**107,028**	65,323
Refreshments and entertainment	**51,508**	44,521
Advertising fees	**29,772**	55,839
Telecommunication charges	**24,355**	24,462
Other expenses	**376,628**	291,165
	5,212,282	3,260,478

10 INCOME TAX EXPENSE

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank was exempt from income taxes stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years. Starting the year ended 31 December 2019, the Bank is subject to income tax.

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

	2020 ***LL (000)***	*2019* *LL (000)*
Loss before tax	**(4,158,769)**	(5,160,240)
Impact of increase resulting from:		
Non-deductible provisions	**7,096,228**	4,394,373
Non-deductible expenses	**2,521,827**	569,223
Gain on disposal of equity instruments at fair value through other comprehensive income	-	3,847,514
	5,459,286	3,650,870
Impact of decrease resulting from:		
Net realized gain on disposal of financial assets at fair value through profit or loss	**(22,497,005)**	-
Others	**(5,646,901)**	-
4% of paid-up capital	**(2,400,000)**	(2,400,000)
Unrealized gains on financial assets	-	(592,773)
Unrealized dividends	-	(236,686)
	(25,084,620)	421,411
Effective income tax rate	**17%**	17%
Income tax	-	71,640
Reversal of deferred tax asset for the year (Note 21)	**4,784,464**	-
Other taxes	**480,412**	-
Deferred tax liability for the year (Note 26)	-	141,008
Total income tax expense	**5,264,876**	212,648

During 2020, other taxes include an amount of LL (000) 480,412 representing 2% on 2019 turnover as per Article No 20 of the Budget Law 6/2020.

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

	2020 ***LL (000)***	*2019* *LL (000)*
Balance at 1 January	**4,856,104**	-
Charge for the year	**480,412**	71,640
Movement in deferred tax asset (Note 21)	-	4,784,464
Others	**4,712**	-
Balance at 31 December (Note 26)	**5,341,228**	4,856,104

11 CASH AND BALANCES WITH THE CENTRAL BANK

	2020 LL (000)	2019 LL (000)
Cash on hand	**3,836,946**	941,438
Balances with the Central Bank of Lebanon:		
- Current accounts	**144,124,125**	14,216,150
- Term deposits (a)	**74,498,340**	46,706,060
- Accrued interest receivable	**1,193,866**	1,214,616
	223,653,277	63,078,264
Less: Allowance for expected credit losses (Note 39.2)	**(654,892)**	(1,078,629)
	222,998,385	61,999,635

The movement in allowances for expected credit losses on balances with the Central Bank of Lebanon under IFRS 9 is presented in the Credit Risk section (Note 39.2).

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. 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. Term deposits in coverage of the obligatory reserve requirements amounted to LL (000) 58,792,500 as at 31 December 2020 (2019: LL (000) 31,657,500).

(a) During 2019, the Bank 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 (000) 27,018,000 and term borrowings from the Central Bank of Lebanon (Note 22) are reported on a net basis on the separate statement of financial position (2019: the same).

12 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2020 LL (000)	2019 LL (000)
Current accounts	**10,340,855**	3,515,613
Term placements	**323,962**	7,158,037
Accrued interest receivable	-	81,124
	10,664,817	10,754,774
Less: Allowance for expected credit losses (Note 39.2)	-	(293,606)
	10,664,817	10,461,168

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 LL (000)	2019 LL (000)
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit issued by the Central Bank of Lebanon	**52,434,333**	52,428,614
Treasury bills	**5,730,375**	5,684,551
Eurobonds	**7,412**	24,147
	58,172,120	58,137,312
Private sector and other securities		
Peterhouse Securities Limited (a)	**16,037,663**	46,779,464
Investments in start-up companies (b)	**9,391,256**	9,791,256
Funds	**4,167,205**	4,034,158
	29,596,124	60,604,878
	87,768,244	118,742,190

(a) Peterhouse Securities Limited:
During 2019, the Bank transferred its ownership in several underlying assets to "Peterhouse Securities Limited" as a contribution of capital in exchange for 1,510,001 Class A shares and 23,489,999 Class B shares at GBP 1 (equivalent to a total of LL (000) 49,449,743) representing 100% of the company's total shares. Class B shares are to be re-sold to third party investors. As a result of this transaction, the Bank recorded a deferred income under "Other liabilities" amounting to GBP 15,553,537 (equivalent to a total of LL (000) 29,479,049) being the difference between the carrying amount of the underlying assets and their selling price (representing their fair values). The Bank will recognize this gain in the separate income statement as it disposes of its ownership in "Peterhouse Securities Limited" to the third-party investors on a pro-rata basis. Also during 2020, the Bank transferred its ownership in an underlying asset to "Peterhouse Securities Limited" as a final settlement in exchange for the above-mentioned shares. As a result of this transaction, the Bank decreased the deferred income balance under "other liabilities" by the amount of LL (000) 5,438,810 being the carrying amount of the underlying asset transferred.

During the year ended 31 December 2020, the Bank sold 16,808,174 Class B shares in "Peterhouse Securities Limited" (2019: 1,350,000 Class B shares) resulting in a gain of LL (000) 15,103,593 (2019: LL (000) 1,335,143) which was recorded under "Net realized gain on disposal of financial assets at fair value through profit or loss" (Note 6) and thus decreasing the deferred income balance by the same amount. The Bank transferred the remaining balance of the deferred income amounting to LL (000) 7,601,503 to the separate income statement under "Net realized gain on disposal of financial assets at fair value through profit or loss" upon the decision of the management to retain the ownership in "Peterhouse Securities Limited".

During the year ended 31 December 2020, the Bank acquired 987,000 Class B shares in "Peterhouse Securities Limited" for a total consideration of GBP 953,600 equivalent to LL (000) 1,880,564).

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(b) Investments in startup companies:

Company	2020 Total investment LL (000)	2020 Portion of investment subsidized by BDL LL (000)	2019 Total investment LL (000)	2019 Portion of investment subsidized by BDL LL (000)
Tourist Tube Holding SAL	**4,522,506**	**(3,391,875)**	4,522,506	(3,391,875)
M Publishing SAL	**3,368,750**	**(2,826,563)**	3,768,750	(2,826,563)
Park Innovation SAL	**1,500,000**	**(1,500,000)**	1,500,000	(1,500,000)
	9,391,256	**(7,718,438)**	9,791,256	(7,718,438)

For the year ended 31 December 2020, net unrealized loss on the investments in startup companies amounted to LL (000) 400,000 recorded in the separate income statement under "Net gain on financial assets at fair value through profit or loss" (Note 6).

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 Carrying amount LL (000)	2020 Cumulative change in fair value LL (000)	2020 Dividend income LL (000)	2019 Carrying amount LL (000)	2019 Cumulative change in fair value LL (000)	2019 Dividend income LL (000)
Equity instruments						
Ace Liberty & Stone PLC	**11,344,014**	**1,980,685**	**10,018**	2,015,899	24,264	280,563
Novatiq Limited	**204,854**	**-**	**-**	-	-	-
	11,548,868	**1,980,685**	**10,018**	2,015,899	24,264	280,563
Debt instruments						
Lebanese treasury bills – denominated in LL	**20,096,782**	**703,044**	**-**	19,777,743	388,145	-
Lebanese treasury bills – Eurobonds	**11,223**	**68**	**-**	-	-	-
	31,656,873	**2,683,797**	**10,018**	21,793,642	412,409	280,563

15 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2020 LL (000)	2019 LL (000)
Corporate loans	**26,476,835**	27,838,431
Consumer loans	**5,566,385**	26,259,342
Accrued interest receivable	**154,144**	72,467
	32,197,364	54,170,240
Less: Allowance for expected credit losses (Note 39.2)	**(3,209,629)**	(2,054,071)
	28,987,735	52,116,169

The movement in allowances for expected credit losses on loans and advances to customers at amortized cost under IFRS 9 is presented in the Credit Risk section (Note 39.2).

16 FINANCIAL ASSETS AT AMORTIZED COST

	2020 LL (000)	*2019 LL (000)*
Lebanese sovereign and Central Bank of Lebanon		
Eurobonds	**25,133,459**	25,459,415
Treasury bills (*)	**10,074,188**	14,167,634
	35,207,647	39,627,049
Less: Allowance for expected credit losses (Note 39.2)	**(4,224,532)**	(2,405,915)
	30,983,115	37,221,134

The movement in allowances for expected credit losses on financial assets at amortized cost under IFRS 9 is presented in the Credit Risk section (Note 39.2).

(*) As at 31 December 2020, Lebanese treasury bills amounting to LL (000) 6,656,000 were pledged against term borrowings granted by the Central Bank of Lebanon with the same value (2019: the same) (Note 22).

17 INVESTMENTS IN SUBSIDIARIES

Investments	*Country of incorporation*	*% of ownership 2020 %*	*% of ownership 2019 %*	*2020 LL (000)*	*2019 LL (000)*
Optimum Invest SAL	Lebanon	**99.97**	-	**15,072,989**	-
Sola SAL	Lebanon	**99.96**	99.96	**4,145,625**	4,145,625
Peterhouse Capital Limited	United Kingdom	**79.56**	48.52	**6,334,162**	5,501,928
LiBank Investment Management Company	Cayman Islands	**100**	100	**254,627**	201,456
				25,807,403	9,849,009

During the year 2020, the Bank acquired 2,498 Class A shares in "Optimum Invest SAL", an unlisted financial institution based in Lebanon, for US$ 3,330,221 (equivalent to a total of LL (000) 5,020,309) and 5,000 Class B shares for US$ 6,668,445 (equivalent to a total of LL (000) 10,052,680) representing 99.97% of the company's total shares.

During the year 2019, the Bank acquired 272,727 additional shares in "Peterhouse Capital Limited" for an amount of LL (000) 2,966,985 increasing the percentage ownership to 48.52% of the company's total shares. During the year 2020, the Bank acquired 433,960 additional shares in "Peterhouse Capital Limited" for an amount of LL (000) 944,750, and disposed 48,587 shares for an amount of LL (000) 337,454, increasing the percentage ownership to 79.56% of the company's total shares.
The Bank's share of profits from this investment amounted to LL (000) 375,269 for the year ended 31 December 2020 (2019: LL (000) 220,311).

During the year 2018, the Bank acquired 9,996 shares in "Sola SAL", a real estate company based in Lebanon, for US$ 2,750,000 (equivalent to a total of LL (000) 4,145,625) representing 99.96% of the company's total shares.

During the year 2015, the Bank acquired one share in "LiBank Investment Management Company", a company established in the Cayman Islands, for US$ 1 representing 100% of the company's total shares. The Bank's share of profits from this investment amounted to LL (000) 53,171 for the year ended 31 December 2020 (2019: LL (000) 2,369).

18 INVESTMENTS IN ASSOCIATES

Company	Country of incorporation	% of ownership 2020 %	% of ownership 2019 %	Bank's share of equity 2020 LL (000)	Bank's share of equity 2019 LL (000)
GMT Aviation Limited	Cyprus	**19.83**	19.83	**-**	3,933,130
Grace Liberty and Stone	Cyprus	**15.09**	-	**1,480,968**	-
				1,480,968	3,933,130

During the year 2018, the Bank acquired 507 shares in "GMT Aviation Limited", a company based in Cyprus, for a total amount of EUR 1,355,211 (equivalent to LL (000) 2,399,429) representing 19.83% of the company's total shares. During the year 2020, the Bank acquired 89 shares in "GMT Aviation Limited" for a total amount of EUR 267,267 (equivalent to LL (000) 472,568) representing 19.83% of the company's total shares. During the year 2020, the Bank booked an impairment on its investment in the associate amounting to LL (000) 4,323,431 recognized in the separate income statement.

During the year 2020, the Bank acquired 800,000 shares in "Grace Liberty and Stone", a company based in Cyprus, for a total amount of EUR 800,000 (equivalent to LL (000) 1,480,968) representing 15.09% of the company's total shares.

19 PROPERTY AND EQUIPMENT

	Building LL (000)	Computer hardware LL (000)	Motor vehicle LL (000)	Furniture and fixture LL (000)	Equipment LL (000)	Advances on property and equipment LL (000)	Total LL (000)
Cost:							
At 1 January 2020	10,321,017	934,169	157,320	2,931,105	260,154	128,136	14,731,901
Additions	-	78,222	1,170	47,619	135,279	130,791	393,081
Transfers	-	-	-	3,600	-	(73,722)	(70,122)
Adjustments	-	-	-	-	-	(13,931)	(13,931)
At 31 December 2020	**10,321,017**	**1,012,391**	**158,490**	**2,982,324**	**395,433**	**171,274**	**15,040,929**
Depreciation:							
At 1 January 2020	(644,515)	(676,070)	(24,314)	(1,180,093)	(93,359)	-	(2,618,351)
Charge for the year	(98,293)	(99,868)	(15,839)	(188,009)	(24,291)	-	(426,300)
At 31 December 2020	**(742,808)**	**(775,938)**	**(40,153)**	**(1,368,102)**	**(117,650)**	**-**	**(3,044,651)**
Net carrying amount:							
At 31 December 2020	**9,578,209**	**236,453**	**118,337**	**1,614,222**	**277,783**	**171,274**	**11,996,278**

	Building LL (000)	Computer hardware LL (000)	Motor vehicle LL (000)	Furniture and fixture LL (000)	Equipment LL (000)	Advances on property and equipment LL (000)	Total LL (000)
Cost:							
At 1 January 2019	10,321,017	754,059	37,401	2,922,519	260,154	219,050	14,514,200
Additions	-	48,732	119,919	8,586	-	73,407	250,644
Transfers	-	131,378	-	-	-	(164,321)	(32,943)
At 31 December 2019	10,321,017	934,169	157,320	2,931,105	260,154	128,136	14,731,901
Depreciation:							
At 1 January 2019	(329,402)	(580,504)	(13,849)	(994,429)	(72,546)	-	(1,990,730)
Charge for the year	(315,113)	(95,566)	(10,465)	(185,664)	(20,813)	-	(627,621)
At 31 December 2019	(644,515)	(676,070)	(24,314)	(1,180,093)	(93,359)	-	(2,618,351)
Net carrying amount:							
At 31 December 2019	9,676,502	258,099	133,006	1,751,012	166,795	128,136	12,113,550

19 PROPERTY AND EQUIPMENT (continued)

During 2018, the Bank proceeded with the revaluation of sections 68, 69, 222 and 223 of block B of plot number 39 of Rmeil area in Beirut. The valuation report prepared by the real estate expert resulted in a revaluation surplus of LL (000) 2,721,049 on the Bank's building. The Extraordinary General Assembly meeting of shareholders held on 6 December 2018 resolved to approve this revaluation.

20 INTANGIBLE ASSETS

	Software	
	2020	*2019*
	LL (000)	*LL (000)*
Cost:		
At 1 January	**877,718**	802,648
Additions	**-**	42,127
Transfers	**70,122**	32,943
At 31 December	**947,840**	877,718
Amortization:		
At 1 January	**(677,636)**	(568,369)
Amortization for the year	**(74,734)**	(109,267)
At 31 December	**(752,370)**	(677,636)
Net carrying amount:		
At 31 December	**195,470**	200,082

21 OTHER ASSETS

	2020	*2019*
	LL (000)	*LL (000)*
Exchange transactions for customers (e)	**8,872,393**	-
Advance on investment in Quantum Estates SAL (c)	**8,723,324**	-
Mandatory deposit with the Lebanese Treasury (a)	**4,500,100**	4,500,100
Insurance receivable - Beirut Port explosion (d)	**1,636,252**	-
Due from a subsidiary (Note 34)	**1,305,327**	182,780
Advance on investment in Kingdom Bank Limited (b)	**1,111,233**	1,072,963
Prepayments	**1,043,603**	513,360
Receivables from advisory services	**891,963**	1,191,280
Deferred tax asset (Notes 10 and 26)	**-**	4,784,464
Others	**720,475**	897,958
Less: Provision for impairment of advance on an investment (b)	**(1,111,233)**	(1,072,963)
	27,693,437	12,069,942

(a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution date (according to paragraph b of Article 132 of the Code of Money and Credit) which will only be recovered upon the Bank's liquidation.

(b) The Bank was in the process of acquiring a 35% stake in "Kingdom Bank Limited", located in the United Kingdom, through the purchase of 1,475,990 ordinary shares. On 9 November 2015, the Bank paid an amount of GBP 327,000 (equivalent to LL (000) 730,014) representing a down payment on acquisition of this investment pending the approvals of the Central Bank of Lebanon and the Central Bank of England. The remaining balance represents capitalized expenses related to this acquisition. During 2016, the Bank decided to withdraw from the acquisition and accordingly fully provided for the unrecoverable balance related to this acquisition amounting to GBP 542,451 (equivalent to LL (000) 1,111,233) as at 31 December 2020 (2019: LL (000) 1,072,963).

(c) The Bank is in the process of acquiring 14,990 shares of "Quantum Estates SAL" for a total consideration of US$ 8.6 million (equivalent to LL (000) 12,964,500), representing 99.94% of the company's total shares. During the year 2020, the Bank made an advance payment of LL (000) 8,723,324 pending the regulatory approvals.

21 OTHER ASSETS (continued)

(d) On 4 August 2020, a large explosion occurred at the port of Beirut causing material damages across the capital of Lebanon. The potential insurance recovery of the repairs at the Bank premises which amounted to LL (000) 1,636,252 was recorded as a receivable under "other assets" for the same amount as the realization of the claim is deemed probable. The losses (repairs) and recoveries were netted off in the separate income statement for the year ended 31 December 2020.

(e) During 2020, the Bank performed exchange transactions with customers resulting in deferred charges on exchange transactions amounting to LL (000) 8,872,393 as of 31 December 2020. This balance was subsequently closed against customers' deposits.

The movement in the provision for impairment of advance on an investment is as follows:

	2020	*2019*
	LL (000)	*LL (000)*
Balance at 1 January	**1,072,963**	1,033,792
Exchange difference	**38,270**	39,171
Balance at 31 December	**1,111,233**	1,072,963

22 DUE TO CENTRAL BANK

	2020	*2019*
	LL (000)	*LL (000)*
Term borrowings under leverage arrangements	**6,656,000**	6,656,000
Other borrowings	**1,243,466**	736,298
Accrued interest	**240,766**	237,065
	8,140,232	7,629,363

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 2021 and 2029, 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 Bank 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 Bank 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.

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 separate statement of financial position. The table identifies the amounts that have been offset in the separate 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:

	2020	*2019*
	LL (000)	*LL (000)*
Leverage arrangements		
Gross amounts	**33,674,000**	33,674,000
Amounts offset against [(1)] placements with the Central Bank of Lebanon (Note 11)	**(27,018,000)**	(27,018,000)
Net amounts reported on the separate statement of financial position	**6,656,000**	6,656,000
Financial collateral		
Lebanese treasury bills (Note 16)	**6,656,000**	6,656,000

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

23 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2020 LL (000)	2019 LL (000)
Current accounts	**440,450**	144,636
Sight deposits	**21,319,014**	40,653,587
	21,759,464	40,798,223

24 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2020 LL (000)	2019 LL (000)
Current accounts	**173,192,155**	68,090,535
Term deposits	**150,362,599**	109,274,574
Accrued interest	**443,390**	1,762,030
	323,998,144	179,127,139

25 DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	2020 LL (000)	2019 LL (000)
Current accounts	**16,137,630**	2,733,194
Term deposits	**15,693,165**	3,685,999
Accrued interest	**7,048**	64,538
	31,837,843	6,483,731

26 OTHER LIABILITIES

	2020 LL (000)	2019 LL (000)
Subsidies related to investments in start-up companies (Note 13)	**7,718,438**	7,718,438
Current tax liability (Note 10)	**5,341,228**	4,856,104
Subscriptions and other payables	**1,943,190**	714,759
Other taxes payable	**375,012**	494,492
Accrued charges	**194,061**	163,400
Taxes on salaries and remunerations	**189,638**	91,024
Deferred tax liability (Note 10)	**141,008**	141,008
Due to the National Social Security Fund	**38,662**	30,687
Deferred income (a)	-	28,143,906
Payables related to investments	-	1,682,335
	15,941,237	44,036,153

(a) As disclosed in Note 13, this balance represents the difference between the carrying amounts of the underlying assets transferred to "Peterhouse Securities Limited" and their selling prices (representing their fair values). The Bank recognizes this gain in the separate income statement as it disposes of its ownership in "Peterhouse Securities Limited" to third party investors on a pro-rata basis. (Note 13). Deferred tax asset related to this balance amounted to LL (000) 4,784,464 as at 31 December 2019. During the year ended 31 December 2020, the entire balance of the deferred tax asset was reversed to the separate income statement (Note 21).

27 PROVISIONS FOR RISKS AND CHARGES

	2020 LL (000)	2019 LL (000)
Other provisions (a)	**325,812**	28,079
Retirement benefit obligations (a)	**463,868**	228,466
	789,680	256,545

(a) The movement of the other provisions is as follows:

	2020 LL (000)	2019 LL (000)
Balance at 1 January	**28,079**	28,123
Charge for the year	**305,539**	-
Paid during the year	**(7,806)**	(44)
Balance at 31 December	**325,812**	28,079

(b) The movement of the retirement benefit obligations is as follows:

	2020 LL (000)	2019 LL (000)
Balance at 1 January	**228,466**	85,242
Charge for the year (Note 8)	**236,331**	156,941
Paid during the year	**(929)**	(13,717)
Balance at 31 December	**463,868**	228,466

28 SHARE CAPITAL

	Authorized, issued and fully paid	
	2020 LL (000)	2019 LL (000)
600,000 shares of a nominal value of LL (000) 100 each	**60,000,000**	60,000,000

29 CASH CONTRIBUTION TO CAPITAL

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 separate financial statements, the General Assembly of Shareholders held on 30 June 2020 verified and approved cash contributions to capital amounting to US$ 10,000,000 (equivalent to LL (000) 15,075,000) and convertible to common shares. The final approval of the Central Bank of Lebanon was obtained on 7 June 2021.

30 DIVIDENDS PAID

In accordance with the resolution of the General Assembly meeting of shareholders held on 12 June 2019, dividends declared and paid during the year ended 31 December 2019 amounted to LL (000) 600,000.

In accordance with the Central Bank of Lebanon Intermediate Circular 567, no dividends were distributed from 2019 profits.

31 RESERVES

Non-distributable reserves

a) Legal reserve
As required by the Lebanese Code of Money and Credit, 10% of the net profit for the year has to be transferred to legal reserve. An amount of LL (000) 2,887 was transferred to legal reserve for the year ended 31 December 2019. This reserve is not available for distribution.

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

Distributable reserves

a) General reserve
In accordance with the resolution of the General Assembly meeting of shareholders held on 12 June 2019, the bank distributed dividends from this reserve amounting to LL (000) 423,990. This reserve amounting to LL (000) 5,472 as at 31 December 2020 (2019: LL (000) 4,518) is available for distribution.

32 CUMULATIVE CHANGES IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	2020 ***LL (000)***	*2019* *LL (000)*
Balance at 1 January	**412,409**	1,105,015
Net unrealized gain on financial assets at fair value through other comprehensive income	**4,636,614**	3,154,908
Disposal of equity instruments at fair value through other comprehensive income	**(2,365,226)**	(3,847,514)
Balance at 31 December	**2,683,797**	412,409

33 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2020 ***LL (000)***	*2019* *LL (000)*
Fiduciary deposits	**14,914,494**	1,507,500
Financial instruments under custody	**294,002,151**	214,414,727
	308,916,645	215,922,227

34 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled or significantly influenced by such parties.

The lists of the Bank's principal subsidiaries and associates are shown in Notes 17 and 18 to the separate financial statements. Transactions between the Bank and its subsidiaries and associates meet the definition of related party transactions.

Transactions with related parties included in the separate statement of comprehensive income are as follows for the year ended 31 December:

	2020	*2019*
	LL (000)	*LL (000)*
Chairman and General Manager remunerations (Note 8)	**(403,875)**	(730,229)
Committee members remunerations (Note 8)	**(283,067)**	(236,677)
Consultancy fees (Note 9)	**(180,900)**	(180,900)
Interest expense on deposits from related parties (Note 4)	**(136,420)**	(160,505)
Interest income on loans and advances to related parties (Note 3)	**52,772**	54,700

Balances and transactions with related parties included in the separate statement of financial position are as follows as of 31 December:

	2020	*2019*
	LL (000)	*LL (000)*
Deposits from related parties at amortized cost (Note 25)	**31,837,843**	6,483,731
Loans and advances to related parties at amortized cost	**771,207**	815,036
Due from a subsidiary		
Sola SAL	**1,305,327**	182,780

The above balance is not subject to interest.

	2020	*2019*
Due from banks and financial institutions		
Optimum Invest SAL	**116,526**	28,408
Peterhouse Capital Limited	**4,292,012**	116,936
	4,408,538	145,344
Due to banks and financial institutions		
Optimum Invest SAL	**287,725**	12,315
Peterhouse Capital Limited	**11,582,989**	8,115,061
	11,870,714	8,127,376

35 CASH AND CASH EQUIVALENTS

	2020	*2019*
	LL (000)	*LL (000)*
Cash and balances with the Central Bank	**147,961,071**	15,157,588
Due from banks and financial institutions	**10,340,855**	3,515,613
Due to banks and financial institutions	**(21,759,464)**	(40,798,223)
	136,542,462	(22,125,022)

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

These balances were as follows as at 31 December 2020 and 31 December 2019:

	2020	*2019*
	LL (000)	*LL (000)*
Cash and balances with the Central Bank	**131,103,732**	49,435,151
Due from banks and financial institutions	**4,359,186**	9,185,342
	135,462,918	58,620,493

36 CONTINGENT LIABILITIES AND COMMITMENTS

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of loss has been reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

At year end, the Bank had several unresolved legal claims. Based on advice from legal counsel, and despite the novelty of the certain claims and the uncertainties inherent in their unique situation, management believes that legal claims will not result in any significant financial loss to the Bank, except as provided for in Note 41.

Other Commitments and Contingencies
Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books remain subject to the review of the tax authorities and the review of the National Social Security Fund (NSSF) since inception. Management believes that the results of any such reviews will not have a material effect on the Bank's separate financial statements.

37 COMPARATIVE INFORMATION

The Bank's investment in Peterhouse Capital Limited has been reclassified from "Investments in associates" to "Investments in subsidiaries" in the separate statement of financial position. Comparative amounts of LL (000) 5,501,928 have been reclassified accordingly.

38 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 Bank as a going concern. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

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

Valuation Technique Using Observable Inputs – Level 2
Financial instruments classified as Level 2 have been valued using models whose most significant inputs are 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). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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 separate 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.

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

	2020			
		Valuation techniques		
	Quoted market price Level 1	*Observable inputs Level 2*	*Unobservable inputs Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*
Financials assets at fair value through profit or loss:				
Lebanese treasury bills	7,412	5,730,375	-	5,737,787
Certificates of Deposit issued by the Central Bank of Lebanon	-	52,434,333	-	52,434,333
Peterhouse Securities Limited	-	-	16,037,663	16,037,663
Funds	-	4,167,205	-	4,167,205
Investments in start-up companies	-	-	9,391,256	9,391,256
Financials assets at fair value through other comprehensive income:				
Lebanese treasury bills	11,223	20,085,559	-	20,096,782
Equity securities	11,344,014	-	204,854	11,548,868
	11,362,649	82,417,472	25,633,773	119,413,894

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2019			
		Valuation techniques		
	Quoted market price Level 1 LL (000)	*Observable inputs Level 2 LL (000)*	*Unobservable inputs Level 3 LL (000)*	*Total LL (000)*
Financials assets at fair value through profit or loss:				
Lebanese treasury bills	24,147	5,684,551	-	5,708,698
Certificates of Deposit issued by the Central Bank of Lebanon	-	52,428,614	-	52,428,614
Peterhouse Securities Limited	-	-	46,779,464	46,779,464
Funds	-	4,034,158	-	4,034,158
Investments in start-up companies	-	-	9,791,256	9,791,256
Financials assets at fair value through other comprehensive income:				
Lebanese treasury bills	-	19,777,743	-	19,777,743
Equity securities	2,015,899	-	-	2,015,899
	2,040,046	81,925,066	56,570,720	140,535,832

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

Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)

Funds and Equity Shares of Non-listed Entities

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

Equity shares of non-listed entities are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Bank 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 separate financial statements of the investee are recent and published or not. These instruments are fair valued using third-party information (NAV or separate financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Bank in accordance with IFRS 13.93 (d).

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

Financial assets and liabilities concentrated in Lebanon

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

Financial assets and liabilities not concentrated in Lebanon

These are not significant to the Bank's separate financial statements.

39 RISK MANAGEMENT

39.1 INTRODUCTION

The Bank 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.
- Liquidity risk: the risk that the Bank cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- 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.
- 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 Bank include concentration risk, reputation risk, legal risk, political risk and business/strategic risk.

39.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations, 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, and investments in debt securities (including sovereign). Credit risk appetite and limits are set at the Bank level by the Board. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank 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 Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

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

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 Bank 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 Stage 3.

39.2.1 Expected Credit Losses

Governance and oversight of expected credit losses

The Bank'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.

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.1 Expected Credit Losses (continued)
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 Bank 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 is designated an owner who is responsible for:

- Monitoring the performance of the model, which includes comparing estimated ECL versus actual ECL; and,
- Proposing post-model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process.

Each model used in the estimation of ECL, including key inputs, are governed by a series of internal controls, which include the validation of completeness and accuracy of data, reconciliation with Finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios, which are set by economists within the Bank's Research Department using independent models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum annually, to align with the Bank's medium-term planning exercise, but also in the event of significant change in the prevailing economic conditions. The scenario probability weights are also updated when the scenarios are updated.

Definition of default and cure
The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- 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 Bank 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 Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for 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 Bank, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.1 Expected Credit Losses (continued)

Definition of default and cure (continued)
In response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail customers under market-wide programs. In Lebanon, the Central Bank of Lebanon issued Intermediary Circular no. 567 dated August 26, 2020, by which it required banks operating in Lebanon to keep the regulatory classification unchanged for obligors that were negatively impacted by this pandemic and not to consider their past-dues, when existing, as evidence of SICR. However under exceptional circumstances and in case an obligor ceases to be operating on a going concern basis, banks should immediately downgrade the borrower's classification to Stage 3.

The Bank's internal rating and PD estimation process
The Bank's independent Credit Risk Department operates its internal rating models. The Bank 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 Bank'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.

Treasury, trading and interbank relationships
The Bank'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 Bank'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. Sovereign exposures including central bank balances follow guidelines set out in the Central Bank of Lebanon Intermediary Circular 567 which modified the regulatory ECLs levels previously set in its Intermediate Circular 543 issued on 3 February 2020. These are continuously monitored and updated.

Corporate and small business lending
For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. 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.
- 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.
- 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 Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.1 Expected Credit Losses (continued)

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

Corporate and small business lending (continued)
Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Review and Credit Risk 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 Bank also relies on account behavior 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 Bank 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.

Exposure at Default
EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. 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.

Loss Given Default
LGD is the magnitude of the likely loss if there is a default. The Bank 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 Bank has limited historical data, credit external opinion benchmark against related regulators is used to supplement the internally available data.

Significant increase in credit risk
The Bank 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 Bank 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 Bank's historical experience and expert credit assessment including forward-looking information. The Bank 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).

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.1 Expected Credit Losses (continued)

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

The Bank 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 Bank 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 Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

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 Bank has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Forward Looking Information
The Bank incorporates forward-looking information at the level of Probability of Default.

On the PD level, the Bank 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 Bank 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 Bank's Credit Risk Department verifies the accuracy of inputs to the Bank's ECL models including determining the weights attributable to the multiple scenarios of the PD.

The Bank 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 Bank 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. In Lebanon, given the prevailing high uncertainties and challenges, which were further exacerbated by the COVID-19 pandemic as disclosed in Note 1, ECLs estimation remains subject to high volatility (including from changes to macroeconomic variable forecasts) especially in the event of a prolonged crisis and continued deterioration in the economic conditions. It is not practical at this stage to determine and provide sensitivity analysis that is reasonably possible before the full resolution of these prevailing high uncertainties.

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.2 Overview of modified and forborne 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 Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank'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 forborne or modified, the Bank'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 forborne during the year.

	2020	*2019*
	LL (000)	*LL (000)*
Amortized costs of financial assets modified during the year	-	5,364,846

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.3 Financial Assets and ECLs by stage

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

	Gross exposure				*Impairment allowance*				*Net*
31 December 2020	***Stage 1*** ***LL (000)***	***Stage 2*** ***LL (000)***	***Stage 3*** ***LL (000)***	***Total*** ***LL (000)***	***Stage 1*** ***LL (000)***	***Stage 2*** ***LL (000)***	***Stage 3*** ***LL (000)***	***Total*** ***LL (000)***	***exposure*** ***LL (000)***
Balances with the Central Bank	**219,816,331**	-	-	**219,816,331**	**654,892**	-	-	**654,892**	**219,161,439**
Deposits with banks and financial institutions	**10,664,817**	-	-	**10,664,817**	-	-	-	-	**10,664,817**
Loans and advances to customers at amortised cost	**26,280,356**	-	**5,917,008**	**32,197,364**	**1,170,989**	-	**2,038,640**	**3,209,629**	**28,987,735**
Loans and advances to related parties at amortised cost	**809,760**	-	-	**809,760**	**38,553**	-	-	**38,553**	**771,207**
Financial assets at amortised cost	**10,074,188**	-	**25,133,459**	**35,207,647**	-	-	**4,224,532**	**4,224,532**	**30,983,115**
Total	**267,645,452**	-	**31,050,467**	**298,695,919**	**1,864,434**	-	**6,263,172**	**8,127,606**	**290,568,313**

	Gross exposure				*Impairment allowance*				*Net*
31 December 2019	*Stage 1* *LL (000)*	*Stage 2* *LL (000)*	*Stage 3* *LL (000)*	*Total* *LL (000)*	*Stage 1* *LL (000)*	*Stage 2* *LL (000)*	*Stage 3* *LL (000)*	*Total* *LL (000)*	*exposure* *LL (000)*
Balances with the Central Bank	62,136,826	-	-	62,136,826	1,078,629	-	-	1,078,629	61,058,197
Deposits with banks and financial institutions	10,754,774	-	-	10,754,774	293,606	-	-	293,606	10,461,168
Loans and advances to customers at amortised cost	36,292,881	12,543,669	5,333,690	54,170,240	48,801	392,662	1,612,608	2,054,071	52,116,169
Loans and advances to related parties at amortised cost	815,036	-	-	815,036	-	-	-	-	815,036
Financial assets at amortised cost	39,627,049	-	-	39,627,049	2,405,915	-	-	2,405,915	37,221,134
Financial assets at fair value through other comprehensive income	19,777,743	-	-	19,777,743	-	-	-	-	19,777,743
Total	169,404,309	12,543,669	5,333,690	187,281,668	3,826,951	392,662	1,612,608	5,832,221	181,449,447

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.3 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 at amortized cost:

	Stage 1 LL (000)	*Stage 2* LL (000)	*Stage 3* LL (000)	*Total* LL (000)
Balance at 1 January 2020	**48,801**	**392,662**	**1,612,608**	**2,054,071**
(Write-back) charge for the year (Note 7)	**1,122,188**	**(392,662)**	**1,230,619**	**1,960,145**
Write-offs	-	-	**(1,009,130)**	**(1,009,130)**
Other movements	-	-	**204,543**	**204,543**
Balance at 31 December 2020	**1,170,989**	-	**2,038,640**	**3,209,629**

	Stage 1 LL (000)	*Stage 2* LL (000)	*Stage 3* LL (000)	*Total* LL (000)
Balance at 1 January 2019	30,304	55,715	779,820	865,839
Charge for the year (Note 7)	121,159	234,285	609,539	964,983
Transfer between stages	(102,662)	102,662	-	-
Other movements	-	-	223,249	223,249
Balance at 31 December 2019	48,801	392,662	1,612,608	2,054,071

Net re-measurements and reallocations include re-measurement as a result of changes in 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 the Central Bank:

	Stage 1	
	2020 LL (000)	*2019* LL (000)
Balance as of 1 January	**1,078,629**	56,212
(Write-back) charge for the year (Note 7)	**(423,737)**	1,038,087
Other movements	-	(15,670)
At 31 December	**654,892**	1,078,629

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of deposits with banks and financial institutions:

	Stage 1	
	2020 LL (000)	*2019* LL (000)
Balance as of 1 January	**293,606**	76,694
(Write-back) charge for the year (Note 7)	**(293,606)**	216,912
At 31 December	-	293,606

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.3 Financial Assets and ECLs by stage (continued)

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

	Stage 1	***Stage 3***	***Total***
	LL (000)	***LL (000)***	***LL (000)***
Balance at 1 January 2020	**2,405,915**	**-**	**2,405,915**
Transfer between stages	**(2,405,915)**	**2,405,915**	**-**
Charge for the year (Note 7)	**-**	**1,818,617**	**1,818,617**
Balance at 31 December 2020	**-**	**4,224,532**	**4,224,532**

	Stage 1	*Stage 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*
Balance at 1 January 2019	269,650	-	269,650
Charge for the year (Note 7)	2,174,391	-	2,174,391
Other movements	(38,126)	-	(38,126)
Balance at 31 December 2019	2,405,915	-	2,405,915

39.2.4 Analysis of risk concentrations

Geographical location analysis

The Bank 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		
	Lebanon	***Other***	***Total***
	LL (000)	***LL (000)***	***LL (000)***
Balances with the Central Bank	**219,161,439**	**-**	**219,161,439**
Deposits with banks and financial institutions	**4,629,209**	**6,035,608**	**10,664,817**
Financial assets at fair value through profit or loss	**67,563,376**	**20,204,868**	**87,768,244**
Certificates of deposit issued by the Central Bank of Lebanon	***52,434,333***	**-**	***52,434,333***
Treasury bills	***5,730,375***	**-**	***5,730,375***
Eurobonds	***7,412***	**-**	***7,412***
Loans and advances to customers at amortized cost	**23,936,718**	**5,051,017**	**28,987,735**
Loans and advances to related parties at amortized cost	**771,207**	**-**	**771,207**
Financial assets at amortized cost	**30,983,115**	**-**	**30,983,115**
Eurobonds	***20,908,927***	**-**	***20,908,927***
Treasury bills	***10,074,188***	**-**	***10,074,188***
Financial assets at fair value through other comprehensive income	**20,108,005**	**11,548,868**	**31,656,873**
Treasury bills	***20,096,782***	**-**	***20,096,782***
Eurobonds	***11,223***	**-**	***11,223***
Other assets	**10,097,720**	**-**	**10,097,720**
Total credit exposure	**377,250,789**	**42,840,361**	**420,091,150**

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

39.2.4 Analysis of risk concentrations (continued)

Geographical location analysis (continued)

	2019		
	Lebanon LL (000)	*Other LL (000)*	*Total LL (000)*
Balances with the Central Bank	61,058,197	-	61,058,197
Deposits with banks and financial institutions	9,383,305	1,077,863	10,461,168
Financial assets at fair value through profit or loss	67,928,568	50,813,622	118,742,190
Certificates of deposit issued by the Central Bank of Lebanon	*52,428,614*	-	*52,428,614*
Treasury bills	*5,684,551*	-	*5,684,551*
Eurobonds	*24,147*	-	*24,147*
Loans and advances to customers at amortized cost	30,675,754	21,440,415	52,116,169
Loans and advances to related parties at amortized cost	60,616	754,420	815,036
Financial assets at amortized cost	37,221,134	-	37,221,134
Eurobonds	*23,053,500*	-	*23,053,500*
Treasury bills	*14,167,634*	-	*14,167,634*
Financial assets at fair value through other comprehensive income	19,777,743	2,015,899	21,793,642
Treasury bills	*19,777,743*	-	*19,777,743*
Other assets	12,069,942	-	12,069,942
Total credit exposure	228,384,003	23,272,698	314,277,478

39.2.5 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 (000)	***Cash LL (000)***	***Securities LL (000)***	***Real estate LL (000)***	***Net credit exposure LL (000)***
Balances with the Central Bank	**219,161,439**	-	-	-	**219,161,439**
Deposits with banks and financial institutions	**10,664,817**	-	-	-	**10,664,817**
Financial assets at fair value through profit or loss	**87,768,244**	-	-	-	**87,768,244**
Financial assets at fair value through other comprehensive income	**31,656,873**	-	-	-	**31,656,873**
Loans and advances to customers at amortized cost	**28,987,735**	**9,264,798**	-	**10,865,412**	**8,857,525**
Loans and advances to related parties at amortized cost	**771,207**	**436,842**	-	-	**334,365**
Financial assets at amortized cost	**30,983,115**	-	-	-	**30,983,115**
	409,993,430	**9,701,640**	-	**10,865,412**	**389,426,378**
Utilized collateral		**9,701,640**	-	**10,865,412**	
Guarantees received from banks, financial institutions and customers		**9,701,640**		**10,865,412**	

39 RISK MANAGEMENT (continued)

39.2 CREDIT RISK (continued)

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

	2019				
	Maximum exposure LL (000)	*Cash LL (000)*	*Securities LL (000)*	*Real estate LL (000)*	*Net credit exposure LL (000)*
Balances with the Central Bank	61,058,197	-	-	-	61,058,197
Deposits with banks and financial institutions	10,461,168	-	-	-	10,461,168
Financial assets at fair value through profit or loss	118,742,190	-	-	-	118,742,190
Financial assets at fair value through other comprehensive income	21,793,642	-	-	-	21,793,642
Loans and advances to customers at amortized cost	52,116,169	17,271,336	2,043,864	27,167,968	5,633,001
Loans and advances to related parties at amortized cost	815,036	755,928	-	-	59,108
Financial assets at amortized cost	37,221,134	-	-	-	37,221,134
	302,207,536	18,027,264	2,043,864	27,167,968	254,968,440
Utilized collateral		18,027,264	2,043,864	27,167,968	
Guarantees received from banks, financial institutions and customers		18,027,264	2,043,864	27,167,968	

39.2.6 Collateral and other credit enhancements

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

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

In addition to the above, the Bank 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 table above.

39 RISK MANAGEMENT (continued)

39.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Bank, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at an excessive cost. The Bank's policy with regards to the liquidity risk management is centered on a conservative approach, whereby the liquidity is managed strongly in normal times and adequate liquidity buffers are maintained, in a way that enables the Bank to withstand a prolonged period of liquidity stress.

Net immediate cash and near cash in foreign currencies are held at sight in prime international banks to keep the Net Immediate Liquidity above the defined tolerance level by the Board of Directors, at all times.

The Bank has updated its Liquidity Risk Policy to include Liquidity Standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), based on Basel III and its own conservative assumptions. The LCR is kept well above the established internal minimum, ensuring that the Bank maintains High Quality Liquid Assets (HQLAs), both in local and foreign currencies, which allow the Bank to cover more than 100% of a potentially stressed net outflow in a liquidity crisis based on severe internal estimates and haircuts. The NSFR is designed to ensure that long term assets are funded with at least a minimum amount of stable resources in relation to their liquidity characteristics.

Moreover, the policy defined a set of Early Warning Indicators (EWIs) along with other liquidity ratios and monitoring tools that are continuously screened by Senior Management and the Board of Directors.

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 Bank's activities. On a daily basis, a report of highly liquid assets showing the change in the position compared to the previous day is submitted to the members of the ALCO. Also, Treasury monitors daily the inflows and outflows in the main currencies used by the Bank.

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 is prepared. This report is submitted to the Central Bank of Lebanon.

Monthly

Tables are prepared indicating compliance with internal and regulatory liquidity ratios for the Bank and are submitted to the ALCO.

Quarterly

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

Periodic

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

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

As per applicable regulations, the Bank must retain obligatory reserves with the central bank where the Bank operates.

39 RISK MANAGEMENT (continued)

39.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Liquidity ratios
The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The ratio of foreign currency liquid assets to foreign currency total deposits and other liabilities falling due in the next month is prepared monthly by the Bank Risk Management and monitored by ALCO. Foreign currency liquid assets are defined as foreign currency bonds and placements with banks 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 balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Bank submitted to the regulators its calculation for meeting these requirements, and it was approved by the Central Bank of Lebanon.

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

The Bank 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.

Loans to deposits ratio		***2020***	*2019*
	Year-end	**8.50%**	28.52%

39 RISK MANAGEMENT (continued)

39.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities 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 separate statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	31 December 2020					
	Up to 1 month LL (000)	*1 to 3 months LL (000)*	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets						
Cash and balances with Central Bank	**206,349,385**	**7,405,000**	**304,005**	**1,686,071**	**23,990,266**	**239,734,727**
Deposits with banks and financial institutions	**10,664,817**	-	-	-	-	**10,664,817**
Financial assets at fair value through profit or loss	**35,287,352**	-	-	**16,815,486**	**37,568,946**	**89,671,784**
Financial assets at fair value through other comprehensive income	**11,548,650**	-	**11,223**	**18,607,176**	**2,726,586**	**32,893,635**
Loans and advances to customers and related parties at amortized cost	**7,464,053**	**637,580**	**1,339,484**	**14,685,267**	**10,519,658**	**34,646,042**
Financial assets at amortized cost	-	**13,710**	**2,487**	**9,698,208**	**21,979,146**	**31,693,551**
Total undiscounted financial assets	**271,314,257**	**8,056,290**	**1,657,199**	**61,492,208**	**96,784,602**	**439,304,556**
Financial liabilities						
Due to Central Bank	**232**	-	**82,850**	**2,479,303**	**9,284,456**	**11,846,841**
Due to banks and financial institutions	**12,097,775**	**9,666,100**	-	-	-	**21,763,875**
Customers' deposits at amortized cost	**294,757,144**	**19,101,317**	**10,780,216**	-	-	**324,638,677**
Deposits from related parties at amortized cost	**31,593,393**	**422,981**	-	-	-	**32,016,374**
Total undiscounted financial liabilities	**338,448,544**	**29,190,398**	**10,863,066**	**2,479,303**	**9,284,456**	**390,265,767**
Net undiscounted financial assets	**(67,134,287)**	**(21,134,108)**	**(9,509,872)**	**59,012,905**	**87,500,146**	**49,038,789**

	31 December 2019					
	Up to 1 month LL (000)	*1 to 3 months LL (000)*	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets						
Cash and balances with Central Bank	31,886,307	6,030,000	17,861,132	1,507,500	6,793,500	64,078,439
Deposits with banks and financial institutions	3,222,007	-	7,459,867	-	-	10,681,874
Financial assets at fair value through profit or loss	118,742,190	1,250,332	2,556,749	13,769,173	11,483,804	147,802,248
Financial assets at fair value through other comprehensive income	-	116,707	1,299,191	19,371,710	6,182,347	26,969,955
Loans and advances to customers and related parties at amortized cost	14,145,252	352,188	10,282,528	22,079,838	15,165,993	62,025,799
Financial assets at amortized cost	111,900	517,215	6,222,199	17,633,684	33,257,677	57,742,675
Total undiscounted financial assets	168,107,656	8,266,442	45,681,666	74,361,905	72,883,321	369,300,990
Financial liabilities						
Due to Central Bank	-	-	-	7,966,103	-	7,966,103
Due to banks and financial institutions	25,058,980	-	16,163,909	600,252	-	41,823,141
Customers' deposits at amortized cost	103,295,963	35,816,326	42,685,657	622,133	-	182,420,079
Deposits from related parties at amortized cost	3,447,731	1,037,705	2,088,949	34,893	-	6,609,278
Total undiscounted financial liabilities	131,802,674	36,854,031	60,938,515	9,223,381	-	238,818,601
Net undiscounted financial assets	36,304,982	(28,587,589)	(15,256,849)	65,138,524	72,883,321	130,482,389

39 RISK MANAGEMENT (continued)

39.4 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 Bank's investment portfolio. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Bank's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements. The Risk Management division sets the framework necessary for identification, measurement and management of market risk.

(a) 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 Bank 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 Bank 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 table below shows the sensitivity of interest income to basis points changes in interest rates, all other variables held constant. Given the novel and prolonged nature of current economic crisis and the high levels of uncertainties, the Bank expects lower interest rates during 2020. The Central Bank of Lebanon has already decreased interest rates though issuance of Intermediary Circulars 536 and 544 (refer to Note 1). The Bank is unable to determine what would be a reasonable possible change in interest rates; however, the Bank has a sensitivity analysis based on a decrease in 100 basis points.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2020 and 2019. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Bank expects the low interest rates environment to potentially prevail in Lebanon during 2021. The Bank is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through its various intermediate circulars.

The change in interest income is calculated over a 1-year period. 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. The sensitivity of equity was calculated for a decrease in basis points whereby a similar decrease has an equal and offsetting effect on net interest income.

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

		2020	*2019*
Currency	***Increase in basis points***	***Effect on net interest income LL (000)***	*Effect on net interest income LL (000)*
LBP	**100 basis point**	**518,806**	290,507
US Dollar	**100 basis point**	**(294,141)**	(209,292)
Other	**100 basis point**	**56,282**	233,702

39 RISK MANAGEMENT (continued)

39.4 MARKET RISK (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity (continued)

The Bank'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.

	31 December 2020					
	Up to 1 month LL (000)	*1 to 3 months LL (000)*	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets						
Cash and balances with the Central Bank	**206,349,385**	**7,405,000**	-	**1,508,000**	**7,736,000**	**222,998,385**
Deposits with banks and financial institutions	**10,664,817**	-	-	-	-	**10,664,817**
Financial assets at fair value through profit or loss	**87,768,244**	-	-	-	-	**87,768,244**
Financial assets at fair value through other comprehensive income	**11,548,650**	-	**11,223**	**17,980,000**	**2,117,000**	**31,656,873**
Loans and advances to customers at amortized cost	**6,106,892**	**372,207**	**303,536**	**11,941,333**	**10,263,767**	**28,987,735**
Loans and advances to related parties at amortized cost	**771,207**	-	-	-	-	**771,207**
Financial assets at amortized cost	-	**13,710**	-	**9,064,859**	**21,904,546**	**30,983,115**
Total financial assets	**323,209,195**	**7,790,917**	**314,759**	**40,494,192**	**42,021,313**	**413,830,376**
Financial liabilities						
Due to Central Bank	**232**	-	-	**2,415,000**	**5,725,000**	**8,140,232**
Due to banks and financial institutions	**12,097,755**	**9,661,709**	-	-	-	**21,759,464**
Customers' deposits at amortized cost	**294,757,144**	**18,817,000**	**10,424,000**	-	-	**323,998,144**
Deposits from related parties at amortized cost	**31,580,843**	**257,000**	-	-	-	**31,837,843**
Total financial liabilities	**338,435,974**	**28,735,709**	**10,424,000**	**2,415,000**	**5,725,000**	**385,735,683**
Net financial assets	**(15,226,779)**	**(20,944,792)**	**(10,109,241)**	**38,079,192**	**36,296,313**	**28,094,693**

	31 December 2019					
	Up to 1 month LL (000)	*1 to 3 months LL (000)*	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets						
Cash and balances with the Central Bank	31,876,075	6,030,000	15,792,560	1,507,500	6,793,500	61,999,635
Deposits with banks and financial institutions	3,222,007	-	7,239,161	-	-	10,461,168
Financial assets at fair value through profit or loss	118,742,190	-	-	-	-	118,742,190
Financial assets at fair value through other comprehensive income	2,015,898	-	-	14,276,411	5,501,333	21,793,642
Loans and advances to customers at amortized cost	11,768,859	28,825	8,303,639	17,204,579	14,810,267	52,116,169
Loans and advances to related parties at amortized cost	755,928	-	59,108	-	-	815,036
Financial assets at amortized cost	-	-	4,065,791	8,819,277	24,336,066	37,221,134
Total financial assets	168,380,957	6,058,825	35,460,259	41,807,767	51,441,166	303,148,974
Financial liabilities						
Due to Central Bank	-	-	-	7,629,363	-	7,629,363
Due to banks and financial institutions	25,056,309	-	15,741,914	-	-	40,798,223
Customers' deposits at amortized cost	103,290,139	35,598,000	40,239,000	-	-	179,127,139
Deposits from related parties at amortized cost	3,447,731	1,028,000	2,008,000	-	-	6,483,731
Total financial liabilities	131,794,179	36,626,000	57,988,914	7,629,363	-	234,038,456
Net financial assets	36,586,778	(30,567,175)	(22,528,655)	34,178,404	51,441,166	69,110,518

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

39 RISK MANAGEMENT (continued)

39.4 MARKET RISK (continued)

(b) Currency risk (continued)

The following tables present the breakdown of assets and liabilities of the Bank by currency. Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset.

	2020					
	LL	***USD***	***GBP***	***EUR***	***Others***	***Total***
	LL (000)	***LL (000)***	***LL (000)***	***LL (000)***	***LL (000)***	***LL (000)***
Assets						
Cash and balances with the Central Bank	**18,874,989**	**175,081,835**	**1,885,180**	**27,153,453**	**2,928**	**222,998,385**
Deposits with banks and financial institutions	**151,585**	**6,801,437**	**1,509,091**	**1,941,679**	**261,025**	**10,664,817**
Financial assets at fair value through profit or loss	**14,179,641**	**57,550,940**	**16,037,663**	-	-	**87,768,244**
Financial assets at fair value through other comprehensive income	**20,096,782**	**11,223**	**11,548,868**	-	-	**31,656,873**
Loans and advances to customers at amortized cost	**5,744,632**	**21,653,151**	**3,956**	**1,585,996**	-	**28,987,735**
Loans and advances to related parties at amortized cost	**771,207**	-	-	-	-	**771,207**
Financial assets at amortized cost	**10,082,833**	**20,900,282**	-	-	-	**30,983,115**
Investments in subsidiaries	**4,145,625**	**15,327,616**	**6,334,162**	-	-	**25,807,403**
Investments in associates	-	-	-	**1,480,968**	-	**1,480,968**
Property and equipment	**11,908,252**	**88,026**	-	-	-	**11,996,278**
Intangible assets	**195,470**	-	-	-	-	**195,470**
Non-current assets held for sale	-	**806,701**	-	-	-	**806,701**
Other assets	**9,124,321**	**18,249,948**	**137,975**	**181,193**	-	**27,693,437**
Total assets	**95,275,337**	**316,452,462**	**37,456,895**	**32,343,289**	**263,953**	**481,810,633**
Liabilities						
Due to Central Bank	**7,613,765**	**526,467**	-	-	-	**8,140,232**
Due to banks and financial institutions	**131,169**	**21,450,656**	**2,517**	**175,122**	-	**21,759,464**
Customers' deposits at amortized cost	**9,838,624**	**260,296,376**	**12,526,285**	**41,205,186**	**131,673**	**323,998,144**
Deposits from related parties at amortized cost	**437,500**	**29,139,473**	**1,966,921**	**293,918**	**31**	**31,837,843**
Other liabilities	**10,921,436**	**5,013,211**	**849**	**5,741**	-	**15,941,237**
Provisions for risks and charges	**756,468**	**26,279**	-	**6,933**	-	**789,680**
Total liabilities	**29,698,962**	**315,952,462**	**14,496,572**	**41,686,900**	**131,704**	**402,466,600**
Net exposure	**65,576,375**	**18,697**	**22,960,323**	**(9,343,611)**	**132,249**	**79,344,033**

	2019					
	LL	*USD*	*GBP*	*EUR*	*Others*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*	*LL (000)*	*LL (000)*
Assets						
Cash and balances with the Central Bank	5,765,546	49,435,151	1,739	6,796,301	898	61,999,635
Deposits with banks and financial institutions	197,963	3,317,117	383	6,945,555	150	10,461,168
Financial assets at fair value through profit or loss	19,050,603	52,461,563	46,779,464	450,560	-	118,742,190
Financial assets at fair value through other comprehensive income	19,777,744	-	2,015,898	-	-	21,793,642
Loans and advances to customers at amortized cost	3,092,147	38,401,251	3,967,794	6,654,977	-	52,116,169
Loans and advances to related parties at amortized cost	-	815,036	-	-	-	815,036
Financial assets at amortized cost	14,167,633	23,053,501	-	-	-	37,221,134
Investments in subsidiaries	4,145,625	201,456	-	-	-	4,347,081
Investments in associates	-	-	5,501,928	3,933,130	-	9,435,058
Property and equipment	12,099,621	13,929	-	-	-	12,113,550
Intangible assets	200,082	-	-	-	-	200,082
Non-current assets held for sale	-	806,701	-	-	-	806,701
Other assets	10,930,039	545,436	124,281	470,186	-	12,069,942
Total assets	89,427,003	169,051,141	58,391,487	25,250,709	1,048	342,121,388
Liabilities						
Due to Central Bank	7,629,363	-	-	-	-	7,629,363
Due to banks and financial institutions	6,501,327	15,419,357	-	18,877,539	-	40,798,223
Customers' deposits at amortized cost	4,644,901	157,498,905	4,745,542	12,237,791	-	179,127,139
Deposits from related parties at amortized cost	395,915	5,045,899	645,704	396,177	36	6,483,731
Other liabilities	11,899,748	32,136,405	-	-	-	44,036,153
Provisions for risks and charges	254,357	2,188	-	-	-	256,545
Total liabilities	31,325,611	210,102,754	5,391,246	31,511,507	36	278,331,154
Net exposure	58,101,392	(41,051,613)	53,000,241	(6,260,798)	1,012	63,790,234

39 RISK MANAGEMENT (continued)

39.4 MARKET RISK (continued)

(c) 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 Bank holds equity-related positions.

The Bank 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 Bank's equities at 31 December 2020 would have increased other comprehensive income by LL (000) 577,443 (2019: LL (000) 100,795). An equivalent decrease would have resulted in an equivalent but opposite impact.

(d) Prepayment risk
Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier 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 Bank operates. Accordingly, the Bank considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

39.5 OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

To reduce operational risk, the Bank has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of 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 Bank'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 Bank'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 Bank gives particular attention to preventive measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

39 RISK MANAGEMENT (continued)

39.5 OPERATIONAL RISK

The Bank'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 Bank purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, and Director's and officers' liability.

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

As at 31 December 2020	*Less than 12 months LL (000)*	*Over 12 months LL (000)*	*Total LL (000)*
Assets			
Cash and balances with the Central bank	213,754,385	9,244,000	222,998,385
Deposits with banks and financial institutions	10,664,817	-	10,664,817
Financial assets at fair value through profit or loss	87,768,244	-	87,768,244
Financial assets at fair value through other comprehensive income	11,559,873	20,097,000	31,656,873
Loans and advances to customers at amortized cost	6,782,635	22,205,100	28,987,735
Loans and advances to related parties at amortized cost	771,207	-	771,207
Financial assets at amortized cost	13,710	30,969,405	30,983,115
Investments in subsidiaries	-	25,807,403	25,807,403
Investments in associates	-	1,480,968	1,480,968
Property and equipment	-	11,996,278	11,996,278
Intangible assets	-	195,470	195,470
Non-current assets held for sale	-	806,701	806,701
Other assets	-	27,693,437	27,693,437
Total assets	331,314,871	150,495,762	481,810,633
Liabilities			
Due to Central Bank	232	8,140,000	8,140,232
Due to banks and financial institutions	21,759,464	-	21,759,464
Customers' deposits at amortized cost	323,998,144	-	323,998,144
Deposits from related parties at amortized cost	31,837,843	-	31,837,843
Other liabilities	15,941,237		15,941,237
Provisions for risks and charges		789,680	789,680
Total liabilities	393,536,920	8,929,680	402,466,600
Net	(62,222,049)	141,566,082	79,344,033

40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 31 December 2019	*Less than 12 months LL (000)*	*Over 12 months LL (000)*	*Total LL (000)*
Assets			
Cash and balances with the Central bank	53,698,635	8,301,000	61,999,635
Deposits with banks and financial institutions	10,461,168	-	10,461,168
Financial assets at fair value through profit or loss	46,779,464	71,962,726	118,742,190
Financial assets at fair value through other comprehensive income	2,015,898	19,777,744	21,793,642
Loans and advances to customers at amortized cost	20,101,323	32,014,846	52,116,169
Loans and advances to related parties at amortized cost	815,036	-	815,036
Financial assets at amortized cost	4,065,791	33,155,343	37,221,134
Investments in subsidiaries	-	4,347,081	4,347,081
Investments in associates	-	9,435,058	9,435,058
Property and equipment	-	12,113,550	12,113,550
Intangible assets	-	200,082	200,082
Non-current assets held for sale	-	806,701	806,701
Other assets	12,069,942	-	12,069,942
Total assets	150,007,257	192,114,131	342,121,388
Liabilities			
Due to Central Bank	-	7,629,363	7,629,363
Due to banks and financial institutions	40,798,223	-	40,798,223
Customers' deposits at amortized cost	179,127,139	-	179,127,139
Deposits from related parties at amortized cost	6,483,731	-	6,483,731
Other liabilities	44,036,153	-	44,036,153
Provisions for risks and charges	-	256,545	256,545
Total liabilities	270,445,246	7,885,908	278,331,154
Net	(120,437,989)	184,228,223	63,790,234

41 LITIGATION RISK

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

42 POLITICAL RISK

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

43 CAPITAL MANAGEMENT

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

Central Bank of Lebanon's Intermediate circular 567, issued on 26 August 2020, 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.

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

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier 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 29, the General Assembly of Shareholders held on 30 June 2020 verified and approved cash contributions to capital amounting to US$ 10,000,000 and convertible to common shares. The final approval was obtained by the Central Bank of Lebanon on 7 June 2021.

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

- 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.

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

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

43 CAPITAL MANAGEMENT (continued)

The following table shows the applicable regulatory capital ratios for the Bank, including the conservation buffer:

	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 the full capital conservation buffer of 2.5%	**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 LL (000)	*2019 LL (000)*
Risk-weighted assets:		
Credit risk	**241,556,360**	226,812,000
Market risk	**176,237,734**	156,930,000
Operational risk	**24,981,250**	15,070,625
Total risk-weighted assets	**442,775,344**	398,812,625

The regulatory capital as of 31 December is as follows:

	2020 LL (000)	*2019 LL (000)*
Tier 1 capital	**67,341,174**	58,377,039
Of which: common Tier 1	***67,341,174***	*58,377,039*
Tier 2 capital	**2,931,209**	2,375,205
Total capital	**70,272,383**	60,752,244

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

	2020	*2019*
Capital adequacy – Common Tier 1	**15.21%**	14.64%
Capital adequacy – Tier 1	**15.21%**	14.64%
Capital adequacy – Total capital	**15.87%**	15.23%

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 will result from the resolution of the uncertainties reflected in Note 1. 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 capital adequacy. Management has concerns about the effects that the above matters will have on the equity of the Bank and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.