FFA PRIVATE BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

SEMAAN, GHOLAM & CO.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FFA PRIVATE BANK SAL

Adverse opinion

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

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

Basis for adverse opinion

1- As disclosed in note 2 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying consolidated financial statements for the year ended 31 December 2021. Had the Group applied IAS 29, many elements in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2020, would have been materially different and also the disclosures for the year ended 31 December 2021 and 31 December 2020 would have been materially affected. The effects on the consolidated financial statements arising from the failure to apply IAS 29 have not been determined. Our opinion for the year ended 31 December 2020 was also modified for the same reason explained above.

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

Basis for adverse opinion (continued)

3- As disclosed in note 34.3.1 to the consolidated financial statements, the Group holds balances with the Central Bank of Lebanon amounting to LL 5,478 million, balances with Lebanese banks amounting to LL 1,095 million, a portfolio of Lebanese government debt securities amounting to LL 215 million, and a mandatory deposit with the Lebanese Treasury amounting to LL 2,550 million, which represent 13% of total equity (31 December 2020: same). The accompanying consolidated financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amount of these assets and related disclosures that would result from resolution of the uncertainties disclosed in note 1 to the consolidated financial statements and the future effects of the economic crisis and the implementation of government reforms and restructuring plans. In addition, as disclosed in note 32, management was unable to produce a faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement. Our opinion for the year ended 31 December 2020 was modified for same reasons explained above.

4- As disclosed in note 32 to the consolidated financial statements, the Group holds unquoted equity funds measured using unobservable data amounting to LL 783 million representing 1.05% of total equity (2020: 1.3%). It is not possible to determine the future effects that the economic crisis described in note 1, would have on the carrying amount these assets. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts. Our opinion for the year ended 31 December 2020 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. Except for the matters described in the *"Basis for adverse opinion"* section, we have determined that there are no other key audit matters to communicate in our report.

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FFA PRIVATE BANK SAL (continued)

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FFA PRIVATE BANK SAL (continued)

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

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

BDO, Semaan, Gholam & Co.

Grant Thornton

12 September 2022
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2021

	Notes	2021 LL (000)	2020 LL (000)
CONTINUING OPERATIONS			
Interest and similar income	3	**2,037,816**	2,950,972
Interest and similar expense	3	**(481,515)**	(534,839)
NET INTEREST INCOME		**1,556,301**	2,416,133
Fee and commission income	4	**23,441,388**	19,163,728
Fee and commission expense	4	**(7,418,613)**	(5,947,568)
NET FEE AND COMMISSION INCOME		**16,022,775**	13,216,160
Net gain from trading and financial assets at fair value through profit or loss	5	**5,053,436**	2,615,452
Net gain from financial assets at fair value through other comprehensive income	6	**121,358**	-
Other operating income		**1,396,346**	282,596
TOTAL OPERATING INCOME		**24,150,216**	18,530,341
Impairment write-back on financial assets, net	7	**363,025**	797,052
NET OPERATING INCOME		**24,513,241**	19,327,393
Personnel expenses	8	**(14,953,693)**	(9,489,775)
Depreciation of property and equipment	18	**(980,957)**	(933,217)
Amortization of intangible assets	19	**(26,953)**	(23,606)
Other operating expenses	9	**(5,689,292)**	(4,574,541)
TOTAL OPERATING EXPENSES		**(21,650,895)**	(15,021,139)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**2,862,346**	4,306,254
Income tax expense	10	**(10,000)**	(721,696)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**2,852,346**	3,584,558
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations, net of tax	27	**114,839**	277,981
Profit from sale of subsidiaries		**2,113,246**	-
TOTAL PROFIT FROM DISCONTINUED OPERATIONS	27	**2,228,085**	277,981
PROFIT FOR THE YEAR		**5,080,431**	3,862,539
Attributable to:			
Equity holders of the parent		5,080,469	3,862,510
Profit for the year from continuing operations		2,852,384	3,584,529
Profit for the year from discontinued operations		2,228,085	277,981
Non-controlling interests		(38)	29
(Loss) profit for the year from continuing operations		(38)	29
Profit for the year from discontinued operations		-	-
		5,080,431	3,862,539

The attached notes from 1 to 37 form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

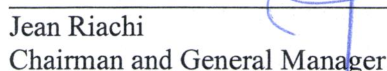
	Note	***2021*** ***LL (000)***	*2020* *LL (000)*
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**2,852,346**	3,584,558
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS		**2,228,085**	277,981
		5,080,431	3,862,539
Other comprehensive income that will be reclassified to the income statement in subsequent periods from continuing operations			
Debt instruments at fair value through other comprehensive income			
Change in fair value during the year	14	-	229,894
Total other comprehensive income that will be reclassified to the income statement in subsequent periods		-	229,894
Other comprehensive income that will not be reclassified to the income statement in subsequent periods from continuing operations			
Equity instruments at fair value through other comprehensive income			
Unrealized gains	14	-	282,460
Total other comprehensive income that will not be reclassified to the income statement in subsequent periods		-	282,460
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,080,431**	4,374,893
Attributable to:			
Equity holders of the parent		**5,080,469**	4,374,864
Non-controlling interests		**(38)**	29
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,080,431**	4,374,893

The attached notes from 1 to 37 form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2021

	Notes	*2021* *LL (000)*	*2020* *LL (000)*
ASSETS			
Cash and balances with the Central Bank of Lebanon	11	**6,273,335**	6,410,719
Due from banks and financial institutions	12	**14,507,118**	22,409,753
Due from a sister company	30	**1,211,422**	-
Financial assets at fair value through profit or loss	13	**33,701,463**	15,468,719
Financial assets at fair value through other comprehensive income	14	**2,073,064**	3,499,122
Financial assets at amortized cost	15	**329,670**	1,181,514
Loans and advances to customers at amortized cost	16	**3,635,825**	4,999,276
Loans and advances to related parties at amortized cost	16	**11,592**	74,944
Other assets	17	**2,867,794**	3,263,819
Property and equipment	18	**23,485,387**	22,746,676
Intangible assets	19	**79,278**	51,913
Assets held for sale	27	**-**	5,278,741
TOTAL ASSETS		**88,175,948**	85,385,196
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and financial institutions	20	**830,107**	5,706
Customers' deposits at amortized cost	21	**6,879,617**	7,917,517
Other liabilities	22	**2,680,650**	3,184,398
Provisions for risks and charges	23	**3,232,770**	1,059,379
Liabilities held for sale	27	**-**	1,288,825
Total liabilities		**13,623,144**	13,455,825
Equity			
Share capital – common shares	24	**17,000,000**	17,000,000
Share premium – common shares	24	**18,033,699**	18,033,699
Non-distributable reserves	25	**8,725,568**	8,319,501
Distributable reserve	25	**965,938**	688,472
Revaluation reserve of property	26	**14,328,847**	14,328,847
Retained earnings		**10,408,293**	7,525,471
Cumulative changes in fair values of financial assets at fair value through other comprehensive income	14	**9,608**	(165,246)
Reserves related to assets held for sale	27	**-**	2,613,678
Result of the year - profit		**5,080,469**	3,584,529
		74,552,422	71,928,951
Non-controlling interests		**382**	420
Total equity		**74,552,804**	71,929,371
TOTAL LIABILITIES AND EQUITY		**88,175,948**	85,385,196
OFF – STATEMENT OF FINANCIAL POSITION ACCOUNTS			
Financial instruments under custody\`	28	**335,187,255**	449,575,082
Fiduciary deposits	28	**193,730,254**	238,085,958
Introducing broker		**93,745,916**	68,841,726

The consolidated financial statements were authorized for issuance by the Board of Directors and signed on its behalf on 12 September 2022 by:



Jean Riachi
Chairman and General Manager

FFA PRIVATE BANK SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to owners of the Bank											
	Share capital common shares LL (000)	*Share premium common shares LL (000)*	*Non-distributable reserves LL (000)*	*Distributable reserve LL (000)*	*Revaluation reserve of property LL (000)*	*Retained earnings LL (000)*	*Cumulated changes in fair values of financial assets at fair value through other comprehensive income LL (000)*	*Reserves related to assets held for sale LL (000)*	*Result of the year - profit LL (000)*	*Total LL (000)*	*Non-controlling interests LL (000)*	*Total equity LL (000)*
Balance at 1 January 2021	17,000,000	18,033,699	8,319,501	688,472	14,328,847	7,525,471	(165,246)	2,613,678	3,584,529	71,928,951	420	71,929,371
Profit for the year – 2021	-	-	-	-	-	-	-	-	5,080,469	5,080,469	(38)	5,080,431
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	-	5,080,469	5,080,469	(38)	5,080,431
Transfer to retained earnings	-	-	-	-	-	3,862,510	-	-	(3,862,510)	-	-	-
Transfer to reserves (note 25)	-	-	242,476	277,466	-	(519,942)	-	-	-	-	-	-
Sale of subsidiaries	-	-	-	-	-	(121,301)	-	(2,613,678)	277,981	(2,456,998)	-	(2,456,998)
Transfer between reserves	-	-	163,591	-	-	(163,591)	-	-	-	-	-	-
Sale of FVTOCI	-	-	-	-	-	(174,854)	174,854	-	-	-	-	-
Balance at 31 December 2021	**17,000,000**	**18,033,699**	**8,725,568**	**965,938**	**14,328,847**	**10,408,293**	**9,608**	**-**	**5,080,469**	**74,552,422**	**382**	**74,552,804**
Balance at 1 January 2020	17,000,000	19,443,212	8,300,485	458,064	14,328,847	5,934,883	(677,600)		2,766,196	67,554,087	391	67,554,478
Profit for the year – 2020	-	-	-	-	-	-	-		3,862,510	3,862,510	29	3,862,539
Other comprehensive income	-	-	-	-	-	-	512,354		-	512,354	-	512,354
Total comprehensive income	-	-	-	-	-	-	512,354		3,862,510	4,374,864	29	4,374,893
Transfer to retained earnings	-	-	-	-	-	2,766,196	-		(2,766,196)	-	-	-
Transfer to reserves (note 25)	-	-	19,016	230,408	-	(249,424)	-		-	-	-	-
Discontinued operations (restatement)	-	(1,409,513)	-	-	-	(926,184)	-	2,613,678	(277,981)	-	-	-
Balance at 31 December 2020	**17,000,000**	**18,033,699**	**8,319,501**	**688,472**	**14,328,847**	**7,525,471**	**(165,246)**	**2,613,678**	**3,584,529**	**71,928,951**	**420**	**71,929,371**

The attached notes from 1 to 37 form a part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 LL (000)	2020 LL (000)
OPERATING ACTIVITIES			
Profit for the year before tax from continuing operations		**2,862,346**	4,306,254
Profit for the year before tax from discontinued operations		**2,228,085**	277,981
Adjustments for:			
Depreciation and amortization	18, 19	**1,007,910**	1,205,388
Impairment (write-back) loss on financial assets, net		**(363,025)**	(604,981)
(Write-back of) provision for risks and charges, net		**(11,608)**	(282,596)
Loss (gain) on sale/write off of property and equipment		**-**	4,553
Provision for retirement benefit obligations		**2,226,184**	201,744
Profit from sale of subsidiaries		**(2,113,246)**	-
Profit from discontinued operations		**(114,839)**	-
		5,721,807	5,108,343
Operating income before working capital changes:			
Balances with the Central Bank of Lebanon		**-**	2,412,000
Due from sister company		**(1,211,422)**	-
Financial assets at fair value through profit or loss		**(18,232,744)**	(3,054,717)
Financial assets at fair value through other comprehensive income		**1,426,058**	(1,860,029)
Financial assets at amortized cost		**947,876**	1,060,987
Loans and advances to customers and related parties at amortized cost		**1,470,798**	7,489,116
Other assets		**670,673**	1,485,913
Customers' deposits at amortized cost		**(1,037,900)**	(3,256,383)
Other liabilities		**172,352**	428,274
Retirement benefit obligations paid		**(41,185)**	(175,083)
Taxes paid		**(721,696)**	(226,701)
Net cash flows (used in) from operating activities		**(10,835,383)**	9,411,720
INVESTING ACTIVITIES			
Purchase of property and equipment	18	**(1,719,668)**	(763,259)
Purchase of intangible assets	19	**(54,318)**	(38,504)
Proceeds from sale of subsidiaries		**3,796,227**	756,867
Net cash flows from (used in) investing activities		**2,022,241**	(44,896)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(8,813,142)**	9,366,824
Cash and cash equivalents at 1 January		**27,546,033**	18,179,209
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	**18,732,891**	27,546,033

The attached notes from 1 to 37 form a part of these consolidated financial statements.

1 CORPORATE INFORMATION

FFA Private Bank SAL (the "Bank") is a Lebanese shareholding company and was registered at the commercial registry of Beirut on 7 June 1996 under no. 70256. The Bank started its operations as a financial institution (Financial Funds Advisors SAL) registered at the Central Bank of Lebanon under no. 18 in the list of financial institutions. On 20 March 2007, the status of the Bank changed from a financial institution to a Private Bank under the name "FFA Private Bank SAL" according to the terms of legislative law no 50 dated 15 July 1983. The Bank is registered at the commercial registry of Beirut under the same number on 2 June 2007 and under the number 129 in the list of Banks at the Central Bank of Lebanon. The Bank, together with its subsidiaries (the "Group"), Financial Funds Advisors (FFA) SARL, FFA Investments (Holding) SAL, FFA Real Estate S.A.L., FFA Holdings SAL (Holding) and FFA Capital Limited are involved in mainly banking, real estate and financial services activities.

The Bank's head office is located at One FFA Gate-Marfaa 128, Foch Street, Beirut, Central District, Lebanon.

1.1 Macroeconomic environment

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

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

The difficulty in accessing foreign currencies 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 pound, impacting intensely the purchasing power of the Lebanese citizens, driving 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$/ LL (the official exchange rate),
(b) introduced the Platform Rate, currently at 8,000 US$ / LL, to be used only in specific circumstances,
(c) subsidized imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate, and
(d) introduced exceptional measures for bank depositors to withdraw small amounts of cash in LL from their "local" foreign currency bank accounts at the Platform Rate, but up to limits set by the bank.

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

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and "local" foreign currency bank accounts (subject to unofficial capital controls) and tossing Lebanon in hyperinflation and major economic collapse.

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

Lebanese Government's Financial Recovery Plan
On 30 April 2020, the council of ministers approved the Lebanese Government's Financial Recovery Plan (the Plan). The Plan relies on nine central and interrelated pillars, namely reviewing the peg policy; a comprehensive government debt restructuring; a comprehensive restructuring of the financial system addressing accumulated foreign currency mismatches, embedded losses and resizing the banking sector (see below); a strong phased fiscal adjustment, focused on improving tax compliance, streamlining expenditure and reforming the public sector; growth-enhancing reforms promoting a productive economy and enhancing the competitiveness of the Lebanese economy; a social sector reform; ambitious anti-corruption strategy; environmental reform; and international financial assistance to close the large external financing gap and finance the development of the infrastructures that are necessary to support the growth of the economy. On 10 August 2020, the Lebanese government resigned following the massive explosion at the Beirut Port. A new government was formed on 10 September 2021. However, to date, the Plan has not been implemented.

Restructuring of the banking sector
As per the Plan, the preliminary global estimation of losses will result from the restructuring of the Central Bank of Lebanon and impairment of assets held at 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 recapitalization needs will be determined on a bank by bank basis when a more granular plan is drawn, and further measures related to bank deposits will be determined. On a bank by bank basis, the Plan stipulates that large depositors could be offered voluntarily (for part of their deposits):

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

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

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

ABL's Contribution to the Government's Financial Recovery Plan rests on an IMF-supported two-pillar approach with a clearly phased and timely implementation: (i) An immediate balanced and effective immediate response addressing the external financing needs and putting the medium-term fiscal and debt path on a sustainable footing, while avoiding an internal debt default that would have damaging consequences on the Lebanese people and on confidence; (ii) The launch of long-overdue structural reforms in the coming months, to promote sustainable and inclusive growth as the result of economic diversification. The ABL plan envisages a settlement mechanism that would include several features for 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 by the government on May 1st:

I. A debt restructuring process that minimizes the damaging consequences to the nearly 3 million domestic bank depositors and to the economy as a whole, while priming the economy for a faster recovery and higher medium-term potential growth;

II. A sustainable medium-term fiscal strategy leaving a significant fiscal space to finance much-needed social measures, including an Expanded Social Safety Net to fight poverty and concrete steps against social exclusion

III. A monetary and exchange rate unification policy that addresses the massive external imbalances while containing considerable inflationary pressures and avoiding hyperinflation;

IV. A financial sector restructuring based on an orderly banking sector approach on a case-by-case basis when needed, upgrading regulatory matters to international standards;

V. A strong diversification strategy of the economy as well as much-needed structural reforms including anticorruption measures, a lower cost of Doing Business in the country as well as reforms that reduce the size of the informal sector.

International Monetary Fund (IMF) response
Following the end of the IMF virtual mission conducted from 24 January to 11 February with the Lebanese authorities on the framework and policies of an economic reform program that can be supported by the Fund, the IMF issued a release on Lebanon, saying that the unprecedented and complex nature of the Lebanese crisis requires a comprehensive economic and financial reform program to stabilise the economy, address deep-seated challenges, and lay the ground for sustainable and strong growth. Obtaining broad based buy-in for this multi-year program will be fundamental for its timely and decisive implementation. At the same time, strong upfront actions will be necessary to start turning the economy around and rebuilding confidence.

According to the IMF, Lebanon's economic program would need to include targeted and time bound actions across the following five pillars:

- Fiscal reforms that ensure debt sustainability but also space to invest in social spending and reconstruction efforts.
- Restructuring of the financial sector to strengthen confidence and support the recovery.
- Reforming state-owned enterprises, and, particularly, the energy sector to provide better services without draining public resources.
- Strengthening governance, anti-corruption, and AML/CFT frameworks to enhance transparency and accountability.
- A credible monetary and exchange rate system.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

International Monetary Fund (IMF) response (continued)
During the mission, progress was made in agreeing on these necessary reform areas, although more work is needed to translate them into concrete policies as per the IMF release. There is a clearer understanding of the unprecedented size of the financial sector's losses that would need to be addressed transparently consistent with the hierarchy of claims while protecting small depositors, as already envisaged by the authorities. The 2022 emergency budget presents an opportunity to start addressing the dire fiscal situation while being mindful of the financing constraints.

The Fund stated that it will be important to develop a medium-term fiscal strategy that allows the government to invest in critically-needed social spending to support the people of Lebanon — and enables reconstruction efforts — while being consistent with debt sustainability. The authorities' plans to strengthen competition and start addressing the energy sector problems are a promising start, although careful sequencing and strong implementation are required. Finally, decisive action by the authorities is needed to tackle the deep-seated problem of corruption and strengthening transparency, including by accelerating the launch of the procurement commission and lifting the bank secrecy law or amending it in line with international best practice. The IMF team welcomed the open and constructive discussions with the Lebanese authorities, as well as representatives of civil society and the private sector, which have enriched our understanding of the situation. The team will remain closely engaged, and discussions are continuing, to help the authorities formulate a reform program that can address Lebanon's economic and financial challenges.

Beirut Port Explosion
On 4 August 2020, a large explosion occurred at the port of the city of Beirut, causing casualties and material damages across the capital of Lebanon. The Beirut Port explosion affected several individuals and businesses and contributed to further deterioration of the economic environment and disruption of businesses, leading to further expected credit losses charges. The World Bank estimated the direct and indirect damages to the Lebanese economy as a result of the Beirut Port explosion at approximately US$ 8 billion.

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

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

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

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

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment

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

- Basic Circular 150 issued on 9 April 2020 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 current economic situation to as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

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

  - Allowing banks to constitute the expected credit losses on exposures to Lebanese Sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Allowing banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of COVID-19 pandemic, then the Bank must immediately downgrade the loan classification and staging to stage 3 (default).
- Requesting from banks to finalize the assessment of the future financial position of their customers by 31 December 2020 and to estimate expected credit losses based on this assessment and recognize the financial impact in the statement of income for the year ended 31 December 2020.
- Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.
- Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their common equity tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.
- Changing the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain.
- Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. However, under exceptional circumstances, the buffer may be drawn down during 2020 and 2021, 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 amortized over a period of 3 years (2022-2024 by 25% yearly).

• Basic Circular 154 issued on 27 August 2020, aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019 and rectifying any non-compliance with regulatory ratios and banking regulations. The circular introduced mainly the following measures:

  - Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in intermediate circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the bank to their normal levels as at before October 2019.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than US$ 500,000 or their equivalent in other foreign currencies, to deposit in 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019 and without a minimum threshold.
- Requesting banks to maintain current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.
- Requesting banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalization needs, if any, to the Central Bank of Lebanon's Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.

- Intermediate Circular 568 issued on 26 August 2020 allowing the payments of retail loans denominated in US dollars in Lebanese Pounds based on the official exchange rate of LL 1,507.5 per US dollar subject to the following conditions:
  - The client should be a Lebanese resident;
  - The client should not have a bank account denominated in US dollars; and
  - The housing loans granted to the client should not exceed US$800,000 while the aggregate amount of retail loans should not exceed US$100,000 per client.

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

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

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

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

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

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

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

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

- Basic Circular 161 issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return, banks will provide the total amount to their customers at the same Sayrafa rate against LL at limits set by the bank until 30 April 2022.

- Intermediate Circular 614 issued on 21 February 2022 allowing non-banking institutions engaged in overseas cash transfers by electronic means to apply for a license from the Central Bank of Lebanon to perform foreign exchange operations subject to certain conditions.

- Intermediate Circular 616 issued on 5 March 2022 prohibiting banks from distributing dividends to ordinary shareholders from the results of financial years 2019, 2020 and 2021.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group

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

	2021		*2020*	
	Rate as at 31 December LL	***Average rate for the year ended 31 December LL***	*Rate as at 31 December LL*	*Average rate for the year ended 31 December LL*
US Dollar	**1,507.5**	**1,507.5**	1,507.5	1,507.5
Euro	**1,701.52**	**1,783.97**	1,851.21	1,720.19
Swiss Franc	**1,647.00**	**1,649.62**	1,713.77	1,607.13
Jordanian Dinar	**2,126.23**	**2,126.23**	2,126.23	2,126.23
Egyptian Pound	**95.88**	**96.03**	95.78	95.32
Saudi Riyal	**401.53**	**401.91**	401.79	401.71
British Pound	**2,024.94**	**2,074.72**	2,059.12	1,934.44
Romanian Leu	**343.87**	**362.54**	380.17	355.55
Arab Emirates Dirham	**409.02**	**410.57**	410.73	410.34
Iraqi Dinar	**1.03**	**1.03**	1.03	1.03

The exchange rates above consist of the official exchange rates published by the Central Bank of Lebanon on a monthly basis. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official one: parallel exchange markets and the Sayrafa rate that are highly volatile, the Platform Rate, estimated exchange rates detailed in the government's Financial Recovery Plan, in addition to different exchange rates adopted for commercial transactions purposes in Lebanon.

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

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

	2021		*2020*	
	Rate as at 30 June LL	***Average rate for the period from 10 May to 31 December LL***	*Rate as at 31 December LL*	*Average rate for the year ended 31 December LL*
US Dollar	**22,700**	**16,266**	N/A	N/A

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

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

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

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment, and Management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Bank uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not represent a reasonable estimate of expected cash flows in Lebanese 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 consolidated financial statements. We are unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official published exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese government. Foreign currency mismatch is detailed in note 36B to these consolidated financial statements.

As at 31 December 2021, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost are recorded in these consolidated financial statements at a loss rate determined by Management higher than the 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 bank's exposures to the Central Bank of Lebanon and Lebanese sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures.

Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit loss model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognised loss allowances, as well as their staging are detailed in note 34.3 to the consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. The deterioration was further aggravated by the effects of the COVID-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese crisis, the Group has been implementing a de-risking strategy by considerably reducing its assets size, specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralised and specialised remedial function to proactively review and manage the quality of its various portfolios.

The Group has recorded significant amounts of expected credit losses during the last quarter of 2019. Loss allowances on the Group'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 Group's portfolio of private loans and the recognised loss allowances, as well as their staging, are detailed in note 34.3 to these financial statements.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

The financial position of the Group, as reported in these consolidated financial statements, does not reflect the adjustments that would be required by IFRS as a result of the future government reform program, the deep recession, the currency crisis and the hyperinflation. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the Sayrafa rate, 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.

Litigations and claims
Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon may expose the Group to litigations. 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, when they occur, seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

Meanwhile, the Group is exerting extended efforts to (a) strengthen its capitalisation, (b) enhance the quality of its private loans portfolio, deleveraging it as appropriate and downsizing its balance sheet, (c) build up its offshore liquidity and reduce its commitments and contingencies to correspondent banks and financial institutions outside Lebanon and (d) manage operating profitability.

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

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

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

The roadmap was submitted to the Central Bank of Lebanon on 5 November 2020. The Group obtained a waiver from the Central Bank of Lebanon on 21 April 2021 with respect to increasing its regulatory capital by 20% of the Common Equity Tier 1 capital as at 31 December 2018 in accordance with International Circular 532 issued on 4 November 2019. Moreover, the Group has submitted its calculation for compliance with the Central Bank of Lebanon Basis Circular 154 requiring banks to meet the 3% liquidity ratio with foreign banks.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, b) the measurement at fair value of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and equities and other securities included in the off-statement of financial position.

The consolidated financial statements and the amounts reflected in the notes to the consolidated financial statements are expressed in thousands of Lebanese Lira (LL (000)), except when otherwise indicated.

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

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

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

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

(a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.

(b) In summary, the restatement method under IAS 29 is as follows:

i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.

ii. Non-monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non-monetary items.

iii. Non-monetary items carried at historical cost or at the current value of a date prior to the end of the reporting period are restated using coefficients that reflect the variation recorded in the general level of prices from the date of acquisition or revaluation to the closing date of the reporting period, then comparing the restated amounts of such assets with the relevant recoverable values. Depreciation charges of property, plant and equipment and amortization charges of intangible assets recognized in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 financial statements in terms of the current measuring unit, the prior-year comparatives are restated in terms of the measuring unit current at the end of the current reporting period, the equity components, except for reserved earnings and undistributed retained earnings, shall also be restated, and the amount of undistributed retained earnings shall be determined by the difference between net assets restated at the date of transition and the other components of opening equity expressed as indicated above, once all remaining equity components are restated.

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

The Group uses the official exchange rate of 1,507.5 US$/ LL to translate balance and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Sayrafa Rate" and "Platform Rate", the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. Accordingly, the Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official published exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the consolidated financial statements.

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 highly impact the consumer price index and might need to be revisited based on the new behavior of the population as a result of the crisis facing Lebanon.

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation
The consolidated financial statements comprise the financial statements of FFA Private Bank SAL and its subsidiaries as at 31 December 2021. The subsidiaries are listed in the following table:

Name	*Date of establishment*	*Country of incorporation*	*Activities*	*% effective equity interest* *31 December 2021* %	*31 December 2020* %
FFA SARL	1994	Lebanon	Financial Consulting and Brokerage	**99.97**	99.97
FFA Private Bank (Dubai) Limited	2006	UAE	Financial Institution	-	100.00
FFA Investments (Holding) SAL	2007	Lebanon	Investment	**99.99**	99.99
FFA Real Estate SAL	2008	Lebanon	Real Estate Consulting	**100.00**	100.00
FFA Capital Limited	2009	Cayman Islands	Financial Consulting	**100.00**	100.00
FFA Real Estate Limited	2014	Cayman Islands	Real Estate	-	100.00
FFA Holdings SAL (Holding)	2017	Lebanon	Investment	**99.99**	99.99

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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

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

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

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

2.2 New and amended standards and interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The nature and the impact of each amendment is described below:

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

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. For the retrospective assessment of hedge effectiveness, the Group may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Group reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

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

2 ACCOUNTING POLICIES (continued)

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

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

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

Definition of Accounting Estimates – Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

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 Group's financial statements.

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

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

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

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

2.4 Summary of significant accounting policies

Foreign currency translation
The consolidated financial statements are presented in Lebanese Lira which is the Group's functional and 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 date of the consolidated statement of financial position. All differences are taken to "net gain from trading and financial assets at fair value through profit or loss" in the consolidated income statement.

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

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 Group accounts for the Day 1 profit or loss, as described below.

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

2 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: amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of two criteria:
- The business model within which financial assets are measured; and
- Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI)).

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

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

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

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

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

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

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)

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

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

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value 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 amortized 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 amortization is included in "interest and similar income" in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "net impairment (loss) gain on financial assets".

Financial assets at fair value through profit or loss
Included in this category are those debt instruments that do not meet the conditions in *"financial assets at amortized cost"* 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 recognizing gains and losses on them on a different basis.

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

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

2 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

Equity instruments at fair value through other comprehensive income

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

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

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

Debt instruments at fair value through other comprehensive income

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial liabilities – classification and measurement (continued)

Financial liabilities at fair value though profit and loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at though profit and loss due to changes in the Group'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 consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit 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 banks and financial institutions, and customers' and related parties' deposits
After initial measurement, due to banks and financial institutions, and 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.

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

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously 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.

Derecognition of financial assets and financial liabilities

Financial assets

(i) Derecognition due to substantial modification of terms and conditions
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

(i) Derecognition due to substantial modification of terms and conditions (continued)

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

If the modification of a financial asset measured at amortized cost or fair value through other comprehensive income does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes 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 Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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

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

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

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

A transfer only qualifies for derecognition if either:

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

2 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)

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

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

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

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

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

If the modification of a financial liability is not accounted for as derecognition, then the 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 recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and 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 Group records allowance for expected credit losses based on a forward-looking approach for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(ii) Measurement of ECLs

The Group 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 Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

The key inputs into the measurements of ECL are:

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

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

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

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

(iii) Forborne and modified loans

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(iii) Forborne and modified loans (continued)
When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:
- At least a 12-month probation period has passed,
- Three consecutive payments under the new repayment schedule have been made,
- The borrower has no past dues under any obligation to the Group,
- All the terms and conditions agreed to as part of the restructuring have been met.

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

(iv) Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable information:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

(v) Write offs
Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Impairment write-back (loss) on financial assets, net" in the consolidated income statement.

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

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

Fair value measurement
The Group measures financial instruments, such as derivatives, and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at 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 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

(i) Interest and similar income and expense

The effective interest rate
Interest income and expense are recognized in the income statement applying the EIR method for all financial instruments measured at amortized cost and financial instruments designated at fair value through profit or loss.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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

Interest income and interest expense
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 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 recognised 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 Group reverts back to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income calculated using the effective interest method presented in the consolidated income statement includes interest on financial assets at amortized cost.

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

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

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

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

Fee income from providing transaction services
Fees 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. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

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

(iv) Net gain from financial assets at fair value through profit or loss
Results arising from financial assets at fair value through profit or loss include all gains and losses from changes in fair value in addition to realized gain from sales and related dividends for financial assets at fair value through profit or loss.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents consist of those balances whose original maturities are three months or less from the date of acquisition including cash and non-restricted balances with the Central Bank of Lebanon, and due from and to banks and other financial institutions.

Property and equipment
Property and equipment (except 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 Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Buildings are measured at fair value less accumulated depreciation and any impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in the profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the 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 the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Buildings	50 years
Office supplies and furniture	12.5 years
Office equipment	6.67 years
Computer equipment	5 years
Motor vehicles	10 years
Right-of-use	Lease term

Any item of property and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

Intangible assets
The Group's intangible assets include the value of computer software. 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 Group.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Intangible assets (continued)
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 consolidated income statement.

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

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) IAS 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 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 Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions 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 consolidated income statement.

Investment in an associate
Investment in an associate is carried at the equity method of accounting. Associates are enterprises in which the Group exercises significant influence, but not control, normally where it holds 20% to 50% of the voting power.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Retirement benefit obligations
Most of the Group's defined plans are the compulsory defined benefit plan of the national social security fund in Lebanon.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation.

The compulsory defined benefit plan varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total monthly contributions paid to National Social Security Fund ("NSSF"), End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Taxation (continued)

(ii) Deferred tax (continued)

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

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

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

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

Assets under management
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity or under management are not reported in the consolidated financial statements, as they are not the assets of the Group and reported in its off-statement of financial position.

Dividends on ordinary shares
Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

2.5 Significant accounting judgements and estimates

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

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

Going concern
The consolidated financial statements have been prepared based on the going concern assumption. Notwithstanding, the situation disclosed in note 1, the Board of Directors estimates that the Group has the ability to continue its operations in the foreseeable future.

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Judgments (continued)

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

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

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

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

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

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

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements 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 both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Estimates and Assumptions (continued)

Impairment losses on financial instruments (continued)

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

During 2021, 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 Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

Revaluation of property and equipment
The Group measures buildings at revalued amounts with changes in fair value being recognized in other comprehensive income (OCI). Fair value of the properties was determined by using market comparable method based on proprietary databases of prices of transactions for properties of similar nature, location, and condition.

3 NET INTEREST INCOME

	2021 *LL (000)*	*2020* *LL (000)*
Interest and similar income		
Balances with the Central Bank of Lebanon	-	17,577
Due from banks and financial institutions	**952**	10,231
Financial assets at amortized cost	**46,995**	115,762
Loans and advances to customers at amortized cost	**162,275**	838,469
Loans and advances to related parties at amortized cost	-	4,428
Management and investment of fiduciary accounts (*)	**1,877,420**	2,044,266
Less: tax on interest income	**(49,826)**	(79,761)
	2,037,816	2,950,972
Interest and similar expense		
Due to banks and financial institutions	**(6,589)**	(29,748)
Customers' deposits at amortized cost	**(44,358)**	(239,303)
Management and investment of fiduciary accounts (*)	**(430,568)**	(265,788)
	(481,515)	(534,839)
Net interest income	**1,556,301**	2,416,133

(*) Includes a) interest received from loans and advances to customers and placements with the Central Bank of Lebanon and banks and financial institutions, and b) interest paid to customers and banks and financial institutions.

4 NET FEE AND COMMISSION INCOME

	2021 *LL (000)*	*2020* *LL (000)*
Fee and commission income		
Brokerage fees on purchase and sale transactions	**13,531,136**	8,507,126
Fiduciary accounts management and related fees	**6,888,206**	6,325,634
Revenue from management and consultancy services	**3,022,046**	4,330,968
	23,441,388	19,163,728
Fee and commission expense		
Brokerage fees paid	**(4,775,458)**	(5,074,455)
Other fees	**(2,643,155)**	(873,113)
	(7,418,613)	(5,947,568)
Net fee and commission income	**16,022,775**	13,216,160

5 NET GAIN FROM TRADING AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 *LL (000)*	*2020* *LL (000)*
Income from management and investment of fiduciary accounts		
Interest income (*)	**1,098,286**	1,440,287
Unrealized gain from revaluation	**(68,890)**	739,445
Other	**(22,167)**	59,616
	1,007,229	2,239,348
Gain from debt instruments		
Interest and similar income from debt instruments		
Other debt securities	**149,573**	105,892
Gain from sale of debt instruments	**184,087**	164
Unrealized gain from revaluation of debt instruments	**(170,557)**	8,860
Net gain from debt instruments	**163,103**	114,916
Gain (loss) from equity instruments		
(Loss) from sale	**(637,768)**	(400,016)
Unrealized gain (loss) from changes in fair value	**2,420,939**	418,796
Dividend income	**39,054**	21,647
Net gain (loss) from equity instruments	**1,822,225**	40,427
Foreign exchange gain	**2,060,879**	220,761
	5,053,436	2,615,452

(*) Includes interest received from certificates of deposits with the Central Bank of Lebanon and other debt securities on a fiduciary basis.

6 NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 *LL (000)*	*2020* *LL (000)*
Profit from sale of debt instruments	**86,001**	-
Profit from sale of equity instruments	**35,357**	
	121,358	-

7 IMPAIRMENT WRITE-BACK (LOSS) ON FINANCIAL ASSETS, NET

	2021 *LL (000)*	*2020* *LL (000)*
Balances with the Central Bank of Lebanon (note 11)	**11,431**	116,562
Due from banks and financial institutions (note 12)	**(63,081)**	698,390
Financial assets at amortized cost (note 15)	**96,032**	79,123
Loans and advances at amortized cost (note 16)	**43,995**	146,787
Other assets (note 17)	**274,648**	(243,810)
	363,025	797,052

8 PERSONNEL EXPENSES

	2021 *LL (000)*	*2020* *LL (000)*
Salaries and wages	**8,641,441**	5,789,864
Directors' remunerations (note 30)	**1,971,789**	1,950,387
National Social Security Fund contributions	**995,631**	600,028
Board members and head of committees' remunerations (note 30)	**226,125**	263,813
Provision for retirement benefit obligations (note 23)	**2,226,184**	109,606
Transportation allowance	**306,526**	152,166
Other employee charges	**585,997**	623,911
	14,953,693	9,489,775

9 OTHER OPERATING EXPENSES

	2021 *LL (000)*	*2020* *LL (000)*
Telecommunications	**903,989**	714,613
Professional fees	**86,266**	347,822
Maintenance and repairs	**533,370**	531,931
Insurance premiums	**409,988**	424,401
Taxes and charges	**401,541**	446,334
Legal and professional fees	**681,435**	646,376
Electricity and fuel	**501,717**	197,529
Advertising expenses	**150,494**	176,862
Travel expenses	**109,196**	66,301
Subscriptions	**91,143**	121,808
Entertainment and congress expenses	**166,471**	53,967
Rent expense	**33,339**	33,272
Printing and stationery	**117,692**	84,647
Transportation	**18,951**	19,612
Other expenses	**1,483,700**	709,066
	5,689,292	4,574,541

10 INCOME TAX EXPENSE

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

	2021 *LL (000)*	*2020* *LL (000)*
Current income tax expense	**10,000**	296,668
Other taxes treated as income tax	**-**	425,028
	10,000	721,696

During 2021, income tax expense in the Group's consolidated income statement includes income tax expenses of FFA Holdings S.A.L. and FFA Investments Holding S.A.L. amounting to LL (000) 5,000 and LL (000) 5,000 respectively. (2020: FFA Private Bank SAL, FFA Real Estate SAL, FFA Holdings SAL and FFA Investments Holding SAL amounting to LL (000) 425,028, LL (000) 286,668, LL (000) 5,000 and LL (000) 5,000 respectively).

Reconciliation of the Bank's total tax charge

A reconciliation between the tax expense and the accounting profit for the years ended 31 December is as follows:

	2021 *LL (000)*	*2020* *LL (000)*
Accounting (loss) profit before income tax	**(343,336)**	940,705
Add:		
Provisions not deductible for tax purpose	**96,483**	141,077
Other non-tax deductible charges	**435,539**	462,618
Board members and head of committees' remunerations	**226,125**	263,813
Realized gains from financial assets at fair value through profit or loss, net	**1,100,437**	258,503
Transfer to unrealized gains to retained earnings from financial assets at FVTOCI derecognized during the period	**229,894**	-
	1,745,142	2,066,716
Less:		
Unrealized gains from financial assets at fair value through profit or loss, net	**(1,428,098)**	(976,994)
Provisions previously subject to income tax	**(151,331)**	(924,119)
Tax credits on capital of specialized banks	**(680,000)**	(680,000)
Deductible tax	**-**	(425,028)
Income received and previously subject to income tax	**-**	(10)
Taxable (loss) profit	**(514,287)**	(939,435)
Income tax rate	**17%**	17%
Income tax expense	**-**	-
Income tax expense in the Bank's income statement	**-**	-

During 2020, other taxes treated as income tax include an amount of LL (000) 425,028 representing 2% on 2019 Bank's turnover as per Article No 20 of the Budget Law 6/2020.

11 CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

	2021 *LL (000)*	*2020* *LL (000)*
Cash on hand	**795,748**	580,751
Balances with the Central Bank of Lebanon:		
Current accounts	**4,117,530**	4,481,398
Time deposits	**1,507,500**	1,507,500
	5,625,030	5,988,898
Less: Allowance for expected credit losses (ECL)	**(147,443)**	(158,930)
	5,477,587	5,829,968
	6,273,335	6,410,719

Deposits with the Central Bank include mandatory reserve deposits and are not available for use in the Group's day-to-day operations in the amount of US$ 1 million as at 31 December 2021 (2020: US$ 1 million).

As stipulated by the Central Bank of Lebanon circulars, the Group is required to hold mandatory reserves at the Central Bank of Lebanon on the basis of 15% of the weekly average of deposits denominated in foreign currencies. Mandatory reserves are not available for use in the Group's day to day operations.

An analysis of ECL allowances in relation to balances with the Central Bank is as follows:

	Current Accounts Stage 1 ***LL (000)***	***Time Deposits Stage 1*** ***LL (000)***	***Total*** ***LL (000)***
At 1 January 2021	**66,434**	**92,496**	**158,930**
Net re-measurements	**(23,301)**	**11,870**	**(11,431)**
Foreign exchange difference	**(56)**	**-**	**(56)**
At 31 December 2021	**43,077**	**104,366**	**147,443**

	Current Accounts Stage 1 *LL (000)*	*Time Deposits Stage 1* *LL (000)*	*Total* *LL (000)*
At 1 January 2020	34,577	239,960	274,537
Net re-measurements	30,902	(147,464)	(116,562)
Foreign exchange difference	955	-	955
At 31 December 2020	66,434	92,496	158,930

12 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2021 LL (000)	2020 LL (000)
Current accounts		
Due from banks	**12,327,645**	12,303,060
Due from financial institutions and brokerage companies	**2,322,075**	10,186,530
	14,649,720	22,489,590
Less: Allowance for expected credit losses (ECL)	**(142,602)**	(79,837)
	14,507,118	22,409,753

An analysis of ECL allowances in relation to balances with banks and financial institutions is as follows:

	Current Accounts Stage 1	
	2021 LL (000)	2020 LL (000)
At 1 January	**79,837**	778,164
Net re-measurements	**63,081**	(698,390)
Transfers to assets held for sale	**-**	(2,634)
Foreign exchange difference	**(316)**	2,697
At 31 December	**142,602**	79,837

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 LL (000)	2020 LL (000)
Equity instruments	**27,694,214**	5,162,060
Debts instruments	**5,203,821**	3,716,412
Exchange traded funds	**-**	3,695,453
Equity funds	**803,428**	957,049
U.S. Treasury bills	**-**	1,507,143
Lebanese treasury bills	**-**	430,602
	33,701,463	15,468,719

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 ***LL (000)***	*2020* *LL (000)*
Equity instruments	**2,073,064**	1,779,108
Debt instruments	**-**	1,720,014
	2,073,064	3,499,122

The movement in the fair value of financial assets measured at fair value through other comprehensive income during the years ended 31 December can be summarised as follows:

	Equity instruments LL (000)	***Debt instruments LL (000)***	***Total LL (000)***
At 1 January 2021	**1,779,108**	**1,720,014**	**3,499,122**
Additions	**1,000,000**	**-**	**1,000,000**
Deductions	**(706,044)**	**(1,720,014)**	**(2,426,058)**
At 31 December 2021	**2,073,064**	**-**	**2,073,064**

	Equity instruments LL (000)	*Debt instruments LL (000)*	*Total LL (000)*
At 1 January 2020	-	1,126,739	1,126,739
Additions	1,496,648	363,381	1,860,029
Change in fair value	282,460	229,894	512,354
At 31 December 2020	1,779,108	1,720,014	3,499,122

Accumulated changes in fair value of financial assets at fair value though other comprehensive income (unrealized gains) amounted to LL (000) 9,608 as at 31 December 2021 (2020: (unrealized losses) LL (000) 165,246). During 2021, the Group sold equities and debt instruments at fair value through other comprehensive income with a fair value of LL (000) 2,426,059 which resulted in a gain amounting to LL (000) 121,358 (Note 6). Accordingly the Group transferred unrealized profit for LL (000) 174,854 from other comprehensive income to retained earnings.

15 FINANCIAL ASSETS AT AMORTIZED COST

	2021 *LL (000)*	*2020* *LL (000)*
Lebanese sovereign and Central Bank of Lebanon		
Treasury bills	**214,515**	215,807
Private sector and other securities		
Corporate debt instruments	**129,031**	1,075,615
	343,546	1,291,422
Less: Allowance for expected credit losses (ECL)	**(13,876)**	(109,908)
	329,670	1,181,514

An analysis of ECL allowances in relation to Lebanese sovereign, Central Bank of Lebanon, and private sector and other securities is, as follows:

	Lebanese sovereign and Central Bank of Lebanon Stage 1	***Private sector and other securities Stage 1***	***Total***
	LL (000)	***LL (000)***	***LL (000)***
At 1 January 2021	-	**109,908**	**109,908**
Net re-measurements	-	**(96,032)**	**(96,032)**
At 31 December 2021	-	**13,876**	**13,876**

	Lebanese sovereign and Central Bank of Lebanon Stage 1	*Private sector and other securities Stage 1*	*Total*
	LL (000)	*LL (000)*	*LL (000)*
At 1 January 2020	46,808	142,223	189,031
Net re-measurements	(46,808)	(32,315)	(79,123)
At 31 December 2020	-	109,908	109,908

16 LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES AT AMORTIZED COST

Loans and advances to customers at amortized cost:

	2021 *LL (000)*	*2020* *LL (000)*
Loans and advances to customers against securities	**819,097**	2,371,015
Other loans	**2,819,954**	2,748,974
	3,639,051	5,119,989
Less: Allowance for expected credit losses (ECL)	**(3,226)**	(120,713)
	3,635,825	4,999,276

Loans and advances to related parties at amortized cost:

	2021 *LL (000)*	*2020* *LL (000)*
Loans and advances to customers against securities	**22,434**	87,478
	22,434	87,478
Less: Allowance for expected credit losses (ECL)	**(10,842)**	(12,534)
	11,592	74,944

An analysis of ECL allowances in relation to loans and advances to customers and related parties at amortized cost is, as follows:

	Stage 1 *LL (000)*	*Stage 2* *LL (000)*	*Stage 3* *LL (000)*	*Total* *LL (000)*
At 1 January 2021	**50,252**	-	**82,995**	**133,247**
Net re-measurements	**(43,995)**	-	-	**(43,995)**
Transferred to off-statement of financial position accounts	-	-	**(74,743)**	**(74,743)**
Foreign exchange difference	**(441)**	-	-	**(441)**
At 31 December 2021	**5,816**	-	**8,252**	**14,068**

	Stage 1 *LL (000)*	*Stage 2* *LL (000)*	*Stage 3* *LL (000)*	*Total* *LL (000)*
At 1 January 2020	78,766	-	644,890	723,656
Net re-measurements	(28,693)	-	(118,094)	(146,787)
Write off	-	-	(443,801)	(443,801)
Foreign exchange difference	179	-	-	179
At 31 December 2020	50,252	-	82,995	133,247

17 OTHER ASSETS

	2021	2020
	LL (000)	*LL (000)*
Mandatory deposit with the Lebanese Treasury	**2,550,000**	2,550,000
Commission receivable	**3,769**	118,455
Fixed deposits and prepayments	**260,352**	243,699
Miscellaneous debtors	**300,559**	878,521
	3,114,680	3,790,675
Less: Allowance for expected credit losses (ECL)	**(246,886)**	(526,856)
	2,867,794	3,263,819

An analysis of ECL allowances in relation to other assets is, as follows:

	Stage 1	***Stage 3***	***Total***
	LL (000)	***LL (000)***	***LL (000)***
At 1 January 2021	**23,436**	**503,420**	**526,856**
Net re-measurements	**2,313**	**(276,961)**	**(274,648)**
Write-off	**(4,872)**	**(450)**	**(5,322)**
At 31 December 2021	**20,877**	**226,009**	**246,886**

	Stage 1	*Stage 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*
At 1 January 2020	54,839	443,755	498,594
Net re-measurements	2,313	241,497	243,810
Transfers to assets held for sale	-	(104,239)	(104,239)
Write-off	(33,716)	(77,593)	(111,309)
At 31 December 2020	23,436	503,420	526,856

18 PROPERTY AND EQUIPMENT

	Buildings LL (000)	*Office supplies and furniture LL (000)*	*Office equipment LL (000)*	*Computer equipment LL (000)*	*Motor vehicles LL (000)*	*Advances on purchases of property and equipment LL (000)*	*Total LL (000)*
Cost or revaluation							
At 1 January 2021	24,558,628	1,970,330	7,030,170	1,535,496	740,305	223,095	36,058,024
Additions	656,592	84,515	839,208	124,293	-	15,060	1,719,668
Write-offs	-	-	(198,323)	(16,760)	-	-	(215,083)
At 31 December 2021	**25,215,220**	**2,054,845**	**7,671,055**	**1,643,029**	**740,305**	**238,155**	**37,562,609**
Depreciation:							
At 1 January 2021	3,902,336	1,572,946	6,121,783	1,371,917	342,366	-	13,311,348
Charge for the year	509,717	112,524	211,155	93,384	54,177	-	980,957
Related to write-offs	-	-	(198,323)	(16,760)	-	-	(215,083)
At 31 December 2021	**4,412,053**	**1,685,470**	**6,134,615**	**1,448,541**	**396,543**	**-**	**14,077,222**
Net carrying value:							
At 31 December 2021	**20,803,167**	**369,375**	**1,536,440**	**194,488**	**343,762**	**238,155**	**23,485,387**

	Buildings LL (000)	*Office supplies and furniture LL (000)*	*Office equipment LL (000)*	*Computer equipment LL (000)*	*Motor vehicles LL (000)*	*Advances on purchases of property and equipment LL (000)*	*Right-of-use assets- Office LL (000)*	*Total LL (000)*
Cost or revaluation								
At 1 January 2020	24,558,628	2,092,681	7,023,027	2,695,819	882,325	643,805	662,579	38,558,864
Additions	-	29,297	346,629	51,176	-	336,157	-	763,259
Transfers to assets held for sale	-	(139,915)	-	(299,299)	-	-	(662,579)	(1,101,793)
Write-offs	-	(11,733)	(339,486)	(912,200)	(142,020)	-	-	(1,405,439)
Termination	-	-	-	-	-	(756,867)	-	(756,867)
At 31 December 2020	24,558,628	1,970,330	7,030,170	1,535,496	740,305	223,095	-	36,058,024
Depreciation:								
At 1 January 2020	3,384,551	1,567,690	6,297,988	2,477,697	429,208	-	221,348	14,378,482
Charge for the year from continuing operations	500,364	131,950	162,324	83,462	55,117	-	-	933,217
Charges for the year from discontinued operations	17,421	9,402	-	12,108	61	-	202,929	241,921
Transfers to assets held for sale	-	(127,797)	-	(289,312)	-	-	(424,277)	(841,386)
Related to write-offs	-	(8,299)	(338,529)	(912,038)	(142,020)	-	-	(1,400,886)
At 31 December 2020	3,902,336	1,572,946	6,121,783	1,371,917	342,366	-	-	13,311,348
Net carrying value:								
At 31 December 2020	20,656,292	397,384	908,387	163,579	397,939	223,095	-	22,746,676

During the year ended 31 December 2020, the Group paid an advance of US$ 100,000 (equivalent to LL (000) 150,750) for the acquisition of section E4, E5, E6 and E7 of plot number 461 – Bsalim to expand the Group's Disaster Recovery site. During the year ended 31 December 2021, the Group settled the balance of US$.400,000 (equivalent to LL (000) 603,000) and paid registration expenses amounting to LL (000) 53,592. Accordingly, previously recorded advances amounting to LL (000) 150,750 were transferred to buildings.

In December 2013, the Group has changed its accounting policy for the measurement of buildings to the revaluation model.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2021 ***LL (000)***	*2020* *LL (000)*
Cost	**10,689,371**	10,689,371
Accumulated depreciation	**(2,457,428)**	(2,243,641)
Net carrying amount	**8,231,943**	8,445,730

19 INTANGIBLE ASSETS

	Software	
	2021	*2020*
	LL (000)	*LL (000)*
Cost:		
At 1 January	**242,898**	329,542
Additions	**54,318**	38,504
Transfers to assets held for sale	**-**	(96,311)
Write-offs	**-**	(28,837)
At 31 December	**297,216**	242,898
Amortization:		
At 1 January	**190,985**	271,333
Charge for the year from continuing operations	**26,953**	23,606
Charge for the year from discontinued operations	**-**	6,644
Transfers to assets held for sale	**-**	(81,761)
Related to write-offs	**-**	(28,837)
At 31 December	**217,938**	190,985
Net carrying amount at 31 December	**79,278**	51,913

20 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2021	*2020*
	LL (000)	*LL (000)*
Current accounts		
Due to financial institutions	**125**	3,868
Due to banks	**829,982**	1,838
	830,107	5,706

21 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2021	*2020*
	LL (000)	*LL (000)*
Term deposits	**5,622,138**	5,627,403
Margins accounts	**1,257,479**	2,290,114
	6,879,617	7,917,517

Margin accounts represent guarantees given by the customers against facilities granted on financial instruments transactions.

22 OTHER LIABILITIES

	2021 LL (000)	2020 LL (000)
Taxes due	**1,323,900**	1,762,281
Accrued expenses	**419,506**	1,170,712
Due to public sector	**131,188**	82,375
Miscellaneous creditors	**806,056**	169,030
	2,680,650	3,184,398

23 PROVISIONS FOR RISKS AND CHARGES

	2021 LL (000)	2020 LL (000)
Provision for retirement benefit obligations (i)	**3,225,198**	1,040,199
Provision for foreign currency fluctuation (ii)	**7,572**	19,180
	3,232,770	1,059,379

(i) The movement in the provision for retirement benefit obligations during the year is as follows:

	2021 LL (000)	2020 LL (000)
Balance at 1 January	**1,040,199**	1,039,845
Charges during the year (note 8)	**2,226,184**	109,606
Settlements during the year	**(41,185)**	(109,252)
Balance at 31 December	**3,225,198**	1,040,199

(ii) The movement in the provision for foreign currency fluctuation and other provisions during the year is as follows:

	2021 LL (000)	2020 LL (000)
Balance at 1 January	**19,180**	301,776
(Write-backs) charges during the year	**(11,608)**	(282,596)
Balance at 31 December	**7,572**	19,180

24 SHARE CAPITAL

- The share capital of the Group amounted to LL (000) 17,000,000 (170,000 shares of LL (000) 100 each fully paid as at 31 December 2021) (2020: the same).
- An amount of LL (000) 18,033,699 representing an issue premium resulted from the issuance of 85,000 shares of LL (000) 100 each for a consideration of US$ 207.07 by the Group.

25 RESERVES

Non-distributable reserves

	Legal reserve *LL (000)*	*Reserves appropriated for capital increase* *LL (000)*	*Reserve for general banking risks* *LL (000)*	*Total* *LL (000)*
Balance at 1 January 2021	**2,308,976**	**3,774,933**	**2,235,592**	**8,319,501**
Appropriation of 2020 profits	**55,833**	**-**	**186,643**	**242,476**
Transfers	**-**	**-**	**163,591**	**163,591**
Balance at 31 December 2021	**2,364,809**	**3,774,933**	**2,585,826**	**8,725,568**

	Legal reserve *LL (000)*	*Reserves appropriated for capital increase* *LL (000)*	*Reserve for general banking risks* *LL (000)*	*Total* *LL (000)*
Balance at 1 January 2020	2,278,934	3,774,933	2,246,618	8,300,485
Appropriation of 2019 profits	30,042	-	-	30,042
Transfers between reserves	-	-	(11,026)	(11,026)
Balance at 31 December 2020	2,308,976	3,774,933	2,235,592	8,319,501

a) 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 reserves for general banking risks and general reserves for loans and advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Bank's equity and is not available for distribution. During the year ended 31 December 2020, the Group transferred an amount of LL (000) 11,026 from non- distributable general reserves to distributable general reserve, in accordance with the general assembly dated 15 July 2020. During the year ended 31 December 2021, the Group transferred an amount of LL (000)186,643 from profit for the year to general reserve in accordance with the resolutions of the General Assembly dated 13 September 2021.

b) Legal reserve

As required by the Lebanese Code of Commerce and the Bank's articles of association (applicable to the Bank and the subsidiaries established in Lebanon), 10% of the net profit for the year has to be transferred to legal reserve. This reserve is not available for distribution. During the year ended 31 December 2020, the Group transferred an amount of LL (000) 55,833 from profit for the prior year to legal reserve (2020: LL (000) 30,042).

c) Reserves appropriated for capital increase

Reserves appropriated during previous years for capital increase representing recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

Distributable reserve

a) General reserve

In accordance with the general assembly decisions, the Group appropriated general reserve from profits of previous years. In accordance with the resolutions of the general assembly dated 15 July 2020, the shareholders decided to transfer an amount of LL (000) 219,382 from the profit of the year and an amount of LL (000) 11,026 from non-distributable general reserves to reserve for general banking risks. In accordance with the resolutions of the General Assembly dated 13 September 2021, the shareholders decided to transfer an amount of LL (000) 277,466 from the profit of the year to general reserve. This reserve amounting to LL (000) 965,938 as at 31 December 2021 (2020: LL (000) 688,472) is available for distribution.

26 REVALUATION RESERVE OF PROPERTY

On 3 December 2013, the Central Bank of Lebanon approved the Group's revaluation of buildings resulting in a surplus of LL (000) 14,328,847.

27 ASSETS AND LIABILITIES HELD FOR SALE

During the year 2021, the Group resolved to transfer 100% of shares of FFA Private Bank (Dubai) Ltd and FFA Real Estate Limited to FFA Group Holding Ltd. for a total consideration of US$.2,228,000 (equivalent to LL (000) 3,358,710) and US$.50,000 (equivalent to LL (000) 75,375) respectively. The disposal resulted in a net profit amounting to LL (000) 2,228,085.

Assets and Liabilities included in the disposal groups held for sale:

	2021	2020		
		FFA Private Bank (Dubai) Limited	*FFA Real Estate Limited*	*Total*
		LL (000)	*LL (000)*	*LL (000)*
ASSETS				
Cash and balances with the Central Bank of Lebanon	-	137	968	1,105
Due from banks and financial institutions	-	4,010,449	340,504	4,350,953
Financial assets at fair value through other comprehensive income	-	-	35,337	35,337
Other assets	-	182,396	433.993	616,389
Property and equipment and right-of-use assets	-	254,756	5,651	260,407
Intangible assets	-	14,550	-	14,550
Total assets classified as held for sale	-	4,462,288	816,453	5,278,741
LIABILITIES				
Other liabilities	-	456,103	528,677	984,780
Provisions for risks and charges	-	304,045	-	304,045
Total liabilities classified held for sale	-	760,148	528,677	1,288,825
Net assets classified as held for sale	-	3,702,140	287,776	3,989,916
Reserves and retained earnings related to assets held for sale:				
Premium issue	-	1,409,513	-	1,409,513
Retained earnings	-	150,134	776,050	926,184
Result of the year – loss	-	(690,880)	968,861	277,981
	-	868,767	1,744,911	2,613,678

The carrying value of the disposal group is stated after elimination of internal balances between FFA Private Bank (Dubai) Limited and FFA Real Estate Limited and the remaining entities within the Group. Internal balances have been considered in determining the carrying value of the disposal groups held for sale for the purposes of measuring the disposal group at the lower of carrying amount and fair value less costs to sell.

The disposal groups above meet the requirements for presentation as a discontinued operation. As such, the results, which have been presented as the profit after tax and non-controlling interest in respect of the discontinued operation on the face of the Group income statement, are analyzed in the income statement below.

27 ASSETS AND LIABILITIES HELD FOR SALE (continued)

	From 1 January 2021 30 June 2021		
	FFA Private Bank (Dubai) Limited LL (000)	*FFA Real Estate Limited LL (000)*	*Total LL (000)*
Interest and similar income	311,927	-	311,927
Interest and similar expense	(461,664)	(1,683)	(463,347)
Net interest income	(149,737)	(1683)	(151,420)
Fee and commission income	2,270,775	569,491	2,840,266
Fee and commission expense	(1,146,997)	354,668	(792,329)
Net fee and commission income	1,123,778	924,159	2,047,937
Net gain on financial at fair value through profit or loss	37,544	(5,212)	32,332
Total operating income	1,011,585	917,264	1,928,849
Net impairment loss on financial assets	1,562	(91,175)	(89,613)
	1,013,147	826,089	1,839,236
Net operating income			
Personnel expenses	(1,032,251)	(151,911)	(1,184,162)
Depreciation of property and equipment	(112,859)	(1,798)	(114,657)
Amortization of intangible assets	(3,075)	-	(3,075)
Other operating expenses	(387,592)	(34,911)	(422,503)
Total operating expenses	(1,535,777)	(188,620)	(1,724,397)
Profit (Loss) before tax	(522,630)	637,469	114,839
Income tax	-	-	-
Profit (Loss) for the year from discontinued operations	(522,630)	637,469	114,839

27 ASSETS AND LIABILITIES HELD FOR SALE (continued)

	2020		
	FFA Private Bank (Dubai) Limited (000)LBP.	*FFA Real Estate Limited (000)LBP.*	*Total (000)LBP.*
Interest and similar income	568,232	-	568,232
Interest and similar expense	(596,216)	-	(596,216)
Net interest income	(27,984)	-	(27,984)
Fee and commission income	3,853,025	2,610,804	6,463,829
Fee and commission expense	(1,637,307)	(1,228,992)	(2,866,299)
Net fee and commission income	2,215,718	1,381,812	3,597,530
Net gain on financial at fair value through profit or loss	88,596	115,720	204,316
Total operating income	2,276,330	1,497,532	3,773,862
Net impairment loss on financial assets	(3,852)	(188,219)	(192,071)
Net operating income	2,272,478	1,309,313	3,581,791
Personnel expenses	(1,929,724)	(190,625)	(2,120,349)
Depreciation of property and equipment	(239,070)	(2,851)	(241,921)
Amortization of intangible assets	(6,644)	-	(6,644)
Other operating expenses	(787,920)	(146,976)	(934,896)
Total operating expenses	(2,963,358)	(340,452)	(3,303,810)
(Loss) Profit before tax	(690,880)	968,861	277,981
Income tax	-	-	-
(Loss) Profit for the year from discontinued operations	(690,880)	968,861	277,981

28 OFF-STATEMENT OF FINANCIAL POSITION ACCOUNTS

	2021 *LL (000)*	*2020* *LL (000)*
Financial instruments with brokers on behalf of customers	**293,261,346**	425,189,943
Deposits with banks	**46,989,185**	104,976,313
Deposits with the Central Bank of Lebanon	**10,880,897**	10,880,897
Certificates of deposits (Central Bank of Lebanon)	**14,622,750**	14,800,434
Trading financial instruments	**5,275,722**	25,492,050
Loans and advances	**115,961,700**	81,936,264
Engagements on customers' future contracts and contracts for difference (long) - notional amount	**12,405,290**	5,119,974
Engagements on customers' future contracts (short) - notional amount	**29,520,619**	19,265,165
	528,917,509	687,661,040
Due to customers – custody arrangements	**335,187,255**	449,575,082
Due to customers – fiduciary arrangements	**193,730,254**	238,085,958
	528,917,509	687,661,040

In the normal course of business, the Group activities involve the execution, settlement, and financing of various customers' securities transactions. These activities may expose the Group to off statement of financial position risk in the event the customer or other broker is unable to fulfill its contractual obligations and the Group has to purchase or sell the financial instrument underlying the contract at a loss.

The Group's customers' securities activities are transacted on either a cash or advance basis. In advance transactions, the Group extends credit to its customers, collateralized by cash and securities in the customers' accounts. Such transactions may expose the Group to significant off statement of financial position risk in the event collateral margins are not sufficient to fully cover losses that customers may incur. In the event that customers fail to satisfy their obligations, the Group may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customers' obligations. The Group seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Group requires the customers to deposit additional collateral or to reduce positions when necessary.

The Group's customers' financing and securities settlement activities require the Group to pledge customers' securities as collateral in support of various secured financing sources. In the event the counterparty is unable to meet its contractual obligation to return customers' securities pledged as collateral, the Group may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customers' obligations. The Group controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure.

29 CASH AND CASH EQUIVALENTS

	2021	*2020*
	LL (000)	*LL (000)*
Cash and balances with the Central Bank of Lebanon	**4,913,278**	5,062,149
Due from banks and financial institutions	**14,649,720**	22,489,590
Due to banks and financial institutions	**(830,107)**	(5,706)
	18,732,891	27,546,033

Cash and cash equivalents include balances in foreign currencies that are subject to unofficial capital controls and restricted transfers outside Lebanon. Accordingly, these balances are not considered readily convertible to known amounts of cash in the denomination currency without a risk of changes in value. However, the Group maintains their classification as cash and cash equivalents as they are freely transferrable within the Lebanese territory. These balances were as follows as at 31 December 2021 and 31 December 2020:

	2021	*2020*
	LL (000)	*LL (000)*
Cash and balances with the Central Bank of Lebanon (Note 11)	**622,189**	1,081,622
Due from banks and financial institutions (Note 12)	**236,920**	27,341
Due to banks and financial institutions (Note 20)	**-**	(1,838)
	859,109	1,107,125

30 RELATED PARTY TRANSACTIONS

The Group enters into transactions with the major shareholders, directors, senior management and affiliates in the ordinary course of business at commercial interest and commission rates. All the loans and advances with related parties are performing and not subject to a provision for potential credit losses.

Related parties' transactions included in the consolidated income statement are summarized as follows:

	2021	*2020*
	LL (000)	*LL (000)*
Other related parties:		
Commission income	**3,964**	8,638
Interest income	**5,000**	4,428
Revenue from custody of shares	**13,474**	10,914
Revenues from service fees	**1,226,696**	-
Referral fees received	**348,882**	-
Interest expense	**(365,450)**	-
Custody fees paid	**(60,843)**	-
Referral fees paid	**(2,229,048)**	-

Directors' remunerations amounted to LL (000) 1,971,789 for the year ended 31 December 2021 (2020: LL (000) 1,950,387) (note 8).

Board members and head of committees' remunerations amounted to LL (000) 226,125 for the year ended 31 December 2021 (2020: LL (000) 263,813) (note 8).

30 RELATED PARTY TRANSACTIONS (continued)

Related parties' balances included in the consolidated statement of financial position are summarized as follows:

	2021 *LL (000)*	*2020* *LL (000)*
Due from a sister company	**1,211,422**	-
Loans and advances to related parties at amortized cost	**11,592**	74,944
	1,223,014	74,944

31 COMMITMENTS AND CONTINGENT LIABILITIES

a) The Group is contingently liable for a guarantee issued in favor of the Beirut Stock Exchange amounting to LL 200 million as a guarantee for the commitments of the Group to operate as a financial broker (2020: the same).

b) 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. Fiscal years from 2015 to 2021 remain open to review by the tax authorities. Management believes that the effect of any such review will not have a material effect on the Group's consolidated financial statements.

c) Litigation is a common occurrence in the banking industry due to the nature of the business. Management, after review with its legal counsel of all pending actions and proceedings, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the consolidated financial position of the Group.

32 FAIR VALUE

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern.

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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 valuation techniques and models incorporate assumptions about factors observable in an active market, that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

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).

32 FAIR VALUE (continued)

Effects of exchange rates on the fair value measurements:
The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Pound in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Pounds at the official 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 Pounds that would have to be generated from the realization of such assets or the payment of such liabilities at the date of the consolidated financial statements. In the absence of an alternative legal exchange mechanism, management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2. Classification within Levels 1 and 2 do not take into consideration the "lack of observability" of the exchange rate.

Fair value measurement hierarchy of the financial assets and liabilities carried at fair value:
The following table shows an analysis of asset classes carried at fair value by level of the fair value hierarchy:

	2021			
	Level 1 *LL (000)*	*Level 2* *LL (000)*	*Level 3* *LL (000)*	*Total* *LL (000)*
Financial assets at fair value through profit or loss:				
Debt instruments	**5,203,821**	-	-	**5,203,821**
Equity funds	**20,806**	-	**782,622**	**803,428**
Equity instruments	**24,537,854**	-	**3,156,360**	**27,694,214**
	29,762,481	-	**3,938,982**	**33,701,463**
Financial assets at fair value through other comprehensive income				
Equity instruments	-	-	**2,073,064**	**2,073,064**
	-	-	**2,073,064**	**2,073,064**
	29,762,481	-	**6,012,046**	**35,774,527**

	2020			
	Level 1 *LL (000)*	*Level 2* *LL (000)*	*Level 3* *LL (000)*	*Total* *LL (000)*
Financial assets at fair value through profit or loss:				
Debt instruments	2,208,912	-	1,507,500	3,716,412
Exchange traded funds	3,695,453	-	-	3,695,453
Equity funds	19,908	-	937,141	957,049
Equity instruments	4,854,474	-	307,586	5,162,060
U.S. Treasury bills	1,507,143	-	-	1,507,143
Lebanese Treasury bills	-	-	430,602	430,602
	12,285,890	-	3,182,829	15,468,719
Financial assets at fair value through other comprehensive income				
Equity instruments	-	-	1,779,108	1,779,108
Debt instruments	-	-	1,720,014	1,720,014
	-	-	3,499,122	3,499,122
	12,285,890	-	6,681,951	18,967,841

There were no transfers between levels during 2021 (2020: the same).

32 FAIR VALUE (continued)

Valuation Techniques Used for Material Classes of Financial Assets and Liabilities Categorized within Level 2 and Level 3:

Debt Instruments
The Group values these unquoted debt securities using valuation models incorporating significant inputs that are not based on observable market data (unobservable inputs).

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

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

Comparison of book and fair values for financial assets and liabilities not held at fair value:
The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

Financial assets and liabilities concentrated in Lebanon
These assets consist of balances with the Central Bank of Lebanon and Lebanese banks, Lebanese government securities, loans and advances to customers and related parties and customer deposits. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in note 1 and the unprecedent levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities. Accordingly, the table below does not include fair value disclosures for these assets and liabilities.

Financial assets and liabilities not concentrated in Lebanon
The fair values of financial assets and liabilities not concentrated in Lebanon that are not held at fair value are as follows:

31 December 2021	*Carrying Value*	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*	*LL (000)*
FINANCIAL ASSETS					
Cash on hand	**795,748**	**795,748**	**-**	**-**	**795,748**
Due from foreign banks and financial institutions	**13,554,214**	**-**	**13,554,214**	**-**	**13,554,214**
Due from a sister company	**1,211,422**	**-**	**1,211,422**	**-**	**1,211,422**
Loans and advances to customers at amortized cost	**3,635,825**	**-**	**-**	**3,635,825**	**3,635,825**
FINANCIAL LIABILITIES					
Due to banks and financial institutions	**830,107**	**-**	**830.107**	**-**	**830,107**

31 December 2020	*Carrying Value*	*Fair Value*			
		Level 1	*Level 2*	*Level 3*	*Total*
	LL (000)	*LL (000)*	*LL (000)*	*LL (000)*	*LL (000)*
FINANCIAL ASSETS					
Cash on hand	581,000	581,000	-	-	581,000
Due from foreign banks and financial institutions	21,837,753	-	21,837,753	-	21,837,753
Loans and advances to customers at amortized cost	4,999,276	-	-	4,999,276	4,999,276
FINANCIAL LIABILITIES					
Due to banks and financial institutions	5,706	-	5,706	-	5,706

There were no transfers between levels during 2021 (2020: the same).

32 FAIR VALUE (continued)

Assets and liabilities not carried at fair value, for which fair value was estimated and approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values.

Loans and advances to customers and due from foreign banks and financial institutions

The fair value is determined using valuation models which incorporate a range of assumptions. These are grouped, as far as possible, into homogeneous groups and stratified by subgroups with similar characteristics to improve the accuracy of valuation outputs. These valuation techniques also consider expected credit losses and changes to behavioural profiles.

Due to banks and financial institutions and related parties

For the purpose of estimating fair value, these are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the date of the statement of financial position.

33 RISK MANAGEMENT

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

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

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

Risk management structure

There are separate independent bodies responsible for managing and monitoring risks.

Board of directors

The Board of directors (the "Board") is ultimately responsible for identifying and setting the level of tolerable risks to which the Group is exposed, and as such defines the risk appetite for the Group. In addition, the Board approves policies and procedures related to all types of risks. Periodic reporting is made to the Board on existing and emerging risks in the Group. A number of management committees and departments are also responsible for various levels of risk management, as set out below.

Board risk committee

The role of the Board Risk Committee is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the bank risk policies and risk appetite, monitor the Group risk profile, review stress tests scenarios and results.

Asset liability committee

The asset liability committee (ALCO) is a management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up strategies for managing market risk exposures and ensuring that treasury implements those strategies so that exposures are managed within approved limits and in a manner consistent with the risk policy and limits approved by the Board.

33 RISK MANAGEMENT (continued)

Risk management unit
The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained.

The Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Group. Each business group has its own unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Group treasury
Group treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit
The Group's policy is that risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems
The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate loss based on statistical models. The models make use of probabilities derived from historical experience. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact occur.

Monitoring and controlling risks is primarily performed based on adjustable limits established by the management of the Group. These limits reflect the business strategy of the Group, and most important, are periodically attuned to be in line with the market environment and the level of risk that the Group is willing to accept. In addition, the Group's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented to the board of directors via the asset liability committee (ALCO), the credit committee, and the board risk committee.

The Credit Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Risk mitigation
As part of its overall risk management, the Group manages its exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from transactions.

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

34 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group tries to control these risks by monitoring the credit risks and by limiting the exposure with specific counterparties and assessing their creditworthiness.

The Group seeks to manage credit risks by distributing credit activities in order to avoid concentration of undesirable risks towards individuals or group of customers in specific areas or sectors. The Group also obtain relevant guarantees when necessary.

34.1 Credit risk management

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio has significantly deteriorated since the last quarter 2019. As disclosed in notes 34.3.1 and 34.3.2, the Group's loans portfolio is properly diversified by geography and industry and the Group has obtained appropriate collateral reducing the risk of loss to minimal levels. Nonetheless, management is proactively reviewing and managing the quality of these assets and monitoring the market value of the collateral. Management does not expect the situation in Lebanon to reveal additional losses in its private loans portfolios.

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

The Group has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions of credit files, including ratings and collateral quality. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective actions.

The Group has also established authorization limit structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limits assigned to them, which depend on the size of the exposure. 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.

34.2 Expected credit losses

34.2.1 Governance and oversight of expected credit losses

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; iii) approving staging classifications on a name-by-name basis for material exposures and iv) reviewing ECL results.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgement and data-driven methodologies.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, and collateral information among other. The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

34 CREDIT RISK (continued)

34.2 Expected credit losses (continued)

34.2.2 Definition of default

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate.

34.2.3 PD estimation process

To assess the staging of exposures and to measure loss allowance on collective basis, the Group groups its exposures into segments on the basis of shared credit risk characteristics.

Loans

The Group has two forms of lending; term loans and margin loans. For the margin loans, the Group has adopted a "Loss Rate Approach" discussed under 33.2.6 below. As for term loans, the Group uses external benchmarking to similar risk portfolios.

34.2.4 Exposure at default

Exposure ate default (EAD) represents 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, and expected drawdowns on committed facilities.

34.2.5 Loss given default

Loss given default (LGD) represents an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral; it is usually expressed as percentage of EAD.

Term loans

Due to the limited number of clients in this portfolio, the Group opted to calculate the LGD individually for each exposure rather than applying a blanket figure for the pool of similarly secured term loans. The Group applies an appropriate haircut as on the collaterals received, then deducts the resulting amount from the gross original exposure, leading to an accurate estimation of the LGD for each loan.

34.2.6 Loss rate approach

The Group applies the loss rate approach on its margin lending. By using a "Loss Rate" approach, the PD & LGD are assessed as a single combined measure, based on past losses, adjusted for current conditions and forecasts of future conditions; is used in the instances where there is no sufficient data to measure the separate components individually, and mostly in exposures that are of a short term nature and non-amortizing.

34.2.7 Significant increase in credit risk

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition, using reasonable and supportable information that is relevant and available without undue cost or effort.

This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The Group considers there is a significant increase in credit risk if one or more of the conditions below is fulfilled:

34 CREDIT RISK (continued)

34.2 Expected credit losses (continued)

34.2.7 Significant increase in credit risk (continued)

- A weak financial condition or the inability of the issuer to generate sufficient cash flow to service the payments;
- A delay in fulfilling the contractual cash flow obligations for a period exceeding 30 days;
- A downgrade in the debtor credit rating by 2 notches (if still above investment grade);
- A downgrade in the debtor credit rating by 1 notch (if rating becomes below investment grade);
- Business, economic or market conditions that may unfavorably affect the profitability and business of the issuer in the near to medium term;
- Difficulties experienced by the borrower in servicing its other debt obligations;
- Breach of any financial covenants by the borrower;
- A subjective opinion issued by qualified Group personnel that expresses a significant increase in Credit Risk

34 CREDIT RISK (continued)

34.2.8 Financial assets and ECLs by stage

The tables below presents an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2021 and 31 December 2020. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				*Impairment allowance*				
	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)*	*Net exposure LL (000)*
31 December 2021									
Balances with the Central Bank of Lebanon	5,625,030	-	-	5,625,030	147,443	-	-	147,443	5,477,587
Due from banks and financial institutions	14,649,720	-	-	14,649,720	142,602	-	-	142,602	14,507,118
Financial assets at amortized cost	343,546	-	-	343,546	13,876	-	-	13,876	329,670
Loans and advances to customers and related parties at amortized Cost	3,661,485	-	-	3,661,485	14,068	-	-	14,068	3,647,417
Other assets	3,114,680	-	-	3,114,680	246,886	-	-	246,886	2,867,794
Total	27,394,461	-	-	27,394,461	564,875	-	-	564,875	26,829,586

	Gross exposure				*Impairment allowance*				
	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)*	*Net exposure LL (000)*
31 December 2020									
Balances with the Central Bank of Lebanon	5,988,898	-	-	5,988,898	158,930	-	-	158,930	5,829,968
Due from banks and financial institutions	22,489,590	-	-	22,489,590	79,837	-	-	79,837	22,409,753
Financial assets at amortized cost	1,291,422	-	-	1,291,422	109,908	-	-	109,908	1,181,514
Loans and advances to customers and related parties at amortized Cost	5,124,472	-	82,995	5,207,467	50,252	-	82,995	133,247	5,074,220
Other assets	3,301,490	-	489,185	3,790,675	23,436	-	503,420	526,856	3,263,819
Total	38,195,872	-	572,180	38,768,052	422,363	-	586,415	1,008,778	37,759,274

34 CREDIT RISK (continued)

34.3 Analysis of concentration

Risk concentrations, maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group's concentrations of risk are managed by client/counterparty and by geographical region. The maximum exposure to credit risk is represented by the carrying amounts of the financial assets that are carried in the consolidated statement of financial position and the carrying amount of equities and other securities held with banks and financial institutions that are carried in the off-statement of financial position. The maximum credit exposure to any client or counterparty as of 31 December 2021 was LL (000) 11,159,362 (2020: LL (000) 7,816,023).

The following table shows the maximum exposure to credit risk for the components of the consolidated statement of financial position by geography before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

34.3.1 Geographic analysis

	2021					
	Lebanon LL million	*MENA LL million*	*Europe LL million*	*US LL million*	*Other LL million*	*Total LL million*
Cash on hand	**795**	-	-	-	-	**795**
Balances with the Central Bank of Lebanon	**5,478**	-	-	-	-	**5,478**
Due from banks and financial institutions	**1,095**	**1,113**	**105**	**12,194**	-	**14,507**
Due from a sister company	**56**	**1,155**	-	-	-	**1,211**
Financial assets at fair value through profit or loss	-	-	**2,442**	**11,487**	-	**13,929**
Financial assets at fair value through other comprehensive income	**2,073**	-	-	-	-	**2,073**
Financial assets at amortized cost	**330**	-	-	-	-	**330**
Of which: Lebanese government debt securities	***215***	-	-	-	-	***215***
Loans and advances to customers at amortized cost	**3,078**	**217**	**341**	-	-	**3,636**
Loans and advances to related parties at amortized cost	**12**	-	-	-	-	**12**
Mandatory deposit with the Lebanese Treasury	**2,550**	-	-	-	-	**2,550**
	15,467	**2,485**	**2,888**	**23,681**	-	**44,521**

	2020					
	Lebanon LL million	*MENA LL million*	*Europe LL million*	*US LL million*	*Other LL million*	*Total LL million*
Cash on hand	581	-	-	-	-	581
Balances with the Central Bank of Lebanon	5,830	-	-	-	-	5,830
Due from banks and financial institutions	572	8,313	3,984	9,541	-	22,410
Financial assets at fair value through profit or loss	1,938	-	1,781	1,935	-	5,654
Of which: Lebanese government debt securities	*431*	-	-	-	-	*431*
Financial assets at fair value through other comprehensive income	3,499	-	-	-	-	3,499
Financial assets at amortized cost	1,182	-	-	-	-	1,182
Of which: Lebanese government debt securities	*216*	-	-	-	-	*216*
Loans and advances to customers at amortized cost	2,911	307	390	1,391	-	4,999
Loans and advances to related parties at amortized cost	75	-	-	-	-	75
Mandatory deposit with the Lebanese Treasury	2,550	-	-	-	-	2,550
	19,138	8,620	6,155	12,867	-	46,780

34 CREDIT RISK (continued)

34.3 Analysis of concentration (continued)

35.3.2 Industrial analysis

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

	2021								
	Financial Services and Brokerage LL million	*Government LL million*	*Consumers LL million*	*Retail and Wholesale LL million*	*Construction and Materials LL million*	*Services and Utilities LL million*	*Industrial LL million*	*Other LL million*	*Total LL million*
Cash and balances with the Central Bank of Lebanon	796	5,477	-	-	-	-	-	-	6,273
Due from banks and financial institutions	14,507	-	-	-	-	-	-	-	14,507
Due from a sister company	1,211	-	-	-	-	-	-	-	1,211
Financial assets at fair value through profit or loss	4,771	7,818	-	-	-	-	-	1,340	13,929
Financial assets at fair value through other comprehensive income	-	-	-	2,050	23	-	-	-	2,073
Financial assets at amortized cost	-	215	-	115	-	-	-	-	330
Lebanese sovereign and Central Bank of Lebanon	-	*215*	-	-	-	-	-	-	*215*
Private sector and other securities	-	-	-	*115*	-	-	-	-	*115*
Loans and advances to customers at amortized cost	923	-	558	-	2,155	-	-	-	3,636
Loans and advances to related parties at amortized cost	12	-	-	-	-	-	-	-	12
Other assets	318	2,550	-	-	-	-	-	-	2,868
	22,538	16,060	558	2,165	2,178	-	-	1,340	44,839

	2020							
	Financial Services and Brokerage LL million	*Government LL million*	*Consumers LL million*	*Retail and Wholesale LL million*	*Construction and Materials LL million*	*Services and Utilities LL million*	*Other LL million*	*Total LL million*
Cash and balances with the Central Bank of Lebanon	6,411	-	-	-	-	-	-	6,411
Central Bank of Lebanon	*5,830*	-	-	-	-	-	-	*5,830*
Due from banks and financial institutions	22,410	-	-	-	-	-	-	22,410
Financial assets at fair value through profit or loss	2,208	1,938	-	-	1,508	-	-	5,654
Lebanese sovereign and Central Bank of Lebanon	-	*431*	-	-	-	-	-	*431*
Financial assets at fair value through other comprehensive income	-	-	-	-	2,449	-	1,050	3,499
Financial assets at amortized cost	-	216	-	966	-	-	-	1,182
Lebanese sovereign and Central Bank of Lebanon	-	*216*	-	-	-	-	-	*216*
Private sector and other securities	-	-	-	*966*	-	-	-	*966*
Loans and advances to customers at amortized cost	2,797	-	697	-	-	1,505	-	4,999
Loans and advances to related parties at amortized cost	75	-	-	-	-	-	-	75
Other assets	714	2,550	-	-	-	-	-	3,264
	34,615	4,704	697	966	3,957	1,505	1,050	47,494

34 CREDIT RISK (continued)

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

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

	2021					
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Real estate mortgage LL million*	*Net credit exposure LL million*	*Associated ECL LL million*
Cash and balances with the Central Bank of Lebanon	**6,273**	**-**	**-**	**-**	**6,273**	**(147)**
Due from banks and financial institutions	**14,507**	**-**	**-**	**-**	**14,507**	**(143)**
Due from a sister company	**1,211**	**-**	**-**	**-**	**1,211**	**-**
Financial assets at amortized cost	**330**	**-**	**-**	**-**	**330**	**(14)**
Loans and advances to customers and related parties at amortized cost	**3,648**	**538**	**769**	**1,628**	**713**	**(14)**
Other assets	**2,868**	**-**	**-**	**-**	**2,868**	**(247)**
Total	**28,837**	**538**	**769**	**1,628**	**25,902**	**(565)**

	2020					
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Real estate mortgage LL million*	*Net credit exposure LL million*	*Associated ECL LL million*
Cash and balances with the Central Bank of Lebanon	6,273	-	-	-	6,273	(159)
Due from banks and financial institutions	22,410	-	-	-	22,410	(80)
Financial assets at amortized cost	1,182	-	-	-	1,182	(110)
Loans and advances to customers and related parties at amortized cost	5,074	750	959	846	2,519	(133)
Other assets	3,264	-	-	-	3,264	(527)
Total	38,203	750	959	846	35,648	(1,009)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Collateral and other credit enhancements

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

35 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs.

As per the Lebanese banking regulations, the Group must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all foreign currency deposits regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

35 LIQUIDITY RISK (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. Group Risk Management monitors on a daily basis the ratio of available highly liquid assets to financial commitments due in the next week, month, and on a six-month horizon.

The Bank stresses the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratios, which compares loans and advances to customers as a percentage of core customer and savings accounts.

The ratios during the year were as follows:

Net liquid assets to deposits in foreign currencies	*2021* %	*2020* %
Year-end	**218.87**	200.56
Maximum	**240.31**	4,901
Minimum	**147.33**	115
Average	**209.31**	569.6

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.

Analysis of financial assets and liabilities by remaining maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities as at 31 December.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	31 December 2021							
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*Sub total LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Sub total LL million*	*Total LL million*
Financial assets								
Cash and balances with the Central Bank of Lebanon	6,273	-	-	6,273	-	-	-	6,273
Due from banks and financial institutions	14,507	-	-	14,507	-	-	-	14,507
Due from a sister company	1,211	-	-	1,211	-	-	-	1,211
Financial assets at fair value through profit or loss	33,701	-	-	33,701	-	-	-	33,701
Financial assets at fair value through other comprehensive income	-	-	-	-	-	2,073	2,073	2,073
Financial assets at amortized cost	-	-	-	-	330	-	330	330
Loans and advances to customers at amortized cost	928	-	338	1,266	2,370	-	2,370	3,636
Loans and advances to related parties at amortized cost	12	-	-	12	-	-	-	12
Total financial assets	56,632	-	338	56,970	2,700	2,073	4,773	61,743
Due to banks and financial institutions	830	-	-	830	-	-	-	830
Customers' deposits at amortized cost	260	-	6,186	6,446	434	-	434	6,880
Total financial liabilities	1,090	-	6,186	7,276	434	-	434	7,710
Net	55,542	-	(5,848)	49,694	2,266	2,073	4,339	54,033

35 LIQUIDITY RISK (continued)

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

	31 December 2020							
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*Sub total LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Sub total LL million*	*Total LL million*
Financial assets								
Cash and balances with the Central Bank of Lebanon	6,411	-	-	6,411	-	-	-	6,411
Due from banks and financial institutions	22,410	-	-	22,410	-	-	-	22,410
Financial assets at fair value through profit or loss	15,469	-	-	15,469	-	-	-	15,469
Financial assets at fair value through other comprehensive income	-	-	-	-	-	3,499	3,499	3,499
Financial assets at amortized cost	-	-	-	-	216	966	1,182	1,182
Loans and advances to customers at amortized cost	2,793	-	1,004	3,797	1,202	-	1,202	4,999
Loans and advances to related parties at amortized cost	75	-	-	75	-	-	-	75
Total financial assets	47,158	-	1,004	48,162	1,418	4,465	5,883	54,045
Due to banks and financial institutions	6	-	-	6	-	-	-	6
Customers' deposits at amortized cost	1,070	-	5,668	6,738	1,180	-	1,180	7,918
Total financial liabilities	1,076	-	5,668	6,744	1,180	-	1,180	7,924
Net	46,082	-	(4,664)	41,418	238	4,465	4,703	46,121

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

As of 31 December 2021	***On demand LL million***	***Less than 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***Over 5 years LL million***	***Total LL million***
Financial instruments with brokers on behalf of customers	**293,261**	**-**	**-**	**-**	**-**	**293,261**
Deposits with banks	**57,870**	**-**	**-**	**-**	**-**	**57,870**
Certificates of deposits (Central Bank of Lebanon)	**14,623**	**-**	**-**	**-**	**-**	**14,623**
Trading financial instruments	**5,276**	**-**	**-**	**-**	**-**	**5,276**
Loans and advances	**13,583**	**3,344**	**8,515**	**48,913**	**41,607**	**115,962**
	384,613	**3,344**	**8,515**	**48,913**	**41,607**	**486,992**

As of 31 December 2020	*On demand LL million*	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial instruments with brokers on behalf of customers	425,190	-	-	-	-	425,190
Deposits with banks	115,857	-	-	-	-	115,857
Certificates of deposits (Central Bank of Lebanon)	14,800	-	-	-	-	14,800
Trading financial instruments	25,492	-	-	-	-	25,492
Loans and advances	23,267	7,495	28,103	23,072	-	81,937
	604,606	7,495	28,103	23,072	-	663,276

36 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

Risk management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters.

A. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

36 MARKET RISK (continued)

A. INTEREST RATE RISK (continued)

The effective interest rate (effective yield) for a monetary financial instrument is the rate that if used to determine the present value of the instrument would give the book value of the instruments.

Interest rate sensitivity
The table below shows the sensitivity of interest income to 100 basis points parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of 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 Group expects the low interest rates environment to potentially prevail in Lebanon during 2021. The Group is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates 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.

Currency	***Increase in effective interest basis points***	***2021 Effect on Consolidated income statement LL (000)***	*2020 Effect on Consolidated income statement LL (000)*
Lebanese Lira	**100**	**1,198**	2,790
US Dollars	**100**	**7,336**	9,903
Euro	**100**	**4,256**	8,530

Interest repricing gap
The tables below analyze the Group's interest rates risk exposure on non-trading financial assets and liabilities (excluding financial assets at fair value through profit or loss). The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates:

As of 31 December 2021

	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*Total less than one year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total more than one year LL million*	*Non-interest sensitive LL million*	*Total LL million*
Assets									
Cash and balances with the Central Bank of Lebanon	-	-	-	-	-	-	-	6,273	6,273
Due from banks and financial institutions	-	-	-	-	-	-	-	14,507	14,507
Due from a sister company	-	-	-	-	-	-	-	1,211	1,211
Financial assets at amortized cost	-	-	-	-	330	-	330	-	330
Loans and advances to customers and related parties at amortized cost	940	-	338	1,278	2,370	-	2,370	-	3,648
Total assets	940	-	338	1,278	2,700	-	2,700	21,991	25,969
Liabilities									
Due to banks and financial institutions	830	-	-	830	-	-	-	-	830
Customers' deposits at amortized cost	-	-	-	-	-	-	-	6,880	6,880
Total liabilities	830	-	-	830	-	-	-	6,880	7,710
Total interest sensitivity gap	110	-	338	448	2,700	-	2,700	15,111	18,259

36 MARKET RISK (continued)

A. INTEREST RATE RISK (continued)

As of 31 December 2020

	Up to 1 month LL million	*1 to 3 months LL million*	*3 months to 1 year LL million*	*Total less than one year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total more than one year LL million*	*Non-interest sensitive LL million*	*Total LL million*
Assets									
Cash and balances with the Central Bank of Lebanon	-	-	-	-	-	-	-	6,411	6,411
Due from banks and financial institutions	-	-	-	-	-	-	-	22,410	22,410
Financial assets at amortized cost	-	-	-	-	216	966	1,182	-	1,182
Loans and advances to customers and related parties at amortized cost	2,868	-	1,004	3,872	1,202	-	1,202	-	5,074
Total assets	2,868	-	1,004	3,872	1,418	966	2,384	28,821	35,077
Liabilities									
Due to banks and financial institutions	6	-	-	6	-	-	-	-	6
Customers' deposits at amortized cost	-	-	-	-	-	-	-	7,918	7,918
Total liabilities	6	-	-	6	-	-	-	7,918	7,924
Total interest sensitivity gap	2,862	-	1,004	3,866	1,418	966	2,384	20,903	27,153

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

The following tables present the breakdown of assets and liabilities of the 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.

As of 31 December 2021

	LL LL million	*USD LL million*	*EUR LL million*	*GBP LL million*	*AED LL million*	*Other LL million*	*Total LL million*
Assets							
Cash and balances with the Central Bank of Lebanon	3,594	2,643	34	2	-	-	6,273
Due from banks and financial institutions	466	13,755	178	69	-	39	14,507
Due from a sister company	-	1,181	12	-	13	5	1,211
Financial assets at fair value through profit or loss	2,355	31,341	5	-	-	-	33,701
Financial assets at fair value through other comprehensive income	2,050	23	-	-	-	-	2,073
Financial assets at amortized cost	330	-	-	-	-	-	330
Loans and advances to customers at amortized cost	2	3,628	5	-	-	1	3,636
Loans and advances to related parties at amortized cost	-	12	-	-	-	-	12
Other assets	2,642	226	-	-	-	-	2,868
Property and equipment	23,485	-	-	-	-	-	23,485
Intangible assets	79	-	-	-	-	-	79
Total assets	35,003	52,809	234	71	13	45	88,175
Liabilities							
Due to banks and financial institutions	-	352	478	-	-	-	830
Customers' deposits at amortized cost	-	6,880	-	-	-	-	6,880
Other liabilities	1,711	962	6	1	-	-	2,680
Provisions for risks and charges	3,233	-	-	-	-	-	3,233
Total liabilities	4,944	8,194	484	1	-	-	13,623
Net exposure	30,059	44,615	(250)	70	13	45	74,552

36 MARKET RISK (continued)

B. CURRENCY RISK (continued)

As of 31 December 2020

	LL *LL million*	*USD* *LL million*	*EUR* *LL million*	*GBP* *LL million*	*AED* *LL million*	*Other* *LL million*	*Total* *LL million*
Assets							
Cash and balances with the Central Bank of Lebanon	3,430	2,877	56	48	-	-	6,411
Due from banks and financial institutions	276	21,556	199	154	13	212	22,410
Financial assets at fair value through profit or loss	713	14,750	6	-	-	-	15,469
Financial assets at fair value through other comprehensive income	1,050	2,449	-	-	-	-	3,499
Financial assets at amortized cost	1,182	-	-	-	-	-	1,182
Loans and advances to customers at amortized cost	1,008	2,139	1,851	1	-	-	4,999
Loans and advances to related parties at amortized cost	-	75	-	-	-	-	75
Other assets	2,617	624	19	4	-	-	3,264
Property and equipment	22,746	-	-	-	-	-	22,746
Intangible assets	52	-	-	-	-	-	52
Assets held for sale	-	4,230	544	-	498	6	5,278
Total assets	33,074	48,700	2,675	207	511	218	85,385
Liabilities							
Due to banks and financial institutions	-	6	-	-	-	-	6
Customers' deposits at amortized cost	-	7,918	-	-	-	-	7,918
Other liabilities	1,972	1,175	36	-	-	1	3,184
Provisions for risks and charges	1,059	-	-	-	-	-	1,059
Liabilities held for sale	-	1,035	8	-	246	-	1,289
Total liabilities	3,031	10,134	44	-	246	1	13,456
Net exposure	30,043	38,566	2,631	207	265	217	71,929

The Group's exposure to currency risk

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

31 December 2021

	USD *LL million*	*EUR* *LL million*	*GBP* *LL million*	*AED* *LL million*	*Other* *LL million*	*Total* *LL million*
Assets						
Cash and balances with the central bank	613	6	3	-	-	622
Due from banks and financial institutions	234	3	-	-	-	237
Due from a sister company	56	-	-	-	-	56
Financial assets at fair value through profit or loss	17,110	-	-	-	-	17,110
Financial assets at fair value through other comprehensive income	23	-	-	-	-	23
Loans and advances to customers and related parties at amortized cost	3,628	5	-	-	-	3,633
Other assets	119	-	-	-	-	119
Total assets	21,783	14	3	-	-	21,800
Liabilities						
Customers' deposits at amortized cost	6,880	-	-	-	-	6,880
Other liabilities	304	1	2	-	-	307
Total liabilities	7,184	1	2	-	-	7,187

36 MARKET RISK (continued)

B. CURRENCY RISK (continued)

The Group's exposure to currency risk (continued)

31 December 2020

	USD L.L million	*EUR L.L million*	*GBP L.L million*	*AED L.L million*	*Other L.L million*	*Total L.L million*
Assets						
Cash and balances with the central bank	2,362	21	48	-	-	2,431
Due from banks and financial institutions	306	4	-	-	-	310
Financial assets at fair value through profit or loss	5,999	-	-	-	-	5,999
Financial assets at fair value through other comprehensive income	2,449	-	-	-	-	2,449
Loans and advances to customers and related parties at amortized cost	2,641	34	2	-	-	2,677
Other assets	336	-	-	-	-	336
Total assets	14,093	59	50	-	-	14,202
Liabilities						
Due to banks and financial institutions	2	-	-	-	-	2
Customers' deposits at amortized cost	7,917	-	-	-	-	7,917
Other liabilities	416	-	-	-	-	416
Total liabilities	8,335	-	-	-	-	8,335

C. PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking into account the effect of any prepayment penalties.

D. OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

E. LITIGATION RISK

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

36 MARKET RISK (continued)

F. POLITICAL RISK

External factors, which are beyond the control of the Group, mainly the political and economic pressures in Lebanon (note 1) that have been building up prior to and increasing significantly since the last quarter of 2019 may adversely affect the operations of the Group, its strategy and financial performance. The Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties, which may result in significant impact on the Group's activities, operating results and financial position.

37 CAPITAL MANAGEMENT

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

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

➢ Changes regulatory expected credit losses on exposures to Lebanese Sovereign and Central Bank of Lebanon as follows:

Type of financial instrument	***2021***	*2020*
Exposures to Central Bank of Lebanon in foreign currencies	1.89%	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0.00%	0.00 %
Lebanese Government securities in foreign currencies	45.00%	45.00 %
Lebanese Government securities in Lebanese Pounds	0.00%	0.00 %

➢ Changes 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.
As a result, the levels of Common Equity Tier 1 reported below increased by LL (000) 14,328,847 compared to 31 December 2019 with no impact on Tier 2 Capital.

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

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

➢ Exceptionally for 2020 and 2021, allowing banks to include provisions for expected credit losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to Credit Risk Weighted Assets). Such provisions included under CET 1 should be amortized over a period of 3 years starting 2022 and ending in 2024 by 25% yearly. *As a result, the levels of Common Equity Tier 1 reported below increased by LL (000) 270,287 at 31 December 2020 compared to 31 December 2019.*

37 CAPITAL MANAGEMENT (continued)

In October 2020, BCC issued a memo 15/2020 requesting from Banks to develop a roadmap to ensure adherence to capital ratios and liquidity requirements, covering the years from 2020 to 2024. As per the memo, the below minimum capital adequacy ratios are applied:

Ratio (%)	2020	2021	2022	2023	2024
Minimum Capital Ratio (including the Capital Conservation Buffer)					
Common Equity Tier 1 / risk-weighted assets	4.50%	4.50%	5.25%	6.00%	7.00%
Net Tier 1 / risk-weighted assets	6.00%	6.00%	6.75%	7.50%	8.50%
Total capital / risk-weighted assets	8.00%	8.00%	8.75%	9.50%	10.50%
Provisions added to Capital equity Tier 1					
Provisions taken on Stage 1 and 2 assets and commitments except provisions taken against Lebanese Sovereign & Central Bank exposures, to be added to Common Equity Tier 1	100.00%	100.00%	75.00%	50.00%	25.00%

In 2021, BCC issued an intermediate circular number 595 whereby it has lowered the risk-weight to be applied on the Lebanese Corporate Resident Portfolio from 150% to 100%. The impact is minor on the Group's capital adequacy ratio.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	*Tier 1 Capital Ratio*	*Total Capital Ratio*
31 December 2021			
Minimum required capital ratios	**4.50%**	**6.00%**	**8.00%**
With capital conservation buffer of 2.5%	**7.00%**	**8.50%**	**10.50%**
31 December 2020			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%

	2021 LL (000)	*2020 LL (000)*
Risk-weighted assets:		
Credit risk	**35,812,521**	42,065,328
Market risk	**65,921,276**	31,538,893
Operational risk	**40,841,875**	36,654,375
Total risk-weighted assets	**142,575,672**	110,258,596

37 CAPITAL MANAGEMENT (continued)

The regulatory capital at the Group level for the year as of 31 December is as follows:

	2021	*2020*
	LL (000)	*LL (000)*
Tier 1 capital	**74,634,750**	71,560,598
Of which: common Tier 1	***74,634,750***	*71,560,598*
Tier 2 capital	**152,247**	415,107
Total capital	**74,786,997**	71,975,705

The capital adequacy ratio at the Group level for the year as of 31 December is as follows:

	2021	*2020*
Capital adequacy – Common Tier 1	**52.35%**	64.90%
Capital adequacy – Tier 1	**52.35%**	64.90%
Capital adequacy – Total capital	**52.45%**	65.28%

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