Bank Audi

2021

ANNUAL REPORT

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STATEMENT OF THE CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER

Dear stakeholders,

For nearly two and a half years now, Lebanon has been facing a very complex and unprecedented political, economic and financial crisis that has been ranked by the World Bank to be in the top three "most severe crises episodes globally since the mid-nineteenth century". The persistence of the crises in Lebanon and the prolonged inaction by the government have put the country into a deep recession, forced all Lebanese banks to apply various restrictive withdrawal measures, underscoring an unofficial capital control regime, and exerted severe pressures on the country's long lasting currency peg leading to a serious depletion of the country's FX reserves. The Global COVID-19 pandemic had also forced the country into multiple lock downs which had further exacerbated the impact of the crisis on the country as a whole, and more specifically on the impoverished. In our second main market, Turkey, we also witnessed increased political and economic volatility, leading to a steep currency devaluation and a corollary high inflation, along with the pandemic backdrop. While all this interconnected turmoil has had significantly disruptive ramifications on our Group and its activity, its effect on our customers, their businesses and the communities we serve has been far more reaching.

The restrictive measures adopted by all Lebanese banks in relation to the withdrawal of funds and transfers abroad, are exposing all banks, including our Group, to increased litigation risk in Lebanon and abroad. Litigation risk is a common risk in the banking industry due to the nature of the business, and the Bank has an established remedial protocol to manage it. Claims against the Bank by certain depositors, when ruled in their favour, result in discrimination among depositors, particularly at the expense of other typically smaller depositors with the same right to their funds. Due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, we consider that they may affect negatively the offshore liquidity of the Group and its foreign assets in the absence of a formal capital control law to govern the transfers.

Our welfare as an institution is predominantly predicted upon the conditions our countries of presence create. In light of the continued prevailing market uncertainties, particularly in Lebanon, with the absence of a government Reform Program and lack of clarity on loss distribution strategy, it remains extremely difficult to date to build an accurate future plan regarding the Bank's business model and its wider strategy. We continue to await a credible and comprehensive social, economic and financial reform program, that would aim to stabilise the economy based on specific time bound measures to be adopted by the Lebanese government and ratified by parliament. Meanwhile, the Bank continues to implement measures aiming at reinforcing its financial standing and strengthening its solvency and ability to withstand additional pressures.

Our main focus areas in 2021 revolved again around 1) meeting all the exceptional regulatory requirements issued by the Central Bank of Lebanon to address the situation in the country, 2) strengthening our foreign currency liquidity and managing international commitments, 3) consolidating domestic operations and continuing to de-risk and deleverage efforts, 4) ring-fencing foreign entities from Lebanon spill-over effects and 5) closely managing non-financial risks, focusing on litigation, compliance and cybersecurity risks. To that effect, we have adopted, early on in the crisis, a new direction focusing on six main pillars as follows:

1. Asset quality: de-risking the Group's balance sheet through (1) maintaining the loan deleveraging policy, (2) strengthening provision coverage, (3) closely managing problematic files and enhancing collection efforts, and (4) gradually reducing Lebanese sovereign debt exposure, especially in foreign currency.

2. Quality of earnings: exerting efforts to attract low cost and stable funding in foreign entities, while maintaining relationships with good profile obligors with consistent and recurring returns and ancillary revenues. The aim is for foreign entities to continue to provide the Group with diversified income generation capacity. Continuous rationalisation of operating expenses targeting a lean organisational structure, improving operational efficiency and reducing cost structure to adapt to the changing operating environment and the level of revenue streams of the Group. Also, improving non-interest income in foreign currency including fees and commissions in Lebanon and abroad.

3. Liquidity and ALM: strengthening liquidity in foreign currency in view of the continued uncertainties prevailing in Lebanon and Turkey.

4. Solvency: maintaining sufficient capital buffers over the minimum regulatory capital adequacy levels (calculated in accordance with the rules established by the Central Bank of Lebanon), and strengthening capital in foreign currency as a hedge against an official devaluation of the Lebanese Pound.

5. Operational and other non-financial risks: managing operational, compliance, legal, conduct, cyber, strategic and third-party risks while constantly updating business continuity plans to adapt to disruptions in business activities due to new occurring risks and changes; and

6. Governance: strictly adhering to the internal and regulatory Governance principles, while maintaining abidance by the CSR principles to ensure sustainability of the Group.

So far, many measures along those lines have been implemented and a lot have been achieved, the details of which are enumerated in the following Management Discussion and Analysis. However, we are all conscious of the material uncertainties still governing the outlook of Lebanon and the repercussions of this lasting protracted multifaceted crisis we have been facing since October 2019, which continues to prevent Management from estimating in a true and fair manner, or within a reasonable timeframe and as per IFRS, the adverse impact of those matters on the Bank's financial position and equity. Only once these uncertainties are resolved that a definite, reasonable and credible Bank's strategy can be achieved, paving the way for a resumption of a normal banking activities.

On the financial front, and based on the official exchange rate of 1 USD = 1507.5 LBP, as published by the Central Bank of Lebanon, consolidated assets of Bank Audi stood at USD 26.9 billion as at end-December 2021, contracting by 24.2% relative to end-December 2020. The USD 8.6 billion assets decrease relates for the most part to the deconsolidation of our entities in Jordan, Iraq and Egypt, as well as to the effect of the 46% devaluation of the TRY versus USD, with assets of Lebanese entities having contracted by USD 0.8 billion over the same period. On the profitability level, Bank Audi registered a consolidated net loss of USD 184 million in 2021 compared to a net loss of USD 145 million in 2020. On a normalised basis, excluding the effect of the crisis, the Group continues to generate positive operating income. We have nonetheless decided to allocate all those recurrent operating profits to provisions while undertaking a number of remedial measures to face the crisis, which were translated in negative one-off flows at the income statement level. Those amounted to USD 959 million in 2021, USD 754 million in 2020 and USD 1.1 billion in 2019.

Meeting our customers' needs remains our main priority despite the challenges. Throughout the year 2021, we managed to successfully run the operations with no significant disruption by applying proactive measures, offering more services through digital channels and facilitating remote work. We have adapted as best we could to the rapidly changing conditions and factored in the frequent and wide-ranging regulatory developments with an aim to support clients' business continuity while ensuring adequate portfolio quality. We worked on offering an adapted product range be it fresh foreign currency or local currency to be able to cope with new market needs. This includes select lending in local currency and promoting the "External Account" to allow companies to make unrestricted daily foreign currency transactions (in cash or trade instruments) while facilitating LBP cash management and storage in a market where cash in circulation has increased exponentially. Moreover, we provided financial support and procured foreign currency to our clients backed by Central Bank regulation, subsidy programs and the "Sayrafa" platform. Those measures have also supported the continuity of the vital flow of goods to Lebanon, despite the difficulty in obtaining confirmations by correspondent banks on letters of credit issued by Lebanese banks.

We made sure that all those new services and products are available on alternative delivery channels for a wider access to customers. The Bank has indeed implemented an end-to-end banking service for fresh money in branches and across its digital channels, offering the best service in the market with the best pricing. Our digital transformation also extended to Odea Bank in Turkey where we have been implementing a customer-focused strategy based on a "phygital" banking approach, in line with new generation banking approaches, which harmonises a digital experience coupled with physical services.

The last few years have been extremely challenging and disruptive for our operations and customers, as well as for the communities we serve. Priority focus continues to be given, more than ever, to improving governance and accountability. We are making sustainable progress on the Governance front, with a particular focus on the control and risk-based oversight role of the Board of Directors to accompany the particular requirements of the current challenging environment while mobilising the Bank's Executive, Control, and Oversight committees to ensure the continued effectiveness of our internal control framework. We continue to put a serious commitment and efforts to abide by our CSR principles in order to ensure sustainable application of the best corporate, social and environmental parameters across all our operations in Lebanon and abroad. The road ahead appears to be long and fraught with obstacles, but we remain confident in our ability to weather this storm and achieve the best possible outcome given the circumstances.

In closing, and on behalf of the Board of Directors, we would like to thank our customers for their continuous patience and understanding, our employees for their exemplary dedication, and our shareholders for their permanent support.

Samir N. Hanna
Chairman and Group CEO

BANK AUDI AT A GLANCE

USD 26.9 billion
Total assets

USD 4.7 billion
Total loans to customers

USD 8.4 BILLION
of assets under management underscoring the importance of the Private Banking business line

191
Years of banking experience

845,000
Customers served through *115* branches and *3,180* employees

7
Different countries of presence

USD 20.1 billion
Total customers' deposits

ESMS
Environmental and Social Management System integrated into core credit decision since 2013

USD 775 million
Net profits in 2021[1]

GRI STANDARDS
Pioneering the reporting standards in the MENA region

USD 2.5 billion
Total shareholders' equity

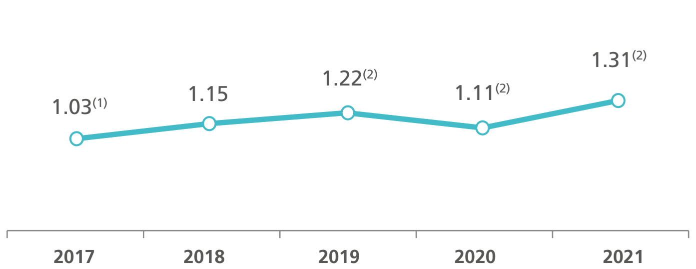
[1] Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

MAIN FINANCIAL INDICATORS 2021

	2017	2018	2019	2020	2021	CAGR 17-21
Assets	43,752	47,201[3]	39,535	35,431	26,857	-11.49%
Loans to customers	16,294	13,267	10,350	6,136	4,743	-26.55%
Customers' deposits	33,451	31,956	29,594	21,528	20,101	-11.96%
Shareholders' equity	4,188	3,886	2,970	2,951	2,492	-12.17%
Net earnings	559	501	-602	-145	-184	-
Number of branches	203	201	213	125[4]	115	-13.24%
Number of staff	6,541	6,306	6,288	3,931	3,180	-16.50%
Placements and loan quality						
Placements with Central Bank and banks[1]/Deposits	77.31%	100.44%	89.44%	97.42%	100.12%	
Loans to deposits	48.71%	41.52%	34.97%	28.50%	23.59%	
Credit-impaired/Gross loans[2]	3.88%	5.52%	13.12%	15.31%	13.33%	
Loan loss provisions/Credit-impaired (including allowance for ECL Stages 1 & 2)	116.36%	102.82%	85.28%	94.46%	115.06%	
Loan loss provisions/Credit-impaired (including real guarantees and allowance for ECL Stages 1 & 2)	167.58%	146.72%	145.05%	158.41%	141.16%	
Net credit-impaired/Equity	7.15%	7.40%	19.98%	16.65%	9.98%	
Allowance for ECL Stages 1 & 2/Net loans	2.50%	2.33%	3.56%	7.02%	7.61%	
Capital adequacy						
Equity/Assets	9.57%	8.23%	7.51%	8.33%	9.28%	
Common equity Tier 1 ratio	10.51%	11.37%	6.61%	9.36%	10.04%	
Capital adequacy ratio	16.93%	18.91%	11.33%	13.12%	14.52%	
Profitability						
Cost to income	51.18%	46.27%	45.72%	44.22%	40.71%	
ROAA	1.06%	1.12%	-			
ROACE	13.41%	14.00%	-			

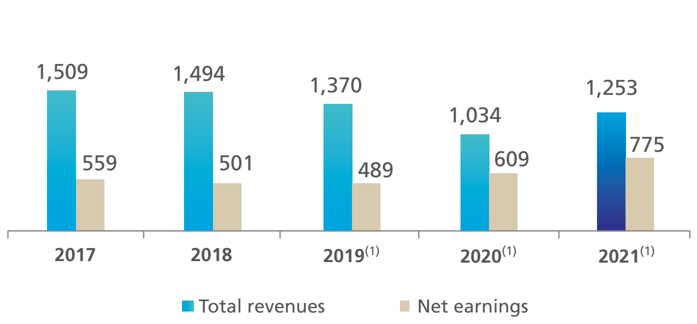
[1] Including CDs.
[2] After adoption of IFRS 9.
[3] Consolidated assets of Bank Audi would have reached USD 42.3 billion as at end-December 2018, after netting for comparison purposes.
[4] Excluding entities held for sale.

COMMON EARNINGS PER SHARE



[1] Excluding net profits from discontinued operations.
[2] Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

REVENUES & NET EARNINGS



[1] Adjusted to the one-off flows from the outset of the financial crisis in Lebanon.

01

CORPORATE GOVERNANCE

1.0. | CORPORATE GOVERNANCE FRAMEWORK

INTRODUCTION

The Board of Directors of Bank Audi aims at achieving the Group's long-term success through the implementation of Governance practices that promote continuity, consistency, and effectiveness in the way the Board operates and governs the Bank.

In 2021, the Board continued to pay a particular attention to prudent and effective controls, in consideration of the heightened risks resulting from the fiscal and monetary crisis that persisted since the last quarter of 2019, in addition to its role of policy setting and of providing strategic guidance. Despite the impact of the said crisis on the Bank, and on all other banks and market players, and despite the additional pressing matters that showed up in 2021, the Bank continued its operations with integrity and in compliance with applicable laws and regulations.

The Board is thus satisfied that, during the period under review, it fully discharged all its responsibilities, as mapped in its yearly rolling agenda, and acted on the recommendations of its committees in a way to meet its obligations towards its shareholders and all other stakeholders. The Board is also satisfied that the Bank's Governance framework conforms to applicable directives and guidelines, and is adapted to the Bank's needs and to the high expectations of its stakeholders.

GOVERNANCE FRAMEWORK

Bank Audi is governed by a Board of Directors consisting of up to 12 members (currently 8) elected by the General Assembly of shareholders for terms not exceeding 3 years. The responsibility of the Board is to ensure strategic direction, management supervision and adequate control of the company, with the ultimate goal of increasing the long-term value of the Bank.

Bank Audi's Governance framework and that of its major banking subsidiaries encompass a number of policies, charters, and terms of reference that shape the Group's Governance framework over a wide range of issues including risk supervision, compliance, AML/CFT, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management. Clear lines of responsibility and accountability are in place throughout the Organisation with a continuous chain of supervision for the Group as a whole, including effective channels of communication of the Group Executive Committee's guidance and core group strategy. Strategic objectives setting corporate values and promoting high standards of conduct have been established and widely communicated throughout the Group, providing appropriate incentives to ensure professional behaviour.

The Bank's Corporate Governance Guidelines are accessible on the Bank's website at bankaudigroup.com

The Board is supported in carrying out its duties by the Audit Committee, the Risk Committee, the Remuneration Committee, the Compliance/AML/CFT Board Committee, the Corporate Governance and Nomination Committee, and the Executive Committee.

• The mission of the Group Audit Committee is to assist the Board in fulfilling its oversight responsibilities as regards:
(i) The adequacy of accounting and financial reporting policies; (ii) the integrity of the financial statements and the reliability of disclosures; (iii) the appointment, remuneration, qualifications, independence and effectiveness of the external auditors; and (iv) the independence and effectiveness of the internal audit function.

• The mission of the Group Risk Committee is to assist the Board in discharging its risk-related responsibilities. The Committee is expected to: (i) consider and recommend the Group's risk policies and risk appetite to the Board; (ii) monitor the Group's risk profile for all types of risks; and (iii) oversee the management framework of the aforementioned risks, and assess its effectiveness.

• The mission of the Remuneration Committee is to assist the Board in maintaining a set of values and incentives for Group executives and employees that are focused on performance and promote integrity, fairness, loyalty and meritocracy.

• The mission of the Compliance/AML/CFT Board Committee is to assist the Board of Directors in its functions and supervisory role with respect to: (i) fighting money laundering and terrorist financing and understanding the related risks, and assisting it with making the appropriate decisions in this regard; (ii) protecting the Bank from other compliance-related risks and, more generally, overseeing the Bank's compliance with applicable laws, policies and regulations.

• The mission of the Corporate Governance and Nomination Committee is to assist the Board in maintaining an effective institutional and Corporate Governance framework for the Group, an optimal Board composition, and effective Board processes and structure.

• The mission of the Group Executive Committee is to develop and implement business policies for the Bank and to issue guidance for the Group within the strategy approved by the Board. The Group Executive Committee also supports the Group Chief Executive Officer in the day-to-day running of the Bank and in guiding the Group.

(1) It is not the duty of the Audit Committee to plan or to conduct audits or make specific determinations that the Bank's statements and disclosures are complete and accurate, nor is it its duty to assure compliance with laws, regulations and the Bank's Code of Ethics and Conduct. These are the responsibilities of Management and/or of external auditors.

2.0. | SHAREHOLDING STRUCTURE

The following table sets out the composition of the holders of common shares as at 31 December 2021:

Shareholders/Groups of Shareholders	Country (Ultimate Economic Ownership)	Percentage Ownership[1] (%)
FRH Investment Holding sal	Lebanon	12.25
Sheikh Dheyab Bin Zayed Bin Sultan Al Nahyan	United Arab Emirates	7.96
Al Hobayb family[2]	Kingdom of Saudi Arabia	5.87
Audi family[2]	Lebanon	5.01
Family of late Sheikha Suad Hamad Al Saleh Al Homaizi	Kuwait	4.42
Akig Investment Holdings Ltd	Iraq	4.26
Phoenicia Enterprises sa	Lebanon	3.37
Al Sabah family[2]	Kuwait	3.21
European Bank for Reconstruction and Development – EBRD	—	2.90
Ali Ghassan El Merhebi family	Lebanon	2.78
Kel Group	Lebanon	2.49
Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan	Kingdom of Saudi Arabia	2.37
Investment & Business Holding sal	Lebanon	2.30
Imad Ibrahim Itani	Lebanon	1.88
International Finance Corporation – IFC	—	1.70
Executives and employees[3]	Lebanon	1.54
Others	—	14.14
Global Depositary Receipts ("GDRs")[4]	—	21.55
Total shareholding[5]	—	**100.00**

[1] Percentage ownership figures represent common shares owned by the named shareholders and are expressed as a percentage of the total number of common shares issued and outstanding.

[2] The Audi family, Al Sabah family and Al Hobayb family include the following members of the Board: (i) Marc Jean Audi and Sherine Raymond Audi, (ii) Mariam Nasser Sabah Al Nasser Al Sabah, and (iii) Abdullah Al Hobayb, respectively.

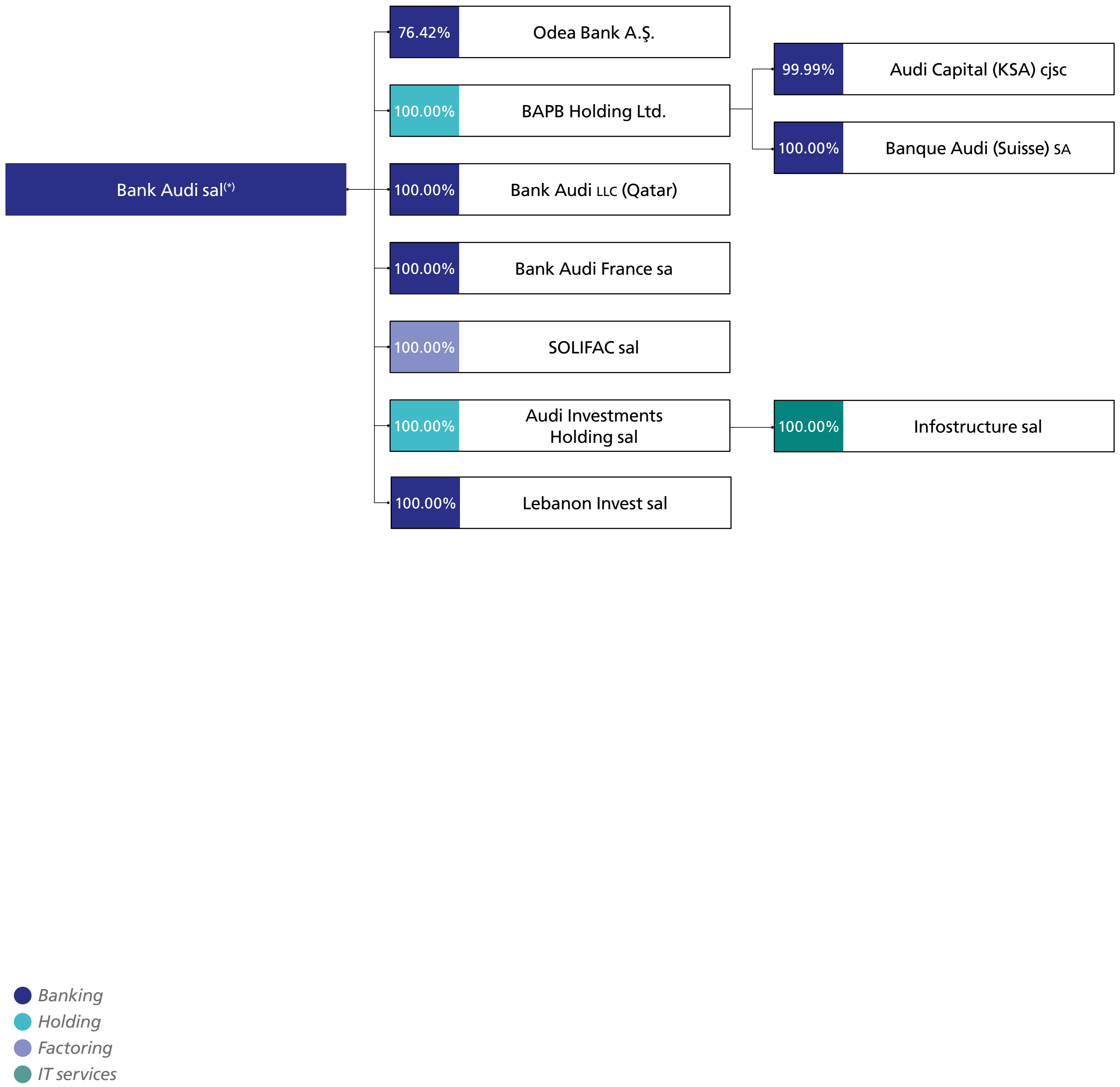
[3] Excluding members of the Audi family accounted for in a separate row above.

[4] GDRs represent common shares held by "The Bank of New York Mellon" as a holder of record in its capacity as depositary under the Bank's GDR Program.
*In addition to the ownership of common shares mentioned above, 8.47 % of the Bank's common shares are held through GDRs by each of **FRH Investment Holding sal (including by its controlling shareholder), Sheikh Dheyab Bin Zayed Bin Sultan Al Nahyan, the Al Hobayb family, the Audi family, the family of late Sheikha Suad H. Al Homaizi, and Mohammed Bin Dhoheyan Bin Abdul Aziz Al Dhoheyan** (respectively 1.56%, 2.13%, 1.66%, 0.62%, 1.23% and 1.27%). Information on GDR ownership is based on self-declarations (pursuant to applicable Lebanese regulations) as GDR ownership is otherwise anonymous to Bank Audi.*

[5] As at the date hereof, the total number of common shares was 588,538,215. The Bank (and its affiliates) is the custodian of shares and/or GDRs representing 81.03 % of the Bank's common shares.

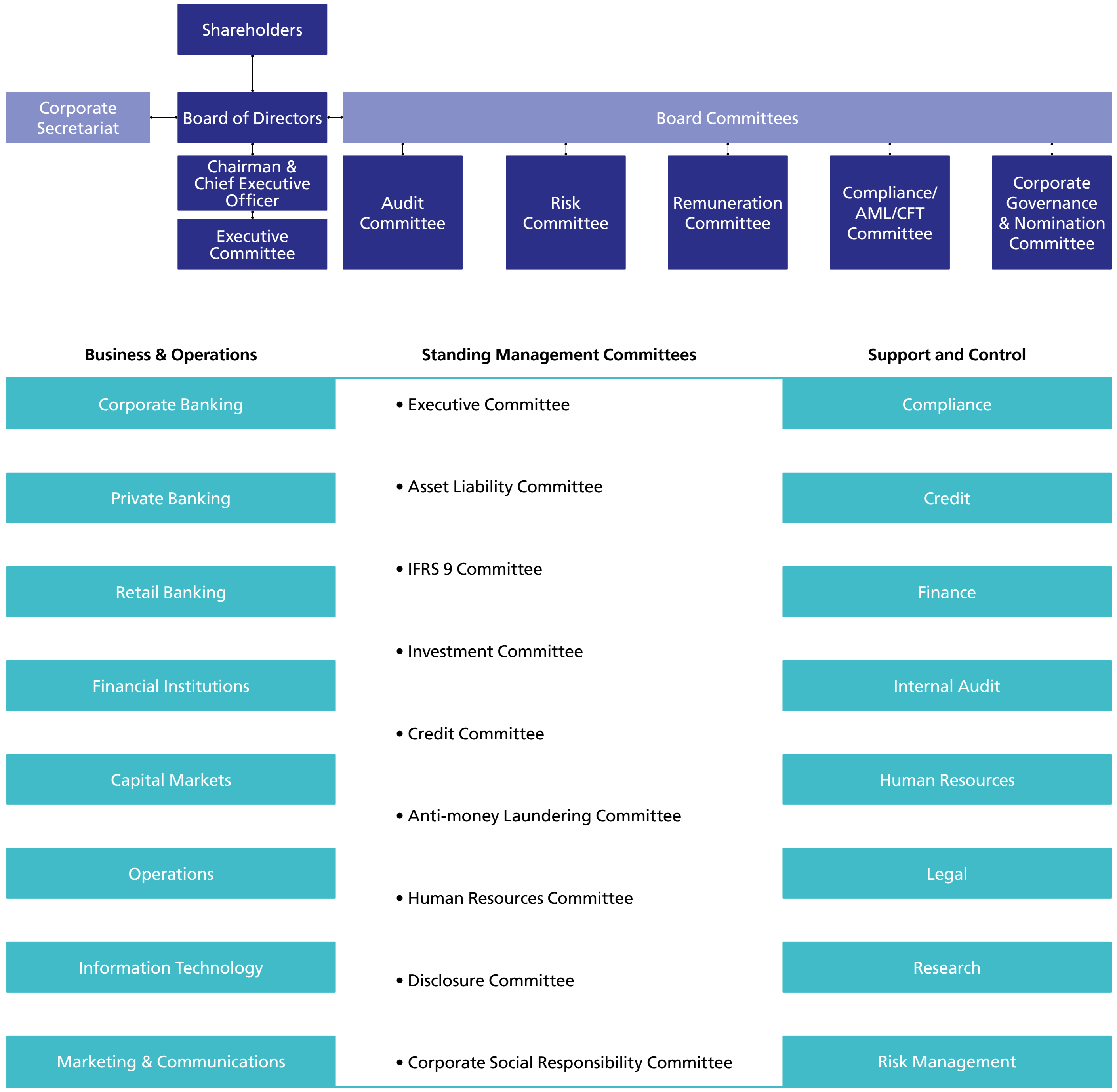
3.0. | CORPORATE STRUCTURE

The major subsidiaries and branches abroad of Bank Audi sal as at 31/12/2021 are:



(*) Percentage ownership represents the economic ownership of the Bank with direct and/or indirect ownership through subsidiaries.

4.0. | GROUP HIGH LEVEL CHART



5.0. | BOARD OF DIRECTORS

H.E. Mr. Raymond W. AUDI serves as Honorary Chairman since his resignation in April 2017.

COMPOSITION OF THE BOARD OF DIRECTORS

The current members of the Board of Directors were elected by a resolution of the Ordinary General Assembly of shareholders held on 12 April 2019 for a three year term expiring on the date of the annual Ordinary General Assembly meeting (expected to be held in April 2022) that will examine the accounts and activity of the year 2021.

The Ordinary General Assembly expected to be held in June 2022 will consider the election of a new Board of Directors for a new mandate.

The names of Directors[2] serving at the date of this report are the following:

MEMBERS	Independent (as per the Bank's Corporate Governance Guidelines[3])	Member of the Group Audit Committee	Member of the Board Group Risk Committee	Member of the Remuneration Committee	Member of the Compliance/ AML/CFT Board Committee	Member of the Corporate Governance and Nomination Committee
Mr. Samir N. HANNA *(Chairman)*						Chair •
Dr. Marwan M. GHANDOUR *(Vice-Chairman)*	•	Chair •		Chair •	Chair • *(since November 2021)*	•
Mr. Marc J. AUDI *(Vice-Chairman)*			•		•	•
Sheikha Mariam N. AL SABAH	•					
Dr. Imad I. ITANI					•	
Mr. Abdullah I. AL HOBAYB	•	•		•		
Dr. Khalil M. BITAR	•	•	Chair •	•		
Ms. Sherine R. AUDI			•		•	
Mr. Carlos A. OBEID *(until 14 September 2021)*	•				Chair •	

SECRETARY OF THE BOARD

Dr. Farid F. LAHOUD *(Group Chief Compliance Officer and Corporate Secretary)*	

[2] Listed according to their dates of appointment (beyond the Vice-Chairmen).

[3] Definition of "Director independence" as per the Bank' s Governance Guidelines (summary):
"In order to be considered independent Director by the Board, a Director should have no relationship with the Bank that would interfere with the exercise of independent judgment in carrying out responsibilities as a Director. Such a relationship should be assumed to exist when a Director (him/herself or in conjunction with affiliates):
• is occupying, or has recently occupied an executive function in the Bank or the Group;
• is providing, or has recently provided advisory services to the Executive Management;
• is a major shareholder (i.e. owns, directly or indirectly, more than 5% of outstanding Audi common stock), or is a relative of a major shareholder;
• has, or has recently had a business relationship with any of the Senior Executives or with a major shareholder;
• is the beneficiary of credit facilities granted by the Bank;
• is a significant client or supplier of the Bank;
• has been, over the 3 years preceding his appointment, a partner or an employee of the Bank's external auditor;
• is a partner with the Bank in any material joint venture.

In addition to the above, the Board of Directors is satisfied with the ability of the independent Directors to exercise sound judgment after fair consideration of all relevant information and views without undue influence from Management or inappropriate outside interests."

FREQUENCY OF MEETINGS

In 2021, the Board of Directors held 6 meetings, the Group Audit Committee held 5 meetings, the Group Risk Committee held 4 meetings, the Remuneration Committee held 2 meetings, the Corporate Governance and Nomination Committee held 2 meetings, and the Compliance/AML/CFT Board Committee held 4 meetings.

CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR 2021

In September 2021, Mr. Carlos Obeid decided to step down from his position as member of the Board of Directors. The Board acknowledged the said resignation on 14 September 2021.

LEGAL ADVISORS

Cortbaoui & Kanaan

AUDITORS

BDO, Semaan, Gholam & Co.

Ernst & Young p.c.c.

6.0. | BIOGRAPHY OF THE HONORARY CHAIRMAN

RAYMOND W. AUDI

RAYMOND W. AUDI
HONORARY CHAIRMAN OF THE BOARD
Age: 89 – Lebanon

Raymond Audi acts as Honorary Chairman of the Board after having decided to stand down from his position as Chairman – General Manager and retire from his corporate responsibilities in order to devote more time to his personal life.
He started his banking career in 1962 when, together with his brothers and with prominent Kuwaiti businessmen, he founded Bank Audi, building on a successful long standing family business. He served as Chairman of the Board of Directors and General Manager from 1998 to 2017 (stepping down temporarily when he served as Minister of the Displaced in the Lebanese government, in line with the sound Governance principles he always upheld). Raymond Audi has played an instrumental role in leading Bank Audi through an extraordinary journey over more than 50 years, relinquishing his chairmanship after having expressed his great satisfaction at the status of the Bank, as well as his confidence in its future.
The Board of Directors celebrated Raymond Audi's career, expressed its gratitude for his unwavering dedication and leadership, and appointed him Honorary Chairman in April 2017. In addition to his role at Bank Audi, Raymond Audi served as President of the Association of Banks in Lebanon in 1994, and as Minister of the Displaced in the Lebanese government in 2008.

He is the recipient of several honours and awards, including, in July 2007, an Honorary Doctorate in Humane Letters from the Lebanese American University, and in October 2018, a "Doctorat Honoris Causa" from Université Saint-Joseph.

MARWAN M. GHANDOUR

VICE-CHAIRMAN OF THE BOARD
Age: 78 – Lebanon
Director since March 2000
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Group Audit Committee
- Chairman of the Remuneration Committee
- Chairman of the Compliance/AML/CFT Board Committee
- Member of the Corporate Governance and Nomination Committee

Marwan Ghandour is an independent member of the Board of Directors since March 2000 and the Vice-Chairman of the Board of Directors since December 2009.

Marwan Ghandour is a previous Vice-Governor of the Central Bank of Lebanon. He held this position between January 1990 and August 1993, with primary responsibilities in the area of monetary policy. During this period, he was also a member of the Higher Banking Commission and various other government committees involved in economic policy. In this capacity, he liaised with renowned international institutions such as the International Monetary Fund (IMF), the World Bank and the Bank for International Settlements (BIS). From 1995 until July 2011, Marwan Ghandour served as Chairman and General Manager of Lebanon Invest sal, a leading financial services group in the region whose holding company merged with Bank Audi in 2000.
Since 2000, Marwan Ghandour has served as member or Chair of the Boards of a number of subsidiaries of the Bank Audi Group including (i) member of the Board of Directors of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey from 2012 until 2020 (Vice-Chairman until 31 December 2017), (ii) member of the Board of Directors of Bank Audi sae (Egypt) from 2006 until 2018, (iii) Chairman of the Board of Directors of Banque Audi (Suisse) SA from 2011 until 2015, and (iv) Chairman of the Board of Directors of Audi Investment Bank sal from 2005 until 2011.

Marwan Ghandour holds a PhD in Economics (Econometrics) from the University of Illinois (Post-doctorate research at Stanford University).

7.0. | BIOGRAPHIES OF BOARD MEMBERS

SAMIR N. HANNA

CHAIRMAN – GENERAL MANAGER
GROUP CHIEF EXECUTIVE OFFICER
Age: 77 – Lebanon
Director since August 1990
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- Chairman of the Corporate Governance and Nomination Committee

Samir Hanna is the Chairman and Chief Executive Officer of the Bank Audi Group. He joined Bank Audi in January 1963 and held several managerial and executive positions across various departments of the Bank. He was appointed General Manager of Bank Audi in 1986 and member of its Board of Directors in 1990. In the early 1990s, he initiated and managed the restructuring and expansion strategy of Bank Audi, transforming it into a strong banking group offering universal banking products and services including Corporate, Commercial, Retail, Investment, and Private Banking. He was elected Chairman of the Board of Bank Audi sal, succeeding Mr. Raymond Audi, on 10 April 2017.

Samir Hanna has served as member or Chair of the Boards of a number of subsidiaries of the Bank Audi Group including (i) member of the Board of Directors of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey from 2012 until 2021 (Chairman until November 2020), (ii) member of the Board of Directors of Banque Audi (Suisse) SA from 2011 until 2021, and (iii) member of the Board of Directors of Bank Audi sae (Egypt) from 2006 until 2020.

As Group Chief Executive Officer, he heads all aspects of the Bank's Executive Management.

MARC J. AUDI

VICE-CHAIRMAN OF THE BOARD
Age: 64 – Lebanon
Director since March 1996
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- Member of the Board Group Risk Committee
- Member of the Corporate Governance and Nomination Committee
- Member of the Compliance/AML/CFT Board Committee

Marc Audi is the Vice-Chairman of the Board since July 2019. He serves as member of the Board of Directors since 1996, has been a General Manager since 2004, and has served as Lebanon Country Manager of the Bank Audi Group until June 2020.

Marc Audi started his banking career in 1981. He held several executive positions within the Bank Audi Group, in a number of countries including France, the USA (California), Switzerland and Lebanon. Throughout his career, he held executive responsibilities at group level, in Commercial Lending, in Capital Markets and in Private Banking (notably serving as General Manager of Banque Audi (Suisse) SA, the Private Banking arm of the Group, until 2005).

Marc Audi currently serves as member of the Board of Directors of Banque Audi (Suisse) SA and of several other affiliates of the Bank Audi Group.

Marc Audi holds a Master's of Business Administration from the University of Paris IX – Dauphine.

MARIAM N. AL SABAH

BOARD MEMBER
Age: 73 – Kuwait
Director since March 2001
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director

Sheikha Mariam Al Sabah is the daughter of late Sheikh Nasser Sabah Al Nasser Al Sabah and the widow of late Sheikh Ali Sabah Al Salem Alm Sabah, who was the son of the former Prince of Kuwait and who held several ministerial positions in Kuwait, notably the Ministry of Interior.

Sheikh Nasser Al Sabah was one of the founders of Bank Audi. Sheikha Mariam Al Sabah is a member of the Board of Directors of several Kuwaiti companies. She is a member of the Board of Directors of Bank Audi since March 2001.

IMAD I. ITANI

BOARD MEMBER
Age: 61 – Lebanon
Director since June 2002
Term expires at the 2022 annual General Assembly of shareholders
- Non-executive Director
- Member of the Compliance/AML/CFT Board Committee

Imad Itani currently serves as a non-executive member of the Board of Directors of Bank Audi sal and Chairman of the Board of Directors of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey.

Imad Itani has over 25 years of banking experience, and worked for a few years in Corporate Finance for major energy companies in Canada. He is a former lecturer in Economics and Finance to graduate students at the American University of Beirut.

Imad Itani headed the Retail business line and Islamic Banking of the Bank Audi Group from 2004 until 2020.

He chaired and sat on the Board of Directors of several bank affiliates of the Bank Audi Group.

Imad Itani holds a PhD in Economics from the University of Chicago.

ABDULLAH I. AL HOBAYB

BOARD MEMBER
Age: 79 – Saudi Arabia
Director since April 2010
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Member of the Group Audit Committee
- Member of the Remuneration Committee

Abdullah Al Hobayb is an independent member of the Board of Directors since 2010. He is the Chairman of several leading companies in their respective fields in Saudi Arabia, comprising ABB Saudi Arabia, Ink Products Company Ltd, Philips Lighting Saudi Arabia, Manufacturers Trading Company Ltd, Arabian Co. For Electrical & Mechanical Works and Electrical Materials Center Co. Ltd.

He is also the Chairman of Audi Capital (KSA) (an Investment Banking subsidiary of Bank Audi, incorporated in the Kingdom of Saudi Arabia) and was, until July 2014, a member of the Board of Directors of Bank Audi sae in Egypt and of Odea Bank A.Ş., Bank Audi's subsidiary in Turkey.

Abdullah Al Hobayb holds a Master's degree in Electrical Engineering from Karlsruhe University in Germany.

KHALIL M. BITAR

BOARD MEMBER
Age: 79 – Lebanon
Director since April 2010
Term expires at the 2022 annual General Assembly of shareholders
- Independent Non-executive Director
- Chairman of the Board Group Risk Committee
- Member of the Remuneration Committee
- Member of the Group Audit Committee

Khalil Bitar is an independent member of the Board of Directors since2010. He is a former Professor of Physics and a former Dean of the Faculty of Arts and Sciences of the American University of Beirut (AUB). He held this last position from 1997 until 2009, playing an instrumental role in advocating AUB's strengths and regional position as the premier centre for higher education, and in re-establishing its PhD programs.
Throughout his career, he held several academic and administrative positions, including Associate Director of the Supercomputer Computations Research Institute – Florida State University (between 1994 and 1997) and visiting professor at leading academic institutes in Europe and North America (including the European Organisation for Nuclear Research in Geneva, the International Centre for Theoretical Physics in Italy, The Institute for Advanced Study in New Jersey, the Fermi National Accelerator Laboratory (Fermilab) in Illinois, the University of Illinois, Brookhaven National Lab. in New York, the Max Planck Institute in Munich, and the Rockefeller University in New York). He also served two mandates as member of The Institute for Advanced Study in Princeton, New Jersey, between 1968 and 1972.
Khalil Bitar has also served as (i) member of the Board of Directors of Audi Private Bank sal and the Chairman of its Risk Committee, and (ii) member of the Board of Directors of Audi Investment Bank sal and Chairman of its Risk Committee from March 2012 until November 2013, and as advisor to its Board for Risk Committee matters until the merger of both entities with Bank Audi sal in December 2020.

Khalil Bitar holds a Bachelor of Science degree in Physics from the American University of Beirut, a Master's of Science degree in Physics, and a PhD in Theoretical Physics from Yale University in the United States.

SHERINE R. AUDI

BOARD MEMBER
Age: 61 – Lebanon
Director since April 2017
Term expires at the 2022 annual General Assembly of shareholders
- Executive Director
- Member of the Board Group Risk Committee
- Member of the Compliance/AML/CFT Board Committee

Sherine Audi is the General Manager of Bank Audi France sa ("BAF"), the French subsidiary of the Bank. She started her banking career in 1980 at BAF, now a fully owned subsidiary of Bank Audi sal.

She held several positions there, including in credit, business development, operations and administration, while gradually climbing the corporate ladder. She was appointed Assistant General Manager in 1995, then Executive Director in 2000, and Director – General Manager since 2010. In this capacity, she is now in charge of the development and implementation of the strategy of BAF, as approved by the Board. She heads all the executive aspects of BAF's activity and drives its strategic transformations (including technological and regulatory ones) as required by the current market rules and practices. She also acts as the representative of BAF towards the French banking authorities and professional organisations.

Sherine Audi holds a diploma of Certified Director (by Sciences Po. Paris, jointly with the French Institute of Directors).

8.0. | REMUNERATION POLICY AND PRACTICES

1. The objective of the Policy is to establish coherent and transparent Compensation and Benefits practices in the Bank and the Group, that are consistent with the Bank's culture, business, long-term objectives, risk strategy, performance, and control environment, as well as with legal and regulatory requirements.

2. It is Bank Audi's policy to provide all employees of the Group with a comprehensive and competitive compensation package that is commensurate with each employee's position, grade and performance. Such performance is assessed on the following 3 performance criteria: key job responsibilities, SMART business goals, and behavioural competencies. Individual compensations are also linked to the achievement of objectives and are aligned with prudent risk taking. The compensation and benefits of control functions are determined in a way that preserves their objectivity and independence.

3. The aggregate consolidated amount of compensation and benefits paid by the Bank is included in the annual budget approved by the Board and is set in a way not to affect the Group's medium and long-term capacity to sustain such levels of compensation nor its financial position or its interests.

4. Core Compensation and Benefits include basic salary and performance-based bonus (in addition to a number of ancillary benefits including individual and family medical coverage, education allowances, and others).

5. There is currently no outstanding stock-related compensation. And there are no compensation arrangements encompassing claw backs or deferrals of payments, save for matters resulting from applicable laws and regulations. Amounts of compensation paid annually are disclosed in accordance with the International Financial Reporting Standards and with the provisions of Article 158 of the Lebanese Code of Commerce.

As reported in the Bank's financial statements, salaries, bonuses, attendance fees and other short-term benefits awarded to key Management personnel (as defined in Note 50 accompanying the financial statements) during the year 2021, amounted to LBP 7,951 million, in addition to post-employment benefits – Income statements aggregating LBP 276 million, and to post employment benefits – Other comprehensive income aggregating LBP 2,929 million. Provision for end-of-service benefits of key Management personnel amounted to LBP 4,736 million as of 31 December 2021 (2020: LBP 4,464 million).

02

MANAGEMENT DISCUSSION & ANALYSIS

PREPARED ON 26 MAY 2022

1.0. | OVERVIEW OF BANK AUDI sal

Bank Audi sal ("Bank Audi") is a leading Lebanese banking group with a universal banking profile. Founded in 1830 in Sidon, Southern Lebanon, the Bank was incorporated in its present form in 1962 as a private joint stock company with limited liability ("société anonyme libanaise"). Bank Audi is registered in the Beirut Commercial Registry under number 11347 and in the Lebanese list of banks under number 56. The Bank is licensed by the Central Bank of Lebanon. The Central Bank of Lebanon is the lead supervisor of Bank Audi and its subsidiaries. Bank Audi's head office and registered address is Bank Audi Plaza, Omar Daouk Street, Bab Idriss, P.O. Box: 11-2560, Beirut, Lebanon.

Bank Audi offers universal banking products and services covering Corporate, Commercial, Individual and Private Banking services to a diversified client base, mainly in the MENA region. In addition to its historic presence in Lebanon, Switzerland and France, the Bank has continuing operations in Saudi Arabia, Qatar, Abu Dhabi (through a representative office) and Turkey.

The initial shareholders of the Bank were members of the Audi family, together with Kuwaiti investors. Today, the shareholder base comprises more than 1,500 holders of common shares and Global Depositary Receipts (representing common shares), including individual investors, institutional investors and two supranational agencies: the International Finance Corporation ("IFC"), a member of the World Bank Group and the European Bank for Reconstruction and Development. The Bank's common shares (ordinary shares and Global Depositary Receipts) are listed on the Beirut Stock Exchange (the "BSE") (Ticker: Audi. BY and AUSR respectively).

Terms such as "Bank Audi", "the Bank" or "the Group" refer to Bank Audi sal and its consolidated subsidiaries. Terms such as: i) **Lebanese entities** consist of Bank Audi sal and other minor Lebanese entities excluding consolidation adjustments; ii) **Turkey** represents Odea Bank A.Ş.; iii) Private Banking entities consist of Banque Audi (Suisse), Audi Capital (KSA) and Bank Audi Private Bank Holding (Cyprus); and iv) **other entities** consist of Bank Audi France sa, Bank Audi LLC (Qatar) and other European and MENA entities.

In January 2021, the Bank signed definitive agreements for the sale of its operation in Egypt, a transaction which was completed in April 2021. In March 2021, the Bank completed the sale of its branch networks in Iraq and Jordan. In December 2020, Audi Investment Bank sal and Audi Private Bank sal were merged with Bank Audi sal. In the following discussion, **discontinued operations** refer to the financials of Bank Audi sal – Jordan Branches, Bank Audi sal – Iraq Branches, and Bank Audi sae (Egypt).

The dicussion and analysis that follows covers the consolidated performance of Bank Audi in the year 2021, based on the audited consolidated financial statements of the Bank for the fiscal years ended 31 December 2021 and 31 December 2020. The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee, and the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission of Lebanon (the "Banking Control Commission" or "BCC"), and include the results of the Bank and its consolidated subsidiaries as listed in Note 46 to the 2021 Financial Statements. Ernst & Young p.c.c. and BDO, Semaan, Gholam & Co. have jointly audited the annual financial statements.

The Group's operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis, as well as deep recession, that have reached unprecedented levels. As a result, the ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and withdrawals of cash to private depositors, all of which added to the disruption of the country's economic activity.

The ensuing difficulty in accessing foreign currencies led to the emergence of a parallel market to the official exchange rate whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the official exchange rate of 1,507.5 LBP/1 USD. 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 Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index.

In an effort to control the inflation, the Central Bank of Lebanon introduced, during 2020 and 2021, several measures including:

(a) Subsidising imports of essential goods at the rate of LBP 1507.5/USD 1 and subsidising imports of Tier 2 food basket products at the Platform "Sayrafa" rate. Both subsidies were lifted in the second half of 2021.

(b) Introducing exceptional measures for bank depositors to withdraw small amounts of cash in LBP from their "local" foreign currency bank accounts at the BdL 151 rate (first at LBP 3,900/USD 1 and currently at LBP 8,000/USD 1), but up to limits set by the Bank.

(c) Introducing 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 LBP, as well as operations from/to foreign currencies external accounts against LBP. The Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon.

The crisis has also resulted in a wide market differentiation between onshore assets and offshore assets, foreign currency bank accounts that are subject to unofficial capital controls and those that are not, onshore liabilities and offshore liabilities. Hence the following new terms came about in the Lebanese market, such as "local Dollars accounts" to designate local US Dollars bank accounts that are subject to unofficial capital controls, and "fresh accounts" to designate foreign currency cash and foreign currency bank accounts which are free from capital controls

(as they are sourced from foreign currency cash and/or from incoming transfers from abroad subsequent to the outset of the financial crisis).

Notwithstanding, and as per regulatory requirements, the Bank maintains its accounts in Lebanese Pounds (LBP). Nonetheless, all figures presented in the following MD&A are expressed in US Dollars ("USD"), unless specifically otherwise stated, which are translated from Lebanese Pounds at the closing of the official rate of exchange published by the Central Bank of Lebanon (1,507.5 as of each of 31 December 2020 and 2021), in line with IAS 21 due to the lack of an alternative legal exchange mechanism. Consequently, the financial statements do not reflect the change of disclosures required by IAS 29 which applies for hyperinflationary economies since the existence of a wide range of FX rates prevailing on the market and the absence of forthcoming revamping of the official peg make it difficult to proceed with such adjustments, especially when it comes to the valuation of monetary assets and liabilities. For avoidance of doubt, such translation does not differentiate either between onshore or offshore assets. References to foreign currency translation differences reflect the movement of functional currencies in the countries in which the Bank has a presence against the US Dollar.

Due to the aforementioned high levels of uncertainties, Management is unable to estimate in a reasonable manner or within a reasonable timeframe the adverse impact of the aforementioned matters on the Bank's financial position and equity which it anticipates to be material. On 18 February 2021, the Bank submitted to the Central Bank of Lebanon a roadmap that sets out broadly the Bank's strategy for the years 2021-2024, detailing its action plan in the face of the Crisis while addressing the requirements of BdL Basic Circular 154 and Intermediate Circular 567. This roadmap is based on a number of assumptions that remain highly susceptible to material change depending on the evolution of the financial, monetary and operating conditions in Lebanon. It is hence implicit that a definitive reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable. The Bank obtained the formal approval of the regulators on 7 May 2021 on the aforementioned measures.

On 20 May 2022, the Lebanese government has adopted a resolution program, led by the IMF, paving the way for the long awaited restructuring plan. It still needs to be ratified by the Lebanese parliament (please refer to Note 1 for further details).

Meanwhile, Bank Audi continues to exert extended efforts to consolidate its financial position and reinforce its financial standing by (a) strengthening its capitalisation, (b) enhancing the quality of its private loans portfolio, deleveraging it as appropriate and downsizing its balance sheet, (c) building up its offshore liquidity and reducing its commitments and contingencies to correspondent banks and financial institutions outside Lebanon, and (d) managing operating profitability.

Certain statements in the MD&A constitute "forward-looking statements". These statements appear in a number of places in this document and include statements regarding the Bank's intent, belief or current expectations or those of the Bank's Management with respect to, among other things, the Bank's results of operations, financial condition and future economic performance; its competitive position and the effect of such competition on its results of operations; trends affecting the Bank's financial condition or results of operations; the Bank's business plans, including those related to new products or services and anticipated customer demand for these products or services and potential acquisitions; the Bank's growth and investment programs and related anticipated capital expenditure; the Bank's intentions to contain costs, increase operating efficiency and promote best practices; the potential impact of regulatory actions on the Bank's business, competitive position, financial condition and results of operations. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "approximately", "would be", "seeks", or "anticipates", or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results. Many factors could affect the Bank's actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

Lebanon's economic and banking data are derived from the International Monetary Fund, the Central Bank of Lebanon, various Lebanese governmental entities, and the Bank's internal sources. The region's economic and banking data are derived from the International Monetary Fund, the Economist Intelligence Unit, Bloomberg, the region's central banks and the Bank's internal sources.

This discussion and analysis starts with an overview of the Bank's strategy, followed by a review of the operating environment and a comparative analysis of the Group's financial conditions and results of operations for the periods ended 31 December 2021 and 31 December 2020. An overview ofshare information and dividend policy comes next, followed by risk management, resources deployed, compliance and corporate social responsibility.

2.0. | STRATEGY

The Bank operates principally in Lebanon and accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, are tied to the political situation in the MENA region.

Since October 2019, Lebanon has been facing a series of crises: economic, financial, banking, political and social, compounded by the COVID-19 pandemic and the explosion of the Beirut port on 4 August 2020 (the "Crisis"). As of the date of this report, visibility on actions to address this Crisis remains elusive. By common local and international consensus, the government of Lebanon needs to adopt and implement a credible and comprehensive macro-financial reform program to address, among others, the systemic failure of the financial and banking sectors caused by the Crisis. On 20 May 2022, the Lebanese government has adopted a resolution program, led by the IMF, paving the way for the long awaited restructuring plan. It still needs to be ratified by the Lebanese parliament (please refer to Note 1 for further details). Until such reform program is finalised, and in light of the prevailing market uncertainties, any financial projection related to the Bank's future business model is extremely difficult to make. The resulting lack of visibility also prevents the Bank from making well-informed future plans regarding its wider business strategy.

In particular, Management wishes to draw attention to the following key points that carry significant uncertainties with potential material impact on the future financial position of the Bank:

- The impact of the valuation of assets and liabilities in foreign currencies is expected to be significant once the revamping of the peg is implemented by the Lebanese government, as seems highly likely.
- Loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities are recorded in the Bank's financial statements based on BdL guidelines issued on February 2020. These loss allowances set at very low levels are widely considered to represent an insufficient reflection of the underlying risks of those assets. Should an adjustment become necessary, the impact is expected to be pervasive.
- As a result of the negative economic conditions and the deepening recession, the credit quality of the loan portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019, significantly raising the level of impaired credit. As these economic conditions persist or deteriorate, the quality of the loan portfolio will remain subject to significant pressure in the near future.
- Potential restatement of published financial statements resulting from the use of a functional currency (LBP) related to a hyperinflationary economy as per IAS 29.
- Management has concerns about the effects that the above matters will have on the equity of the Group and the recapitalisation needs that will arise once the necessary adjustments are determined and recorded.

Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the Sayrafa rate, the BdL BC 151 rate and the official published exchange rate, and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, Management is unable to estimate in a reasonable manner the impact of these matters on its financial position, which it anticipates to be quite material. The finalisation of the resolution program, to be ratified by the parliament, could be expected to lessen a great deal of those uncertainties.

Meanwhile, in light of the above, Management adopted a new vision and direction focused on the consolidation and de-risking of the domestic franchise and operations, and the ring-fencing of foreign entities and branches from Lebanon spill-over effects.

Main highlights extend to:

1- Strengthening the Bank's foreign currency liquidity metrics.
2- Maintaining sufficient capital buffers over the minimum regulatory capital adequacy levels.
3- Improving asset quality by (i) closely monitoring the lending portfolios, taking early remedial actions on problematic files and maintaining adequate provisioning coverage, and (ii) significantly reducing sovereign debt exposure, especially in foreign currency.
4- Ensuring that foreign entities continue to provide the Group with diversified income generation capacity.
5- Targeting a lean organisational structure by improving operational efficiency and optimising cost structure.

In practice, Management has adopted a new vision and direction, focusing on six main pillars to face the current financial and economic environment. These pillars are:

1. **Asset quality:** to structurally enhance the quality of the Group's balance sheet by (1) sustaining the loan deleveraging policy, (2) maintaining adequate loss allowances coverage, (3) closely monitoring the lending portfolios while taking early remedial actions on problematic files, and (4) significantly reducing sovereign debt exposure, especially in foreign currency.

2. **Quality of earnings;** involving extending efforts across entities to attract low cost and stable funding, while maintaining relationships with good profile obligors with consistent and recurring returns and ancillary revenues. End result is for foreign entities to continue to provide the Group with diversified income generation capacity. In Lebanon, efforts are exerted to develop offshore revenue sources. A special focus is set on further rationalisation of operating expenses targeting a lean organisational structure by improving operational efficiency and optimising cost structure.

3. **Liquidity and ALM:** to create an important buffer allowing to absorb turbulences.

4. **Solvency:** in order to maintain sufficient capital buffers over the minimum regulatory capital adequacy levels allowing the Group to support the management of potential non-performing exposures caused by the prevailing crisis.

5. **Operational and other non-financial risks:** enhancing the management of operational, compliance, legal, conduct, cyber, strategic and third-party risks while constantly updating business continuity plans to counteract any disruption in business activities due to new and emerging risks.

6. **Governance:** involving sustaining strict adherence to the internal and regulatory Governance principles, with a particular focus on the control and risk based oversight role of the Board of Directors to accompany the particular requirements of the current challenging environment while mobilising the Bank's executive, control and oversight committees to ensure the continued effectiveness of the control framework. Maintaining abidance by the CSR principles to ensure sustainable development taking into account the economic, social and environmental parameters of our operations in Lebanon and abroad.

3.0. | OPERATING ENVIRONMENT

The year 2021 has been a year of erratic political developments that weighed on economic activity. From the political bickering regarding Cabinet formation in the first part of the year, to the actual formation of a rescue cabinet in September after 13 months of standstill, to the stalling of Cabinet meetings since October, to the Tayouneh security drift on the back of the Port of Beirut investigation, and to the rift with GCC countries in the last quarter, the year was a time of political instability that impacted macro, financial and monetary conditions across the country.

Primary, secondary and tertiary sectors were under pressure despite the opening up from pandemic lockdowns, confirming the real contraction in the economy for the second year in a row, in a year where most countries around the world and almost all MENA countries reported positive growth from the low base of the previous year. Real GDP is believed to have contracted by 11% in 2021, on the back of a 25% real contraction in 2020, as per IMF. Household consumption remained in the red amid the continuing contraction in real domestic income per capita. The investment aggregate as a percentage of GDP is at a record low unseen since the end of the civil war, as investors are refraining from taking investment decisions amid significant domestic politico-economic uncertainties.

At the external level, a decline in the balance of payments deficit from USD 10.6 billion 2020 to USD 2.0 billion in 2021 was recorded. The improvement in BOP deficit is due to a number of reasons, mainly the decline in the country's imports, the incoming of IMF SDRs to Lebanon, less subsidy on behalf of BdL, in addition to the beginning of year FX liquidity improvement by banks (tied to BdL BC 154 and subsequent sale of foreign entities) that offset the FX liquidity usage tied to BdL BC 158. In parallel, Tourism regained some strength this year from a low base last year, with the number of passengers at the airport up by 75.3% annually in 2021.

At the fiscal level, according to public finance figures just released by the Ministry of Finance for the first nine months of 2021 (last figures available), the overall fiscal balance reported a net surplus of LBP 455 billion, against a deficit of LBP 3,944 billion in the same period of 2020. When deducting debt service, the primary balance recorded a surplus of LBP 2,571 billion in the first nine months of 2021, against a primary deficit of LBP 1,713 billion in the same period of 2020.

At the monetary level, BdL FX reserves contracted by USD 6 billion in 2021 (though less than the previous year's contraction) amid FX market intervention, and import financing for basic products. The Lebanese Pound exchange rate reached new lows on the black market amid politico-economic uncertainty, excessive money creation and retreat in dollar inflows towards the home economy. Subsequently, the cumulative inflation stands at 700% between December 2019 and December 2021, as a result of a 146% inflation between December 2019 and December 2020 and 224% inflation between December 2020 and December 2021.

With respect to banking activity, the past two-year analysis shows that deposits contracted from USD 168.4 billion at end-October 2019 to USD 129.4 billion at end-December 2021, the equivalent of 23%. The loan portfolio dropped from USD 54.2 billion to USD 27.7 billion, the equivalent of 48%. The deposit dollarization rate reported a high of 79.4% while the loan dollarization rate reported a record low of 56.3% as at end-December 2021. As to interest rates, the average LBP deposit rate dropped from 9.03% at end-October 2019 to 1.09% at end-December 2021, while the average USD deposit rate declined from 6.61% to 0.19% over the same period. The spread between USD deposit rate and 3-month Libor reached close to nil in December 2021 (2 basis points), against 4.71% in October 2019.

At the capital markets level, the year 2021 saw the Eurobond market dipping further into the red, while the equity market registered strong price rebounds, mainly on hedging activity against crises. On the bond market, prices hit new depths, reaching 9.88-10.63 cents per US dollar at year-end amid lingering domestic political uncertainties, while awaiting the government's economic recovery plan and discussions with the IMF on monetary/financial policies. On the other hand, the equity market registered price gains of 48% in 2021 amid investor tendency to avoid haircuts on their financial placements, noting that equity prices are denominated in domestic US dollars.

Looking ahead, in a year of major political milestones, ranging from parliamentary elections to municipal elections to presidential elections, the economic challenges are noticeable as well. The most important challenges for 2022 revolve around enacting a program with the IMF, ratifying a capital control law, adopting a reforming government budget for 2022 and containing the Lebanese Pound exchange rate on the parallel market.

First, reaching an agreement with the IMF is considered a historical achievement in case it materialises. Hence rises the importance of reaching common grounds with the Fund. An IMF program ensures the role of the IMF as a watchdog for reform implementation in Lebanon, which would positively impact the engagement of donor countries towards Lebanon and would generate a trend reversal in socio-economic pressures that governed the country over the past couple of years. Following the consensus on national losses, with a unified figure of USD 69 billion, the challenge is to distribute those losses over the different economic agents within a comprehensive recovery plan to be adopted by government, bearing in mind that the IMF is for a rational and equitable distribution of losses.

Second, ratifying a capital control law is crucial and essential even if relatively late. It is a prerequisite for any revitalisation process. The Lebanese economy cannot move to positive growth and recover again without a capital control law that normalises financial activity in Lebanon. The ratification of a Capital Control Law is a must for any recovery plan for Lebanon and is at the core of IMF conditions for the enactment of a full-fledge program with Lebanon.

Third, what is needed is to ratify an austere and reforming government budget for the year 2022, which should be based on spending austerity in addition to improving resource mobilisation and fostering revenue collection, so as to lead to a public finance deficit of no more than 2% of GDP, in line with international organisms' requirements, on top of which the International Monetary Fund.

The fourth challenge is to contain the depreciation of the Lebanese Pound on the parallel market. The Lebanese Pound lost 90% of its value since October 2019, with a corollary inflation that hit a cumulative 700% over the past two years. What is needed is to contain the LBP depreciation trend through containing the LBP money creation after currency in circulation hit LBP 45,000 billion at end-2021, improving financial inflows and stimulating the balance of payments, in addition to restricting speculative activities in general, while ensuring a supportive overall politico-economic environment. On a more structural level, hindering the depreciation of the Lebanese Pound on the FX market requires containing the twin deficits of Lebanon, namely the balance of payments deficit that is bleeding the stock of dollars in Lebanon and the public finance deficit that is expanding the stock of LBP in the country at large.

LEBANON'S MAJOR ECONOMIC INDICATORS

(USD Million)	2020	2021	Var 21/20
Macro economy			
Real GDP growth (%)	-25.0%	-11.0%	14.0%
Monetary sector			
Var M3	-1,844	682	-136.9%
Velocity	0.36	0.27	-25%
Cleared checks	53,818	36,418	-32.3%
CPI inflation (end-period %)	111%	283%	172%
Public sector			
Gross domestic debt	59,544	61,861	3.9%
Foreign debt	36,050	38,515	6.8%
Total gross debt	95,594	100,377	5.0%
Public revenues(*)	7,008	9,221	31.6%
Public expenditures(*)	9,624	8,919	-7.3%
Fiscal deficit(*)	-2,616	302	-111.5%
External sector			
Imports	11,311	13,641	20.6%
Exports	3,547	3,887	9.6%
Trade deficit	7,764	9,754	25.6%
Balance of payments	-10,551	-1,976	-81.3%
Banking sector			
Var: Total assets	-28,739	-13,105	-54.4%
% change in assets	-13.3%	-7.0%	6.3%
Var: Total deposits	-19,723	-9,671	-50.9%
% change in deposits	-12.4%	-7.0%	5.4%
Var: Total credits	-13,601	-8,456	-37.8%
% change in credits	-27.3%	-23.4%	3.9%

(*) 9-month figures for 2020 and 2021.
Sources: IMF, Lebanon Ministry of Finance, BdL and concerned public, and private entities.

4.0. | CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

4.1. | BUSINESS OVERVIEW IN 2021

2021 witnessed a continuation of the broad concerns over the adverse political and economic developments affecting specifically Lebanon and Turkey. In Lebanon, despite the formation of a government in September 2021, the year 2021 was no different from 2020 with a persisting severe economic, financial and currency crisis, and a total failure to enact a most needed capital control law (a core IMF condition for the enactments of comprehensive reforms), and to implement a comprehensive reform plan during the year. Those shortcomings also caused a deep confidence crisis and a bank run on the Lebanese banking system, forcing banks to impose a number of restrictions and limitations with respect to the withdrawal of funds and transfers abroad, as a necessary substitute to the much needed Capital Control Law. Because of those developments, the Group has witnessed significant challenges in its Lebanese core market operations, which have also hindered to a great extend business activity.

On the other hand, Turkey, the second principal market of presence of the Group, registered increased political and economic volatility translating into a steep currency devaluation and a corollary high inflation, negatively impacting banking operating conditions. The Turkish Lira has followed an overall depreciatory path in 2021, despite drastic monetary measures by year-end that softened the depreciation pace. This comes amid a persisting current account deficit, high inflation and a gradual normalisation of monetary policy in the US and the euro area, outlining a paradoxical case of monetary vulnerability against fiscal strengths in Turkey. Turkey's consumer price inflation rose to 36% year-on-year in December 2021, the highest rate in years and well above the Central Bank's policy rate due to lira weakness. The Central Bank of Turkey's policy rate witnessed consecutive cuts since September 2021 (from 19% to 14%) despite soaring inflation rates. Within this environment, banking sector aggregates, when expressed in US dollar, fell by double digit rates amid an acceptable earning power with banks' return on average assets reporting 1.3% in 2021, and return on average equity reporting 15.5%.

The specific challenges in the Lebanese and Turkish market continued to be further exacerbated by the impact of the COVID-19 pandemic affecting all markets of presence, prompting the Bank to further restrict its development or growth.

On this backdrop, the Bank's direction in 2021 revolved around 1) meeting all the exceptional regulatory requirements issued by the Central Bank of Lebanon to address the situation in the country and 2) implementing the adopted six going concern pillars focusing on the consolidation and de-risking of the domestic franchise and operations, and the ring-fencing of foreign entities and branches from Lebanon spill-over effects.

1- BANK AUDI RESPONSE TO MAJOR REGULATORY REQUIREMENTS IN LEBANON IN 2021

Since 17 October 2019, Lebanon, the Group's principal market witnessed a fiscal, economic, monetary and political crisis, unprecedented in scope and scale, which has affected the entire Lebanese banking sector, creating major disruptions in the activity. Within this context, regulatory authorities in Lebanon were compelled to issue some exceptional guidelines/circulars aiming at reinforcing the financial standing of banks operating in Lebanon in the face of those adverse developments.

The table below summarises the key regulatory requirements issued by the Central Bank of Lebanon by topic while highlighting Bank Audi's response to those requirements:

Capital Management:		
Reference	**Regulation Summary**	**Response**
BdL BC 44 (latest amendment 21/9/21)	Banks were required to increase their 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.	Through a 3-phase action plan evolving concurrently (USD 209 million capital increase in 2020, USD 110 million booking of dividends from foreign entities, sale of operations/investments in Egypt, Jordan, Iraq with proceeds of USD 318 million), the Bank completed by the end of the first quarter of 2021 the required increase and the obtained regulator's approval on 7 May 21.
BdL BC 44 (latest amendment 21/9/21)	Banks authorised to draw down the CET1 2.5% capital conservation buffer in 2020 and 2021 on condition of rebuilding it gradually during 2022-2024.	The Bank didn't have to rely on these forbearance measures to meet regulatory requirements. CET1 and total CAR stand at 10.0% and 14.50% respectively as per pre-forbearance framework (above 7% and 10.5% minima required).
BdL BC 44 (latest amendment 21/9/21)	Banks authorised to incorporate in CET1 Stages 1 and 2 ECL on customers' credit risk exposure before gradually amortising these during 2022-2024.	
BdL BC 44 (latest amendment 21/9/21)	Banks authorised to book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2 subject to some conditions.	
Strategy/Going Concern:		
Reference	**Regulation Summary**	**Response**
BdL BC 154 (latest amendment 27/08/20)	Bank to submit a roadmap that sets out broadly the overall strategy for the years 2020-2024. Detailed information were requested such as an assessment of the credit portfolio and needed provisions, capital needs for future periods, the strategy with respect to investments in foreign banks and branches, the measures that will be taken to attract foreign liquidity and to cover onshore and offshore commitments, etc.	On 18 February 2021, the Bank submitted to BdL a roadmap including a number of assumptions that remain highly susceptible to material change depending on the evolution of the financial, monetary and operating conditions in Lebanon.
Liquidity:		
Reference	**Regulation Summary**	**Response**
BdL BC 154 (latest amendment 27/08/20)	Banks should incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount.	Actions were taken by the Bank in that regard.
BdL BC 154 (latest amendment 27/08/20)	Starting 28 February 2021, banks should maintain current offshore accounts with foreign correspondents free of any obligations. Such an account shall be at no time less than 3% of the Bank's total foreign currency deposits as at 31 July 2020.	The Bank promptly implemented the requirements.
BdL BC 159 (latest amendment 23/12/21)	Banks are forbidden 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.	The Bank complied with regulation once issued.

Access to Foreign Currency:		
Reference	**Regulation Summary**	**Response**
BdL BC 151 (latest amendment 27/12/21)	Bank's depositors allowed to withdraw in LBP from their local foreign currency accounts at a specific rate set initially at LBP 3,900 then increased to LBP 8,000 during Dec-21 with a monthly limit of USD 3,000 or lower as defined by the Bank.	The Bank promptly implemented the requirements.
BdL BC 158 (latest amendment 29/09/21)	Mechanism for the gradual settlement of foreign currency deposits to customers in the amount capped at USD 50,000 over a period of 5 years.	The Bank promptly implemented the requirements.
BdL BC 158 (latest amendment 29/09/21)	Mechanism for the gradual settlement of foreign currency deposits to customers in the amount capped at USD 50,000 over a period of 5 years.	The Bank promptly implemented the requirements.
BdL BC 161 (latest amendment 26/01/22)	BdL would sell banks USD banknotes against LBP at the platform rate. In turn, banks would sell these dollars to their client at the platform rate.	The Bank promptly implemented the requirements.
Credit Risk:		
Reference	**Regulation Summary**	**Response**
BdL BC 44 (latest amendment 21/9/21)	Banks were required to take impairment allowance of 1.89% and 45% respectively on their foreign currency exposure to Central Bank of Lebanon and Lebanese Sovereign Eurobonds.	The Bank already liquidated most of its RoL Eurobonds portfolio early 2020 and maintains allowances against the remainder in line with a fair valuation methodology. As for foreign currency exposure to BdL, the Bank maintains the required regulatory ECL level.
BdL BC 81 (latest amendment 9/12/20)	Banks required to accept periodic repayments of retail loans denominated in US Dollars in Lebanese Pounds based on the official exchange rate of USD/LBP 1,507.5 subject to certain conditions.	The Bank promptly implemented the requirements.

2- IMPLEMENTING THE SIX GOING PILLARS

The Bank was actively pursuing its strategy revolving around the going concern six pillars. The major achievements in Lebanon and Turkey regarding each pillar are as follows:

1. **Asset quality:** given the high volatility in the Lebanese and Turkish markets, the Bank has been focusing on deleveraging its loan portfolios while strengthening its provision coverages for both performing and Stage 3 exposures. Significant efforts were made to reduce the size of Odea Bank and Bank Audi Lebanon Stage 3 loans by applying various remedial actions including but not limited to settlement of debt through payment in kind. As a result, consolidated gross loans contracted by 41% since end-December 2019, from USD 9.4 billion as at end-December 2019 to USD 5.6 billion as at end-December 2021. Gross loans of Bank Audi Lebanon decreased by 46% to reach USD 2.6 billion as at end-December 2021. Gross loans of Odea Bank decreased also by 38% to reach USD 2.0 billion as at end-December 2021, an evolution nonetheless mostly attributed to an FX effect by -29% following the devaluation of the Turkish Lira versus the US Dollar, with gross loans decreasing in real terms by -8% over the period.

   Consolidated Stage 3 loans shrunk from USD 1.35 billion as at end-December 2019 to USD 0.75billion as at end-December 2021, driven by Stage 3 loans of Bank Audi Lebanon contracting over the period by 33% to USD 0.56 billion as at end-December 2021, while Odea Bank Stage 3 loans decreased by 69% over the same period, reaching USD 0.15 billion. Subsequently, consolidated Stage 3 loans represented 13.33% of gross loans as at end-December 2021 compared to 15.31% as at end-December 2020. The ratio of Stage 3 loans to gross loans of Bank Audi Lebanon represented 21.67% as at end-December 2021 compared to 22.42% as at end-December 2020. The ratio of Stage 3 loans to gross loans of Odea Bank in Turkey represented 7.53% as at end-December 2021 compared to 11.25% as at end-December 2020. Furthermore, during 2021, the Bank completed significant ring-fencing of entities from BASAL and Lebanon risks through a full buy-back by BASAL of loan participations in Bank Audi LLC (Qatar) and Bank Audi France sa, and a full margining of IRS at ODEA.

- **Quality of earnings:** given the aforementioned challenges in main markets of presence, in particular in Lebanon, Bank Audi had to redefine its business model to support the quality of its earnings by optimising sources of revenues while containing expenses to the maximum extent possible. As a result, net interest income of Bank Audi Lebanon improved since the domestic banking sector is operating in a closed circuit with caps on reference rates and applied cost of deposits. The latter has also equally supported an improvement in non-financial commissions and other non-interest income revenues generated principally on the continuously growing "fresh" External Accounts in USD, which are paving the way for the re-establishment of normal banking services. At Odea Bank in Turkey, total revenues in TRY increased by 15% during the year, driven principally by non-interest income amid an almost flat level of interest income. The growth of non-interest income reflects an increase in net commissions by 10% amid much higher growth of other financial income representing realised gains on MtM transactions impacted by the evolution of yields on CPI-linked securities.

In parallel, at the cost side, Bank Audi Lebanon implemented a strict cost optimisation plan aiming at rightsizing its branch network and human capital with respect to the current level of business activity. Subsequently, it devised to consolidate activity of nearby branches through the temporary closure of selected branches, thereby decreasing the overall number of operating branches in Lebanon from 84 at the outset of the crisis to 68 branches as at end-December

2020 and 63 branches as at end-December 2021. Corollary, the number of employees of Bank Audi Lebanon (including Audi Services, Solifac and Lebanon Invest) decreased from 3,123 at the outset of the crisis to 2,628 staff as at end-December 2020, and to 1,882 as at end-December 2021. The contraction in staff count was facilitated by the voluntary exit of staff principally seeking jobs remunerated in fresh USD locally or internationally. The cost optimisation plan also extended to the reduction of IT investments and related licenses, and the conversion of foreign payments related to some operating expenses into local ones. It is worth noting that 94% of the Bank's operating expenses are denominated in LBP, while 2% are in local dollars and 4% in fresh dollars. Although a significant portion of expenses are paid in LBP, some are however indexed to either fresh USD or local USD, or are based on local oil pricing grid for some services.

Furthermore, in 2021, the Bank paid significant effort to building up on the synergies achieved from the merger of both Audi Private Bank sal and Audi Investment Bank sal under Bank Audi sal. Cost optimisation efforts also continue to be in effect at Odea Bank, and have, despite an increased inflation reaching 36% at year-end 2021, supported an increase in net earnings at Odea Bank by 53% in 2021.

Consolidated normalised net profits, after removing one-offs net losses mostly representing the cost of supporting other pillars, increased by USD 166 million, from USD 609 million in 2020 to USD 775 million, representing a growth by 27.3%.

- **Liquidity & ALM:** the outset of the October 2019 financial crisis impacted negatively Bank Audi's external liquidity which was already at a low level at the time. Ever since, Management endeavored to strengthen the Bank's foreign currency liquidity and accumulate sufficient liquidity buffers to cover external accounts balances, international commitments and other operating expenses billed in fresh dollars. Months before the issuance of regulatory directives aiming at reinforcing liquidity, the Bank actively supported liquidity buildup initiatives through:

- Markup transactions (mostly in 2020).
- Reinforcement of the capital base in February 2020 with the issuance of common shares for USD 209 million.
- Upstreaming of dividends from the Bank's foreign subsidiaries in the amount of USD 110 million, of which 30 million in fresh dollars.
- Sale of foreign operations finalised in 2021 (in Egypt, Jordan, Iraq and Syria), with total proceeds exceeding USD 318 million, of which USD 304 million in fresh dollars.
- Implementation of regulatory requirements most notably BdL Basic Circulars 158 and 159, as well as BCC communication 801/13. BdL Basic Circular 158 (please refer to Note 1 of the attached financial statements) defines a mechanism for the gradual settlement of foreign currency deposits to customers over a period of 5 years in the amount capped at USD 50,000 over a period of 5 years. The cumulative impact of the said circular on the Bank's liquidity in foreign currencies amounts to USD 206 million as at 31 March 2022, of which USD 51.5 million as outright payment from the Bank's liquidity position. This impact reaches USD 356 million over the 5-year period.
- Adjustments of the terms of senior loans extended to international Development Financials Institutions (DFIs). The main objective of these adjustments was to: (i) reduce interest charges significantly and (ii) extend the maturity of these facilities to reduce the yearly repayment burden and allow Management to optimise the available free liquidity in foreign currencies. On 13 August 2021, amended agreements representing 89% of the Bank's outstanding loan amounts were signed, covering principally an extension of the maturity of each facility by 6 years with zero interest charge and zero additional fees. This resulted in a reduction of annual repayments by almost two-thirds with significant interest savings while annihilating any potential legal risk and allowing to sustain healthy and proactive relationships with major DFIs.
- Reducing the Bank's short FX position, standing at USD 1.32 billion as at end-December 2021 after a sustained decrease from the peak level of USD 2.0 billion attained a year earlier.
- Exchanging international subordinated debt of USD 347 million issued in 2013 into locally payable subordinated debt.

All of these measures have helped strengthen the Bank's level of offshore liquidity free from any obligation. The latter represented 6.6% of total deposits as of 31 March 2022 net of fresh payments as per BdL Basic Circular 158, increasing from 0.93% as at 16 January 2021, largely exceeding the 3% regulatory minimum requirement as per the Central Bank of Lebanon's Basic Circular 154.

Moreover, at the Interest Rate Risk Management level, and following the discontinuation of the hedge accounting treatment of the IRS held against fixed-rate placements with BdL, the Bank's Executive Committee (with the approval of the Board of Directors) decided, in its meeting held on 10 August 2021, to unwind the USD 1.05 billion position gradually starting January 2022. Such a measure should further reinforce liquidity parameters.

- **Solvency:** the outset of the Lebanese crisis led to significant ECL impairments, mainly on Lebanese banks' holdings of Eurobonds and the lending portfolio, in parallel to a material increase in risk weights on these exposures, along with long-term exposure to the Central Bank of Lebanon. This significantly impacted the capital adequacy ratio with the Bank's CET1 ratio, witnessing the sharpest decline in history falling to a low of 6.6% at end-December 2019 following the booking of close to USD 1.1 billion of impairment allowance on RoL Eurobonds and the lending portfolio. From that moment in time, CET1 progressed to 9.4% at end-December 2020 thanks to the USD 209 million capital increase and the change in the regulatory framework incorporating Stages 1 & 2 ECL and real estate revaluation reserve in CET1 for an amount of USD 0.72 billion. CET1 further progressed during 2021 to reach 10.0% despite net losses of the year for USD 184 million and the negative impact on equity from the 46% Turkish Lira devaluation totaling USD 169 million. The improvement was made possible from the aforementioned sale and deconsolidation of foreign entities and the pursuit of the deleveraging strategy. Total CAR progressed from 11.3% as at end-December 2019 to 13.1% as at end-December 2020, and further progressed to 14.5% as at end-December 2021. Several amendments were introduced to the BdL Basic Circular 44, being the regulatory framework for capital adequacy, in the form of forbearance treatments to mitigate the impact of the crisis on the Bank's capital (authorisation to draw on the 2.5% capital conservation buffer until 2024, inclusion of Stage 1 and Stage 2 non-sovereign ECL in CET1, authorisation to book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2). It is worthy to note that the Bank didn't have to rely on these forbearance measures to meet regulatory requirements. CET1 and total CAR stand at 10.0% and 14.50% respectively as at end-December 21 as per pre-forbearance framework (above 7% and 10.5% minima required).

- **Operational and non-financial risks:** the Bank has been running on crisis management mode to counter the risk arising from the deteriorating economic, political and social environment, as well as from the Beirut Port blast and the COVID-19 pandemic. As a result of the latter, the Bank incurred exceptional losses in year 2020, mainly in relation to the Beirut Port explosion and the COVID-19 pandemic (PCR tests, medical supplies, disinfection expenses and vaccination costs). Starting 2021, legal expenses increased significantly following the increasing number of lawsuits filed against Bank Audi Lebanon, specifically in foreign jurisdictions.

Litigations

The restrictive measures adopted by all Lebanese banks in relation to the withdrawal of funds and transfers abroad, are exposing all banks, including our Group, to increased litigations in Lebanon and abroad. Although litigations is a common occurrence in the banking industry due to the nature of the business and for which we have an established dealing protocol, claims tied to these restrictive measures among others are beyond our control and we continue to carefully consider their impact. 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. Due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, we consider that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch, in the absence of a capital control law that governs transfers.

- **Governance:** the unprecedented crisis faced by the Group for the past two years led to a profound reformulation of the Business Model aiming at enhancing the Group's governance framework and further ring-fencing the foreign entities of the Group from the Lebanon risk. The Bank's Governance philosophy was instrumental in leading the change. This has been made on four fronts namely: (i) the consolidation of operations for better efficiency, (ii) the optimisation of the organisation structure, (iii) compliance with regulatory requirements while enhancing disclosures and transparency measures, and finally (iv) the ring-fencing of foreign entities from Lebanese and BASAL inherent risks. Measures undertaken included enhancing the independence of subsidiaries' Boards and adopting additional relevant policies and rules while implementing, in parallel, specific actions including the full margining of the IRS of Odea Bank and the buy-back by Bank Audi Lebanon of the participation held by Bank Audi LLC (Qatar) and Bank Audi France sa in Lebanese loans. The Bank adopted, in particular, an updated policy on related-entity transactions encompassing strict rules for entities to remain ring-fenced from potential future crisis spillovers.

4.2. | CONSOLIDATED FINANCIAL OVERVIEW IN 2021

The evolution of the Group's financial position, results of operations and business prospects are closely related to the overall political, social and economic situation in its countries of presence, particularly in Lebanon. As a result of government inefficiencies, the deepening recession, the currency crisis and the hyperinflation prevailing in Lebanon, the financial position of the Group does not reflect the adjustments that would be required by IFRS. Due to the high levels of uncertainties, Management is unable to estimate in a reasonable manner or within a reasonable timeframe the adverse impact of the aforementioned matters on the Bank's financial position and equity which it anticipates to be material.

Based on the official exchange rate as published by the Central Bank of Lebanon as at end-December 2021 and 2020 (1 USD = 1507.5 LBP), consolidated assets of Bank Audi stood at USD 26.9 billion as at end-December 2021, compared to USD 35.4 billion as at end-December 2020, i.e. decreasing by USD 8.6 billion in 2021 or 24.2%. Out of this decrease, USD 6.4 billion relates to the deconsolidation of Bank Audi's entities in Jordan, Iraq and Egypt following the completion of their sale, with a remaining real decrease of USD 2.1 billion decrease stemming from Lebanese entities accounting for USD 0.8 billion of the decrease including consolidated adjustments, USD 1.3 billion from Odea Bank chiefly as a result of the devaluation of the TRY versus the USD, with the remainder decrease accounted for by other subsidiaries.

By way of clarification, as at end-December 2020, and in waiting for the completion of the transactions agreed on in 2020, the operations sold mentioned above were then treated as discontinued operations and their financials were not reflected in the line-by-line structure of the Statement of Financial Position. Rather, their assets and liabilities were booked under "assets held for sale" and "liabilities held for sale" respectively (sub captions of "other assets and other liabilities" in the Summarised Statement of Financial Position below). In the Income Statement, the net profits generated by those discontinued operations in the years 2021 and 2020 were booked under "results from discontinued operations".

The table below sets out the evolution of the Group's financial position as at end-December 2021 as compared to end-December 2020:

SUMMARISED STATEMENT OF FINANCIAL POSITION

(USD Million)	Dec-20	Dec-21	Change in Volume Dec-21/Dec-20	%
Cash & placements with banks and central banks	14,540	14,412	-128	-0.9%
Portfolio securities	6,433	5,712	-721	-11.2%
Loans to customers and related parties	6,136	4,743	-1,393	-22.7%
Other assets(*)	7,846	1,555	-6,291	-80.2%
Fixed assets	476	435	-41	-8.6%
Assets= Liabilities + Equity	35,431	26,857	-8,574	-24.2%
Bank deposits	3,677	2,758	-919	-25.0%
Customers' deposits and related parties	21,528	20,101	-1,427	-6.6%
Subordinated debt	797	817	20	2.5%
Other liabilities	6,477	689	-5,788	-89.4%
Shareholders' equity (profit included)	2,951	2,492	-459	-15.6%
AUMs + fid. dep. + cust. acc.	8,752	8,365	-387	-4.4%
Assets + AUMS	44,183	35,222	-8,961	-20.3%

(*) In 2020, other assets includes assets held for sale amounting to USD 6,297 million.

Consolidated assets under management, including fiduciary deposits and custody accounts, have in turn decreased from USD 8.8 billion as at end December 2020 to USD 8.4 billion as at end-December 2021, with the decrease mostly attributed to entities operating outside Lebanon, of which a decrease by USD 150 million in Banque Audi (Suisse) to be added to a decrease by USD 293 million in Odea Bank. Subsequently, consolidated assets, including fiduciary deposits, custody accounts and AuMs reached USD 35.2 billion at the same date, compared to USD 44.2 billion as at end-December 2020, underscoring a contraction by 20.3%. The finalisation of the sale of foreign entities is clearly highlighted in the breakdown of assets by geography as at end-December 2021 whereby the share of entities operating outside in consolidated assets reached 27.9% of the total compared to 43.2% as at end-December 2020. Entities outside Lebanon also accounted for 58.3% of consolidated net loans and 28.1% of customers' deposits as at end-December 2021, compared to 58.3% and 28.1% respectively as at end-December 2020.

BREAKDOWN BY GEOGRAPHY

	Assets			Deposits			Loans		
	Dec-20	Dec-21	Change	Dec-20	Dec-21	Change	Dec-20	Dec-21	Change
By region									
Lebanon	56.8%	72.1%	15.3%	71.6%	71.9%	0.3%	41.5%	41.7%	0.2%
Abroad	43.2%	27.9%	-15.3%	28.4%	28.1%	-0.3%	58.5%	58.3%	-0.2%

As mentioned earlier, the Bank's consolidated financial statements do not reflect the change of disclosures required by IAS 29 which applies for hyperinflationary economies as a result of the persisting crisis in Lebanon and the ensuing unofficial capital controls, the multitude of exchange rates, the hyperinflation, and the potential repercussions of government reform measures. Nonetheless, based on those various parameters, 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 new terms in the Lebanese market, such as "local Dollars or Lollars" to designate local US Dollars bank accounts that are subject to unofficial capital controls, and "fresh accounts" to designate foreign currency cash and foreign currency bank accounts which are free from capital controls (as they are sourced from foreign currency cash and/or from incoming transfers from abroad).

The table below highlights a breakdown of consolidated assets, deposits and loans by currency as at end-December 2021 compared to end-December 2020, while differentiating foreign currency stocks between Lollar accounts and fresh accounts:

BREAKDOWN BY FOREIGN CURRENCY - LOCAL VS FRESH

	2021				
(USD Million)	LBP	FCY o.w. Lollars(*)	FCY o.w. Fresh(**)	Total FCY	Total LBP & FCY
Loans and advances to customers and related parties	**1,308**	**655**	**2,780**	**3,435**	**4,743**
Total assets	7,181	11,334	**8,341**	19,675	26,857
Deposits from customers and related parties	2,893	11,219	**5,989**	17,207	20,101

	2020				
(USD Million)	LBP	FCY o.w. Lollars(*)	FCY o.w. Fresh(**)	Total FCY	Total LBP & FCY
Loans and advances to customers and related parties	**1,255**	**1,319**	**3,563**	**4,882**	**6,136**
Total assets	7,676	12,512	**15,243**	27,755	35,431
Deposits from customers and related parties	2,799	12,367	**6,362**	18,730	21,528

(*)Onshore assets and liabilities in foreign currencies subject to unofficial capital controls in Lebanon.
(**) Offshore assets and liabilities in foreign currencies not subject to capital controls in Lebanon.

	Change 2021-2020 in %				
	LBP	FCY o.w. Lollars(*)	FCY o.w. Fresh(**)	Total FCY	Total LBP & FCY
Loans and advances to customers and related parties	4.2%	-50.3%	-22.0%	-29.6%	-22.7%
Total assets	**-6.4%**	**-9.4%**	**-45.3%**	**-29.1%**	**-24.2%**
Deposits from customers and related parties	3.4%	-9.3%	-5.9%	-8.1%	-6.6%

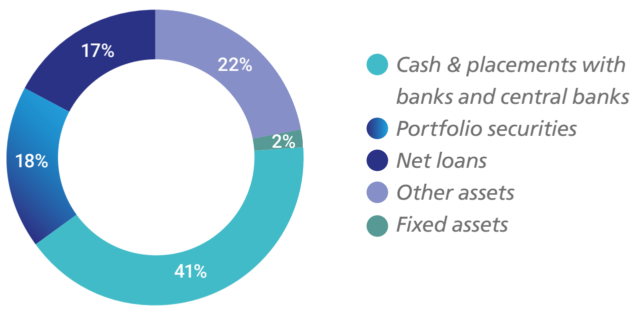
Lebanese Pounds (LBP) are translated to US Dollar at the closing official exchange rate published by the Central Bank of Lebanon, in line with IAS 21 due to the lack of an alternative legal exchange mechanism.

4.2.1. | ASSET ALLOCATION BY TYPE

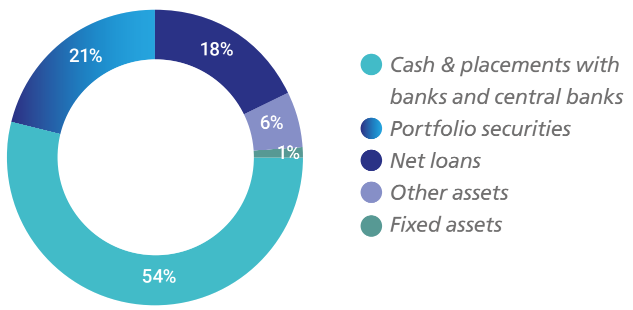
Prevailing uncertainties in Lebanon and Turkey, as well as the global COVID-19 pandemic casting its shadows on global economies at large and resulting in economic restrictions and shutdowns, have had a limiting effect on business opportunities in the Bank's countries of presence in 2021, as in 2020. Within that context, main priorities principally focused on the six going concern pillars mentioned above and specifically strengthening the liquidity, reinforcing the capital base and a tight control on credit quality within reinforcing risk control, Governance and operating efficiency, with an emphasis on activity consolidation, de-risking of the balance sheet, as well as operational efficiency.

The following charts set out the allocation by asset class as at end-December 2021 as compared to end-December 2020, primarily reflecting Management's overall risk tolerance/appetite, as well as any available business opportunities across countries of presence.

ASSETS BREAKDOWN



2020



2021

The discussion that follows analyses the evolution of the various asset classes and their respective key indicators over the same period.

A comparative analysis of asset classes relative to consolidated customers' deposits as at end-December 2021 compared to end-December 2020 shows a further decrease in the loans to deposits ratio at the advantage of placements with central banks and banks. The Bank's consolidated loans to deposits ratio contracted from 28.5% as at end-December 2020 to 23.6% as at end-December 2021, with the decrease justified by a faster decrease in consolidated net loans (-22.7%) than in consolidated customers' deposits (-6.6%) over the year. In parallel, portfolio securities represented 28.4% of customers' deposits as at end-December 2021, as compared to 29.9% as at end-December 2020 while the Bank's consolidated placements with central banks and banks (excluding certificates of deposit issued by the Central Bank) represented 71.7% of consolidated customers' deposits as at end-December 2021, as compared to 67.5% as at end-December 2020.

4.2.1.1. Changes in Placements with Central Banks and Banks

The Bank's consolidated placements with central banks and banks (comprised principally of cash, as well as amounts held at central banks (including free accounts and compulsory reserves and excluding certificates of deposit issued by the Central Bank of Lebanon), placements with banks and loans to banks and reverse repurchase facilities with central banks and financial institutions) registered little change in 2021, moving from USD 14.5 billion as at end-December 2020 to USD 14.4 billion as at end-December 2021, i.e. a mere contraction by USD 128 million (-0.9%). They stood to represent 71.7% of customers' deposits as at end-December 2021 compared to 67.5% as at end-December 2020, with the variation mostly accounted for by the aforementioned faster contraction in consolidated customers' deposits (-6.6% in 2021).

The table below sets out the breakdown of those placements by type and by currency as at end-December 2021:

PLACEMENTS WITH CENTRAL BANK AND BANKS (EXCLUDING CDs)

(USD Million)	LBP	USD	EUR	EGP	TRY	OTHERS	TOTAL
Central banks	2,413	8,028	957		52	1,100	12,550
o.w. Reserves requirements	411	1,887	9		1		2,308
o.w. Cash deposits	2,002	6,141	948		51	1,100	10,242
Placements with banks	1	1,460	160	2	99	141	1,863
o.w. Deposits with banks	1	1,460	160	2	15	141	1,778
o.w. Loans to banks and financial institutions and reverse repurchase agreements	0.3				84		84
Total liquidity	2,414	9,488	1,117	2	150	1,241	14,412

The Bank's placements with central banks and banks in Lebanese Pounds are essentially composed of cash and deposits with the Central Bank of Lebanon. Placements in Lebanese Pounds amounted to USD 2.4 billion as at end-December 2021, decreasing from USD 2.8 billion as at end-December 2020. The USD 384 million decrease continues to reflect predominant efforts made to manage the Bank's FX position in light of the multitude of exchange rates applied in Lebanon. When adding certificates of deposit issued by BdL in Lebanese Pounds amounting to USD 94 million as at end-December 2021, total placements in LBP would reach USD 2.5 billion as at end-December 2021, almost the same level since end June 2021.

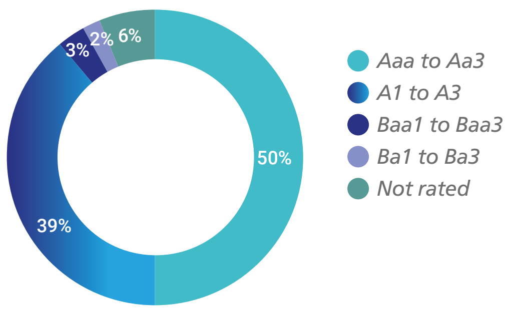
The Bank's placements with central banks and banks in foreign currency consist of cash and short-term deposits placed at the Central Bank of Lebanon and other central banks, excluding certificates of deposit issued by BdL, and placements in banks. The Bank's placements with central banks and banks in foreign currencies increased by USD 256 million in 2021, moving from USD 11.7 billion as at end-December 2020 to USD 12.0 billion as at end-December 2021. This increase is attributed to an increase in placements with banks by USD 344 million, offset by a decrease in reverse repo agreements with the Central Bank of Lebanon by USD 87 million. Justified mostly by a faster contraction of consolidated customers' deposits by 8.1% over the period, the ratio of the Bank's placements with central banks and banks in foreign currency to consolidated customers' deposits in foreign currencies increased from 62.7% as at end-December 2020 to 69.7% as at end-December 2021.

In details, placements with central banks denominated in foreign currency amounted to USD 10.1 billion as at end-December 2021, almost the same level as at end-December 2020, with cash deposits denominated in foreign currencies increasing from USD 7.9 billion as at end-December 2020 to USD 8.2 billion as at end-December 2021. This evolution clearly highlights the impact of the decrease of the compulsory reserves from 12% of customers' deposits in foreign currency to 11%, decreasing in absolute terms by USD 286 million. Placements with central banks denominated in foreign currency represented 59% of consolidated customers' deposits foreign currency as at end-December 2021 compared to 54% as at end-December 2020.

In parallel, placements with correspondent banks including reverse repo-agreements in foreign currencies stood at USD 1.9 billion as at end-December 2021, accounting for 10.9% of foreign currency-denominated deposits at the same date compared to 8.6% as at end-December 2020. Those placements are mainly based in low risk OECD and GCC countries that show high levels of solvency and financial and monetary stability. 88.7% of the placements (excluding reverse repo agreements) denominated in foreign currency are held in banks rated A3 or better.

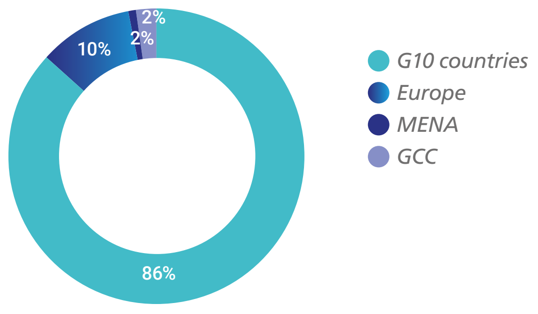
The charts below set out the breakdown of money markets placements held with banks (excluding reverse repo agreements) as at end-December 2021 by rating and geographic location:

BREAKDOWN OF PLACEMENTS WITH BANKS BY RATING IN 2021



2021

BREAKDOWN OF PLACEMENTS WITH BANKS BY REGION IN 2021



2021

Management endeavoured to strengthen the Bank's foreign currency liquidity and accumulate sufficient liquidity buffers to cover external accounts balances, international commitments and other operating expenses billed in fresh dollars. Months before the issuance of regulatory directives aiming at reinforcing liquidity, the Bank actively supported liquidity buildup initiatives through:

- Reinforcement of the capital base in February 2020 with the issuance of common share for USD 209 million.

- Upstreaming of dividends from the Bank's foreign subsidiaries in the amount of USD 110 million, of which 30 million in fresh dollars.

- Sale of foreign operations finalised in 2021 (in Egypt, Jordan, Iraq and Syria), with total proceeds contributing to capital by up to USD 318 million, of which USD 304 million in fresh dollars, and boosting international liquidity by USD 708 million (o.w. USD 656 million from BAEGY and USD 52 million from BAJO & BAIQ).

- Implementation of regulatory requirements most notably BdL Basic Circulars 158 and 159, as well as BCC communication 801/13. BdL Basic Circular 158 (please refer to Note 1 of the attached financial statements) defines a mechanism for the gradual settlement of foreign currency deposits to customers over a period of 5 years in the amount capped at USD 50,000 over a period of 5 years. The cumulative impact of the said circular on the Bank's liquidity in foreign currencies amounts to USD 206 million as at 21 January 2022, of which USD 51.5 million as outright payment from the Bank's liquidity position. This impact reaches USD 356 million over the 5-year period.

- Introducing the "multiplier factor" which entails inciting depositors of "fresh funds"/offshore funds deposited/transferred to the Bank to exchange these funds against local foreign currency funds (in Lebanese Dollars "Lollars") after the application of an appealing multiplier factor during 2020. The Bank assumed the losses from these transactions reaching USD 631 million during 2020.

- Encouraging depositors of fresh funds transferred to the Bank after the month of April 2020 and that do not wish to resort to the multiplier method above, by preserving all right to use of these funds in normal banking transactions (pre-October 2019) in application of the Central Bank of Lebanon's Basic Circular 150 dated 9 April 2020. The Bank processed, until 31 March 2022, cumulative activity of this type of accounts in excess of USD 7.2 billion.

- Exchanging international subordinated debt of USD 347 million issued in 2013 into locally payable subordinated debt.

- Adjustment of the terms of senior loans extended to international Development Financials Institutions (DFIs). Bank Audi agreed with a pool of senior lenders on the term adjustment of part of its debt for an amount of circa USD 100 million by cancelling payment of interest effective 1 July 2021 and by extending terms of payments. The agreement reached against a payment of an upfront amount (approximately equivalent to the past due principle payment) and all accrued interest until 30 June 2020, substantially relieved the Bank's obligation with respect its offshore liquidity commitments (please refer to section XX above for further details).

All of these measures have helped strengthen the Bank's level of offshore liquidity free from any obligation. The latter represented 6.6% of total deposits as of 31 March 2022 net of fresh payments as per BdL Basic Circular 158, increasing from 0.93% as at 16 January 2021, largely exceeding the 3% regulatory minimum requirement as per the Central Bank of Lebanon's Basic Circular 154.

4.2.1.2. Changes in Securities' Portfolio

The Bank's portfolio of securities is comprised principally of certificates of deposit issued by the Central Bank of Lebanon, Lebanese Pound-denominated Treasury bills, Lebanese sovereign bonds denominated in USD, non-Lebanese sovereign bonds, other fixed income instruments, and equity securities.

The Bank's securities portfolio contracted in 2021 by USD 721 million or 11.2% to stand at USD 5.7 billion as at end-December 2021, compared to USD 6.4 billion as at end-December 2020.

The following table sets out the distribution of the Bank's securities portfolio, by type of security, as at the dates indicated:

PORTFOLIO SECURITIES BREAKDOWN

(USD Million)	Dec-20	Dec-21	Vol.	%
Central Bank of Lebanon certificates of deposit	2,640	2,562	-77	-2.9%
LBP-denominated	77	94	17	22.1%
Foreign currency-denominated	2,563	2,468	-95	-3.7%
Net Lebanese Treasury bills and Eurobonds	2,066	1,875	-191	-9.2%
LBP-denominated	2,210	1,929	-281	-12.7%
Foreign currency-denominated	-144	-54	90	-62.5%
Risk-ceded government Eurobonds	153	67	-86	-56.2%
LBP-denominated				
Foreign currency-denominated	153	67	-86	-56.2%
Other non-Lebanese sovereign securities	962	747	-215	-22.3%
TRY	456	327	-129	-28.3%
USD	409	346	-63	-15.4%
EUR	97	74	-23	-23.7%
Other fixed income securities	533	401	-132	-24.8%
LBP-denominated				
Foreign currency-denominated	533	401	-132	-24.8%
Equity securities	80	59	-21	-25.8%
LBP-denominated	14	13	-1	-7.1%
Foreign currency-denominated	66	46	-20	-30.3%
Total portfolio securities	6,433	5,712	-721	-11.2%

Lebanese Bond and Central Bank Certificates of Deposit Portfolio

Certificates of deposit issued by the Central Bank of Lebanon accounted for a mere USD 77 million of the decrease in total securities, an evolution attributed mostly to the Certificates of deposits issued by the Central Bank of Lebanon denominated in foreign currencies decreasing by USD 95 million during the year amid an increase in certificates of deposits issued by the Central Bank of Lebanon in Lebanese Pounds by a mere USD 17 million. Subsequently, the certificates of deposits issued by the Central Bank of Lebanon in foreign currency continued to stand at USD 2.5 billion as at end-December 2021, representing 43.2% of the total securities portfolio.

Adding the Bank's placements in foreign currencies at the Central Bank (including cash deposits), the gross exposure to the Central Bank of Lebanon in foreign currencies would stand at USD 10.5 billion as at end-December 2021 compared to USD 10.9 billion as at end-December 2020. This is gross of an ECL of USD 194 million taken on this exposure as per regulatory requirement (1.89%) which remained unchanged across the period. Netting the Bank's borrowing from the BdL in foreign currencies, the Bank's net exposure to the Central Bank of Lebanon would stand at USD 10 billion as at end-December 2021 compared to USD 10.4 billion as at end-December 2020. In Lebanese Pounds, the Bank's net exposure to the Central Bank of Lebanon reaches USD 541 million as at end-December 2021 compared to USD 918 million as at end-December 2020.

In parallel, Treasury bills denominated in Lebanese Pounds also decreased across those dates by USD 281 million to stand at USD 1.9 billion as at end-December 2021, representing 33.8% of the total securities portfolio. The decrease in Treasury bills is attributed to maturing instruments. In the first two months of 2022, Treasury bills dropped by a further USD 558 million for the same reason.

The Group's exposure to Lebanese sovereign Eurobonds net of ECLs, including the risk-ceded government bonds, increased slightly in 2021 following Management's decision, starting the month of July, to purchase RoL Eurobonds based on an opportunistic approach, predominantly to meet the requirements of CLD holders wishing to receive Eurobonds and for the repayment of fiduciary deposits. Subsequently, the risk of those purchased Eurobonds is majorly ceded to customers. However, the increase remains immaterial as the net exposure to Lebanese sovereign Eurobonds net of ECLs including the risk-ceded government bonds stood at USD 13 million as at end-December 2021 compared to USD 9 million as at end-December 2020. Management undertakes to maintain ECL on this asset class above the minimum requirement at all times.

Non-Lebanese Sovereign Securities

The Bank's non-Lebanese sovereign risk decreased by USD 215 million in 2021, from USD 962 million as at end-December 2020 to USD 747 million as at end-December 2021. Non-Lebanese sovereign securities mostly represent exposure to the Turkish sovereign, denominated in Turkish Lira, amounting to USD 327 million as at end-December 2021 and justified by the Group's sizeable operation in this market. The latter exposure expressed in USD decreased by USD 129 million in 2021 (28%), mostly due to the devaluation of the Turkish Lira versus the USD by 46%, leaving a real increase by 32%. Other non-Lebanese sovereign exposure denominated in USD stood at USD 346 million as at end-December 2021 compared to USD 409 million as at end-December 2020. These represent placements by all the Group's entities in sovereign securities rated B+ or better, in line with the Group's overall risk tolerance/appetite.

In relative terms, the Bank's portfolio of non-Lebanese sovereign bonds represented 13.1% of the total securities portfolio as at end-December 2021 compared to 14.9% as at end-December 2020. It also represents 4.3% of foreign currency-denominated customers' deposits, compared to 5.1% as at end-December 2020.

Other International Fixed Income Securities

The Bank's exposure to other international fixed income securities decreased in the year 2021 by USD 132 million from USD 533 million as at end-December 2020 to USD 401 million as at end-December 2021. This is mainly due to the decrease of "Loans and Advances to customers at fair value through P&L". The portfolio is still concentrated on banks and financial institution issuers which represent 73% of the total portfolio, while corporate issuers accounted for 9.6% and remainder 17.4% represented loans to customers at fair value through P&L. The portfolio is characterised by a good level of issuer diversification with the highest single issuer position dropping from 10% as at end-December 2020 to 7.4% of the total portfolio as at end-December 2021.

IFRS Classification of Portfolio Securities

On the overall, the classification of the securities portfolio over the various asset classes depends on the basis of the business model of each of the Group's entities for managing the financial assets and the contractual cash flow characteristics of the financial assets. All assets are initially measured at fair value plus, in the case of financial asset not at fair value through profit or loss, particular transaction cost. Assets are subsequently measured at amortised cost, or other comprehensive income or fair value.

The table below sets out the distribution of the Bank's securities portfolio by asset class and currencies as follows:

PORTFOLIO SECURITIES BY ASSET CLASS

(USD Million)	Dec-20	Dec-21	Vol.	%
Financial assets held at FVTPL	260	107	-153	-58.8%
LBP-denominated				
Foreign currency-denominated	260	107	-153	-58.8%
Financial assets designated at fair value through OCI	1,007	773	-234	-23.2%
LBP-denominated	13	13		
Foreign currency-denominated	994	760	-234	-23.5%
Financial assets classified at amortised cost	5,166	4,832	-334	-6.5%
LBP-denominated	2,286	2,023	-263	-11.5%
Foreign currency-denominated	2,880	2,810	-70	-2.4%
TOTAL PORTFOLIO SECURITIES	6,433	5,712	-721	-11.2%
LBP-denominated	2,299	2,036	-263	-11.4%
Foreign currency-denominated	4,134	3,676	-458	-11.1%

As at end-December 2021, financial assets classified at amortised cost continued to represent the vast majority of the portfolio with a share of 84.6% (compared to 80.3% as at end-December 2020). The share of financial assets designated at fair value through OCI was 13.5% at the same date (compared to 15.7% as at end-December 2020) while financial assets held at fair value through profit or loss accounted for the remaining 1.9% (4% as at end-December 2020).

The following table sets out the distribution of financial assets classified at amortised cost by type of security, as at end-December 2021 as compared to end-December 2021, and underscoring a stable structure across dates:

DISTRIBUTION OF FINANCIAL ASSETS CLASSIFIED AT AMORTISED COST BY TYPE

(USD Million)	Dec-20	Dec-21	Vol.	%
Central Bank of Lebanon certificates of deposit	2,640	2,562	-78	-3.0%
Net Lebanese Treasury bills and Eurobonds	2,065	1,874	-191	-9.2%
Risk-ceded government Eurobonds	153	67	-86	-56.2%
Other non-Lebanese sovereign securities	190	139	-51	-26.8%
Other fixed income securities	118	190	72	61.0%
Financial assets classified at amortised cost	5,166	4,832	-334	-6.5%

4.2.1.3. Loan Portfolio

Bank Audi offers a full range of credit products to corporates, governments and institutional clients, as well as to small and medium-sized enterprises (SMEs) and to Retail and Private Banking customers. In addition, the Bank has shown a strong expertise in the provisions of Private Banking services, among which Lombard lending, underscoring a form of lending against a diversified portfolio of liquid securities.

Due to the persistent Lebanese acute economic crisis and the health pandemic since 2020, as well as the highly volatile Turkish macroeconomic environment (including high interest rates and inflationary conditions, and devaluation of the local currency versus the USD Dollar), the Bank continued to be faced in 2021 with challenging credit conditions in its main markets of presence.

As a result, Bank Audi pursued the same guidelines implemented during the recent past years aiming at mitigating the impact of the economic pressure on its loan and asset quality metrics through the implementation of a series of measures. The latter include:

i) De-risking strategy and tightened lending criteria in Lebanon and Turkey (lending mainly in local currency, targeting defensive industries …).
ii) Proactively managing problem loans portfolio through regular follow-up on a name-by-name basis, in close cooperation with Management through Remedial Committee meetings.
iii) Strengthening collective and specific provision coverages.

What follows is a discussion of the main drivers behind the evolution of the consolidated loan portfolio during 2021:

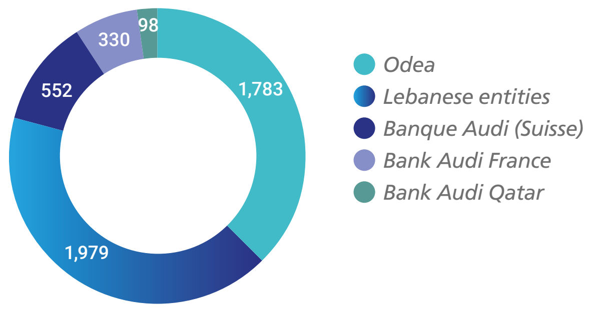
The Bank's loan portfolio contracted by 22.7% in 2021, corresponding to a decrease by USD 1.4 billion, from USD 6.1 billion as at end-December 2020 to USD 4.7 billion as at end-December 2021. This was primarily due to:

- A net decrease of USD 571 million in Lebanese entities of which USD 350 million in retail portfolio, driven mainly by the collective efforts and pre-settlement of loans mainly in foreign currency in anticipation of a currency weakening.
- A net decrease of USD 724 million in Turkey's operations mainly attributed to FX effect following the devaluation of the Turkish Lira by 46% versus the US Dollar over the period.

A distribution of net loans by entity as at end-December 2021 reveals that 42% of consolidated net loans were booked in entities operating in Lebanon, 38% in Odea Bank (Turkey), 12% in Banque Audi (Suisse) (Switzerland), and 9% in other entities.

BREAKDOWN OF NET LOANS & ADVANCES BY ENTITY AS AT END-DECEMBER 2021

(USD Million)



2021

Analysis of Loans by Class of Borrower

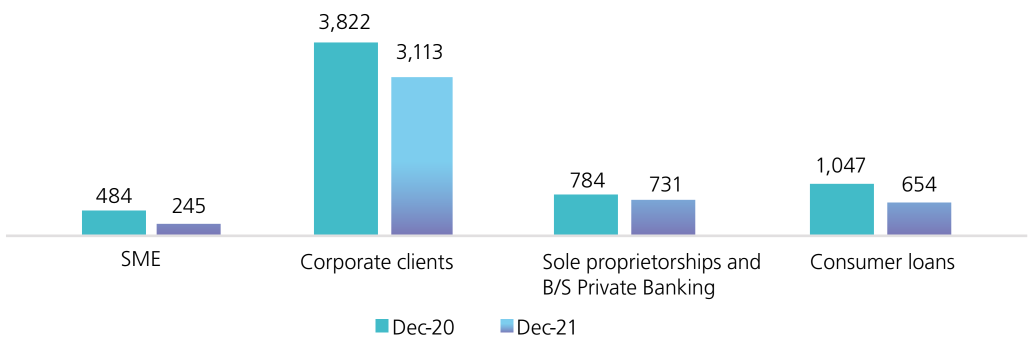
The distribution of the Bank's consolidated loan portfolio by type of borrower continues to show a concentration in the corporate segment with 66% of the loan book as at end-December 2021, followed by Individuals & Sole Proprietorship and Private Banking representing 15% of the portfolio.

Consumer loans, which was the second largest segment at end-December 2020 with 17%, constitutes 14% of the portfolio as at end-December 2021 with a remarkable decrease by 38% in absolute terms compared to December 2020.

The USD 1,394 million decrease in consolidated net loans was reflected across all sectors, noticeably in the consumer loans with a drop of USD 393 million.

BREAKDOWN OF NET LOANS & ADVANCES BY TYPE OF CUSTOMER

(USD Million)



Analysis of Loans by Economic Sector

At 21% of the consolidated net loan portfolio, the financial intermediaries sector represents the largest industry concentration as at end-December 2021, despite a drop in the exposure to this sector by USD 111 million during the year (-10%).

BREAKDOWN OF NET LOANS AND ADVANCES BY ECONOMIC SECTOR

(USD Million)	Dec-20	%	Dec-21	%
Manufacturing	778	13%	599	13%
Transportation & communication	210	3%	50	1%
Consumer loans	1,047	17%	654	14%
Contractors	156	3%	125	3%
Trade	590	10%	552	11%
Real estate services & developers	981	16%	796	17%
Financial intermediaries	1,103	18%	992	21%
Other loans	1,271	20%	975	20%
Total	6,136	100%	4,743	100%

On the backdrop of the high level of loans denominated in foreign currencies amid the unprecedented high economic volatility witnessed in both Lebanon and Turkey, Management continues to prioritise the contraction of the exposure in risky sectors.

Analysis of Loans by Maturity

The following table shows the breakdown of the loan portfolio by maturity as at end-December 2021 compared to end-December 2020. An analysis of the evolution of the loan book across those dates shows that the USD 1,394 million decrease in net loans generated mainly by long term facilities (USD -911 million) and short term facilities (USD -570 million) amid a slight increase in medium term facilities mainly in local currency (USD +88 million).

BREAKDOWN OF NET LOANS & ADVANCES BY MATURITY SINCE INCEPTION

(USD Million)	Dec-20	%	Dec-21	%
Short-term facilities	2,094	34%	1,524	32%
Medium-term facilities	837	14%	925	20%
Long-term facilities	3,205	52%	2,294	48%
Total	6,136	100%	4,743	100%

Analysis of Loans by Currency

The share of consolidated loans denominated in US Dollars stood at 32% as at end of December 2021, decreasing relative to end-December 2020 (36%).

At the level of the main operating entities:

- 35% of loans booked in Lebanese entities are denominated in foreign currencies, down from 51% as at end-December 2020, an evolution reflecting the new lending strategy in local currency, as well as the implemented collection efforts on the backdrop of growing concerns of devaluation of the Lebanese Pound, leading to substantial prepayments of FX exposures.
- 54% of the loan book in Odea Bank is denominated in foreign currencies compared to 48% as at end-December 2020, with the remainder denominated in Turkish Lira. The change in structure of loans in Odea Bank is mainly due to the devaluation of the Turkish Lira compared to the US Dollar between December 2020 and December 2021 despite the efforts made in terms of local currency lending and decrease of foreign currency exposures.

The following charts show the distribution of the Bank's loan portfolio by currency as at end-December 2021 as compared to end-December 2020:

BREAKDOWN OF NET LOANS & ADVANCES BY CURRENCY

Analysis of Loans by Type of Collateral

At end-December 2021, 55% of the consolidated net loan portfolio was secured, predominantly by real estate mortgages (33%). The decrease in secured portfolio is due to settlement of loans in Lebanese entities, an impairment on Lebanese pledged securities which led to a reclassification of loans, and FX effect following the devaluation of the Turkish Lira.

The following table shows the distribution of the Bank's loan portfolio by type of collateral as at end-December 2021 as compared to end-December 2020:

BREAKDOWN OF NET LOANS & ADVANCES BY COLLATERALS

(USD Million)	Dec-20	%	Dec-21	%
Secured	3,907	64%	2,587	55%
Cash co. & bank guarantee	460	8%	362	8%
Real estate mortgage	2,482	40%	1,559	33%
Securities (bonds & shares)	784	13%	497	10%
Vehicles	96	2%	72	2%
Others	85	1%	97	2%
Unsecured	2,229	36%	2,155	45%
Total	6,136	100%	4,743	100%

Loan Quality

The Bank has been continuing its de-risking efforts in the face of political, economic and regulatory challenges, thus bringing down the consolidated net loan book from USD 6.1 billion as at end-December 2020 to USD 4.7 billion as at end-December 2021. At the same time, the Bank maintained its strategy of strengthening its provisioning coverage ratios.

In order to estimate the collective and specific provisions requirements and report loan quality metrics, the Group relies on a comprehensive set of information related to each borrower. These include borrowers' overall financial conditions, expected cash flow, available resources, payment history, and likelihood of support from financially reliable guarantors and, when applicable, the realisable value of collateral.

The Group ensures that allocated provisions on its loan portfolio are fully in line with the estimated Expected Credit Loss (ECL) calculations as per the IFRS 9 standard, both for performing and non-performing portfolios.

- For non-consumer loans, the Group estimates ECL using a Probability of Default (PD) and Loss Given Default (LGD) approach.

- For consumer loans, each product portfolio is collectively evaluated for impairment and the provision for loan losses is determined through a process that estimates the expected losses inherent in the portfolio based on historical delinquency flow rates and credit loss experience, including a forward-looking component.

The following table shows the Bank's main asset quality indicators as at end-December 2021 as compared to end-December 2020:

LOAN QUALITY(*)

(USD Million)	Dec-20	Dec-21	Change Dec-21/Dec-20
Credit-impaired loans	1,098	**747**	**-351**
o.w. Corporate	874	560	-314
o.w. Retail	224	186	-38
Net loans	6,136	**4,743**	**-1,394**
o.w. Corporate	5,084	4,084	-1,000
o.w. Retail	1,052	658	-394
Allowance for ECL Stage 3	607	**498**	**-109**
o.w. Corporate	450	347	-103
o.w. Retail	157	152	-5
Allowance for ECL Stages 1 & 2	**430**	361	**-69**
o.w. Corporate	348	266	-82
o.w. Retail	82	95	13
Credit-impaired loans/Gross loans	**15.3%**	13.3%	**-2.0%**
o.w. Corporate	14.9%	11.9%	-3.0%
o.w. Retail	17.4%	20.6%	3.2%
Net credit-impaired loans/Gross loans	**6.8%**	4.4%	**-2.4%**
o.w. Corporate	7.2%	4.6%	-2.6%
o.w. Retail	5.2%	3.8%	-1.4%
Credit-impaired loans coverage	**55.3%**	66.7%	**11.4%**
o.w. Corporate	51.5%	61.9%	10.4%
o.w. Retail	69.9%	81.3%	11.4%
Allowance for ECL Stages 1 & 2/Net loans	**7.0%**	7.6%	**0.6%**
o.w. Corporate	6.9%	6.5%	-0.4%
o.w. Retail	7.8%	14.4%	6.6%

(*) *As per IFRS 9.*

Credit-impaired loans or Stage 3 loans decreased by USD 351 million or (-32%) in 2021, representing 13.3% of gross loans compared to 15.3% as at end-December 2020, reaching a total of USD 747 million. This was mainly driven by the sustainable efforts of recovery that occurred.

In parallel, allowances for ECL Stage 3 decreased by a mere USD 109 million over the period justified by the reduction of the Stage 3 portfolio. As a result of the slight drop in provision compared to the decrease in Stage 3 loans, coverage ratio of the Stage 3 credit-impaired loans by ECL allowances for Stage 3 increased to 66.7% as at end-December 2021 from 55.3% as at end-December 2020. The Bank also relies on real guarantees which will increase the coverage to 93% providing a comfortable buffer.

Concurrently, Stage 2 loans improved by (-27.4 %), contracting in absolute terms by USD 386 million over the same period, while credit allowances on those loans represented 16.9% as at end-December 2021 compared to 15.7% as at end-December 2020. The decrease in Stage 2 loans is due to collective efforts and clients prepaying their USD-denominated loans in anticipation of a devaluation of LBP in Lebanon on the one hand and the significant devaluation of the Turkish Lira on the other hand.

As a result, the share of Stage 1 loans in gross loans improved by 3.4 %, from 65.1 % at end-December 2020 to 68.4% as at end-December 2021, mirroring a decrease in the share of Stage 2 loans in gross loans by 1.4 % and of Stage 3 by 2.0 % over the same period.

Given the uncertainties in the main markets of presence of the Bank with:

(i) the absence of clear strategies around the future operating environment in Lebanon and borrowers' ability to meet, in particular, their foreign-currency denominated obligations in the plausible events of regulatory restrictions on FX conversions or an LBP devaluation on the official exchange market, and

(ii) the significant Turkish Lira devaluation whose impact on ODEA's asset quality was previously alleviated by the IFRS9 regulatory forbearance measures which expired in October 2021.

Management believes that the quality of the loan portfolio will remain subject to significant pressure in the near future.

4.2.2. | FUNDING SOURCES

Funding sources of Bank Audi sal continue to be predominantly driven by private customers' deposits. At end-December 2021, consolidated deposits represented 74.8% of total funding sources compared to 60.8% as at end-December 2020. Central Bank and banks' deposits including repurchase agreements, subordinated debt and shareholders' equity had shares in total funding of 10.3%, 3.0% and 9.3% as at end-December 2021 respectively, compared to 10.4%, 2.2% and 8.3% as at end-December 2020, while other liabilities, including liabilities related to non-current assets held for sale, had a share in total funding of 2.6% compared to 18.3% as at end-December 2020.

The significant differential in the share of other liabilities in total funding relative to year-end 2020 is justified by the fact that consolidated figures as at end-December 2020 included the contribution of deemed discontinued operations (Bank Audi Egypt, Bank Audi sal – Jordan Branches and Bank Audi sal – Iraq Branches in light of their then prospective sale) which were aggregated in the line-by-line structure under "other liabilities". Figures as at end-December 2021, subsequent to the completion of the sale of these entities, represent the consolidated figures without any contribution of discontinued operations.

The following table sets out the distribution of the Bank's sources of funding as at the indicated dates:

BREAKDOWN OF FUNDING SOURCES

(USD Million)	Dec-20	Dec-21	Vol.	%
Central Bank's deposits	**2,670**	2,351	**-319**	**-12%**
Time deposit	*2,282*	*2,212*	*-70*	*-3%*
Repurchase agreements	*387*	*139*	*-248*	*-64%*
Banks' deposits	**1008**	**407**	**-601**	**-60%**
Sight deposits	*160*	*80*	*-80*	*-50%*
Time deposits	*753*	*302*	*-451*	*-61%*
Repurchase agreements	*95*	*26*	*-69*	*-73%*
Customers' and related parties' deposits	**21,528**	**20,101**	**-1,427**	**-7%**
Sight deposits	*8,734*	*10,344*	*1,610*	*18%*
Time deposits, saving accounts and certificates of deposit	*12,549*	*9,412*	*-3,137*	*-25%*
Collateral and margins	245	345	100	41%
Subordinated loans	**797**	**817**	**20**	**3%**
Other liabilities	**6,477**	**689**	**-5,788**	**-89%**
Shareholders' equity	**2,951**	**2,492**	**-459**	**-16%**
Total	35,431	**26,857**	**-8,574**	**-24%**

4.2.2.1. Changes in Customers' Deposits

Consolidated customers' deposits (including related-party deposits) amounted to USD 20.1 billion at end-December 2021 as compared to USD 21.5 billion as at end-December 2020, decreasing by USD 1.4 billion during the year. By geography, this decrease is totally attributed to entities operating in Lebanon registering a decrease by USD 958 million over the same period, as well as to Odea Bank in Turkey reporting a contraction by USD 566 million over the period, justified principally by a negative FX translation impact at consolidation level due to the devaluation of the Turkish Lira versus the US Dollar over the same period. In parallel, customers' deposits of European entities increased by USD 130 million during the year, partially offset by a decrease in deposits in other MENA entities by USD 32 million.

The contraction of deposits of Lebanese entities by USD 958 million reflects a contraction in deposits denominated in foreign currencies by USD 1,052 million within an increase in deposits denominated in LBP by USD 93 million. Customers' deposits of Lebanese entities stood at USD 14.4 billion as at end-December 2021, of which USD 11.6 million in foreign currencies and USD 2.9 billion denominated in LBP.

Subsequently, Lebanese entities account for a share of 71.9% in consolidated customers' deposits as at end-December 2021, followed by a contribution of 14.1% for Odea Bank, 13.6% from entities operating in Europe, and 0.5% from entities operating in the GCC, as compared to 71.6%, 15.8%, 12.1% and 0.6%, respectively, as at end-December 2020.

Analysis of Customers' Deposits by Business Segment

The following table sets out the breakdown of consolidated customers' deposits over business segments as at end-December 2021 as compared to end-December 2020:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY SEGMENT

	Dec-20		Dec-21		Change	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers and related parties	21,528	100.0%	20,101	100.0%	-1,427	
Corporate & SME banking	2,906	13.5%	2,943	14.6%	37	1.1%
Retail & Personal Banking (including public sector)	18,622	86.5%	17,158	85.4%	-1,464	-1.1%

In 2021, the decrease of customers' deposits is skewed towards Retail & Personal Banking deposits. The latter decreased by USD 1.5 billion during the year, from USD 18.6 billion as at end-December 2020 to USD 17.2 billion as at end-December 2021. In parallel, the share of Retail & Personal Banking deposits in total consolidated customers' deposits dropped from 86.5% as at end-December 2020 to 85.4%.

Corporate and SME Banking deposits remained stable across those dates standing at USD 2.9 billion. Owing to the decrease in total consolidated deposits, their share in the total increased from 13.5% to 14.6%.

Analysis of Customers' Deposits by Type

The following table sets out the Bank's consolidated customers' deposits by type as at end-December 2021 and as at end-December 2020:

BREAKDOWN OF CUSTOMERS' DEPOSITS BY TYPE

	Dec-20		Dec-21		Change	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Deposits from customers and related parties	21,528	100.0%	20,101	100.0%	-1,427	
Sight deposits	8,734	40.6%	10,344	51.5%	1,610	10.9%
Time deposits	10,119	47.0%	8,823	43.9%	-1,296	-3.1%
Saving accounts	2,429	11.3%	589	2.9%	-1,840	-8.4%
Margin deposits	73	0.3%	58	0.3%	-15	
Others deposits	172	0.8%	287	1.4%	115	0.6%

As at end-December 2021, the distribution of consolidated customer's deposits over time (including saving accounts and certificates of deposit) and sight deposits (including margin and other deposits) is skewed toward sight deposits. Sight deposits accounted for the majority of total deposits as at end-December 2021 with a share of 53.2%, compared to 41.7% as at end-December 2020. Consolidated sight and other short term deposits increased by USD 1.7 billion during the year, from USD 9 billion as at end-December 2020 to USD 10.7 billion as at end-December 2021. This evolution underscores the low confidence level of depositors, the prevailing high uncertainties and the extremely low cost of deposits in Lebanon that has compelled some of those depositors to keep their savings in sight deposits awaiting a resolution of the current financial crisis.

On the other hand, time deposits (including saving deposits and certificates of deposit) stood at USD 9.4 billion as at end-December 2021, decreasing by USD 3.1 billion during the year, from USD 12.5 billion as at end-December 2020. Part and parcel of time deposits are credit-linked deposits which represent a product offered by the Bank to qualified investors comprising of a higher return on their deposits denominated in USD than the regular time deposit against an option for the Bank to redeem the deposit of those qualified investors at maturity, either in cash or with Lebanese Eurobond set face value. As at end-December 2019, on the onset of the Lebanese crisis, credit-linked deposits amounted to USD 494 million. The Bank had the option, at each subsequent maturity, to repay those deposits with Lebanese Eurobonds at a value of 17% of their par value following the default of the Lebanese sovereign and book close to USD 400 million in gains. However, it elected to offer CLD holders the opportunity to take 25% of the outstanding amount in local deposits and 75% in 4 years and 9 years certificates of deposit issued by the Central Bank. So far, holders having 94% of the outstanding CLD amount chose to subscribe to this offer.

Analysis of Customers' Deposits by Maturity

The following table sets out the maturity profile of the Bank's consolidated customers' deposits as at end-December 2021 and as at end-December 2020:

BREAKDOWN OF DEPOSITS BY MATURITY

	Dec-20		Dec-21		Change Dec-21/Dec-20	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Less than 1 month	16,622	77.2%	16,833	83.7%	211	6.5%
1-3 months	2,068	9.6%	1,357	6.8%	-711	-2.8%
3-12 months	1,555	7.2%	1,439	7.2%	-116	
Less than 1 year	**20,246**	**94.0%**	**19,629**	**97.7%**	**-616**	**3.7%**
1-5 years	1,260	5.9%	453	2.2%	-807	-3.7%
Over 5 years	23	0.1%	19	0.1%	-4	
More than 1 year	**1,283**	**6.0%**	**472**	**2.3%**	**-811**	**-3.7%**
Total	21,528	100.0%	20,101	100.0%	-1,427	

In 2020, the share of customer's deposits with maturities of less than one month in consolidated deposits rose from 77.2% as at end-December 2020 to 83.7% as at end-December 2021, highlighting once again the drivers of the aforementioned increase in sight deposits. Although consolidated customers' deposits have historically displayed behavioural stickiness across the past decades, whereby short term deposits are typically rolled over following the expiry of their term, the informal capital controls in effect in Lebanon since October 2019 hamper in practice seriously any outbound and even inbound outflows of deposits. At end-December 2021, 97.7% of consolidated customers' deposits had maturities of less than 1 year (compared to 94% as at end-December 2020), while the remaining 2.2% were deposits with maturities between 1-5 years.

Analysis of Customers' Deposits by Currency

The following table sets out the distribution of the Bank's customers' deposits by currency as at end-December 2021 as compared to end-December 2020.

BREAKDOWN OF DEPOSITS BY CURRENCY

	Dec-20		Dec-21		Change Dec-21/Dec-20	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	Share in Total
Lebanese Pound	2,799	13.0%	2,893	14.4%	94	1.4%
US Dollars	14,954	69.5%	13,905	69.2%	-1,049	-0.3%
Turkish Lira	1,067	4.9%	808	4.0%	-259	-0.9%
Euro	2,068	9.6%	1,835	9.1%	-233	-0.5%
Other currencies	640	3.0%	660	3.3%	20	0.3%
Total	21,528	100.0%	20,101	100.0%	-1,427	

Customers' deposits denominated in US Dollars continued to comprise the bulk of consolidated customers' deposits as at end-December 2021 and 2020. Customers' deposits denominated in Euros accounted for 9.1% of total customers' deposits as at end-December 2021 as compared to 9.6% as at end-December 2020, while the share of customers' deposits denominated in Turkish Lira decreased by 0.9% to 4% of total customers' deposits as at end-December 2021, from 5.0% as at end-December 2020.

4.2.2.2. Subordinated Debt

As at end-December 2021, the Bank continued to have four unsecured subordinated loans of an aggregate amount of USD 817 million (including USD 46 million accruals), or 4.1% of consolidated customers' deposits and 3.0% of total liabilities and shareholders' equity. Below is a detailed description of those loans:

USD 276 Million Due 1 August 2027 – 7.625%

On 31 October 2014, the Bank extended a subordinated loan to Odea Bank, its wholly-owned subsidiary in Turkey, amounting to USD 150 million, bearing an interest rate of 6.5% and maturing on 30 September 2024. In accordance with applicable BRSA regulations, this loan was treated as Tier 2 capital of Odea Bank; it was eliminated on a consolidated level, along with other intra-group adjustments. In the first half of 2015, the Bank securitised this loan (through the issuance of certificates of participation) with third party investors subscribing for USD 138 million (accounted for as consolidated Tier 2 equity in accordance with applicable regulations). Bank Audi Egypt subscribed for USD 8 million and Audi Capital (KSA) subscribed for USD 4 million. On 1 August 2017, Odea Bank issued subordinated unsecured notes in the amount of USD 300 million to third parties, through replacing the previous issuance. These notes mature on 1 August 2027 and pay a semi-annual interest of 7.625%. The notes are listed on the Main Securities Market of the Irish Stock Exchange. Odea Bank shall repay the notes at maturity and may repay the notes in whole, but not in part (1) starting from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation. As of 31 December 2021, the total amount bought back amounted to USD 24 million. Odea Bank A.Ş. has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amounts at any time is completely at Management's discretion.

USD 150 Million Due 11 April 2024 – 6.55% over 6-month LIBOR

On 27 March 2014, the Bank entered into subordinated loans with the IFC and the IFC Capitalisation Fund in an aggregate amount of USD 150 million. The repayment date for the loans is 11 April 2024, subject to early redemption or acceleration (which is, in turn, subject to Central Bank approval). The loans bear interest at a rate of 6.55% over six-month LIBOR and certain fees are payable, in each case, on a bi-annual basis, subject to the availability of distributable free profits in accordance with the Central Bank's Basic Circular 6830, as applicable at the time of entry into the loans. As per the agreement terms, if on a particular interest payment date, the Group does not determine it had free profits available for distribution based on the most recent audited financial statements, the Group's obligation to pay such interest shall be deferred and become due and payable on the next interest payment date, to the extent of free profits then available, and if not then available, such deferral shall continue until the interest payment date when all interests have been paid in full.

In light of the severity of the Crisis in Lebanon, the prevailing uncertainties and its effect on the Group's financial position retaining earnings and equity which the Group anticipates to be material leading to a need for recapitalisation, and hence the unavailability of distributable free profits, interest payments under this agreement have been deferred. As at 31 December 2021, deferred interest payable amounted to USD 22.8 million and was recorded under "Other liabilities".

USD 346,743,000 Due 16 October 2023 – 6.75%

In September 2013, the Bank issued USD 350 million of subordinated unsecured bonds. The repayment date for the bonds was 16 October 2023, subject to early redemption or acceleration. The bonds carried an annual interest rate of 6.75% payable on a quarterly basis. During 2019, the Bank acquired notes with a notional amount of USD 3.3 million for a total consideration of USD 2.6 million, leaving an outstanding sub debt amount of approximately USD 347 million.

In its meeting held on 12 February 2021, the Ordinary General Assembly, pursuant to a recommendation of the Board of Directors, resolved to proceed with the issuance of new unsecured subordinated notes under Lebanese law, the 2022 subordinated notes, to be subscribed to through the voluntary exchange of the existing subordinated notes.

On 21 October 2021, the Bank announced an invitation to holders of subordinated notes to exchange all of their existing notes for (i) an equivalent principal amount of new notes; and (ii) a cash Amount (as defined in the exchange offer memorandum and below) upon the terms and subject to the conditions set forth in the exchange offer memorandum. Existing holders who do not submit an exchange instruction prior to the settlement deadline will have their existing notes cancelled in exchange for the issue of new notes. The noteholder meeting, set to be held on 2 December 2021, was not quorate and was hence adjourned to 20 January 2022. The latter meeting was also not quorate and was further adjourned to 28 February 2022, date at which the necessary quorum was reached (with 68.08% of the aggregate principal amount of the outstanding existing notes then outstanding being represented) and the resolution was duly passed (with 92.98% of the votes being cast in favour of the resolution).

On 15 July 2021, the Bank received Banque du Liban's approval for the exchange offer. On 28 March 2022, the Bank received a letter from Banque du Liban with the amended approval, passed by a decision of the Central Council of Banque du Liban on 23 March 2022, to include certain items, including the inclusion of the put option, in the terms and conditions of the new notes.

On 30 March 2022, the Bank and the Trustee entered into the Supplemental Trust Deed in order to give effect to the resolution.

Subsequently, on 19 April 2022, the Bank proceeded with the exchange of all the existing notes with new issued notes and the settlement of the exchange offer. The terms and conditions of the new notes are summarised below:

- Maturity date: 19 April 2027.
- Upfront interest payment of 10% payable on 19 April 2022, subject to 10% withholding tax.
- Interest payment of 5% p.a., subject to 10% withholding tax, which will start to accrue on 19 April 2022 and will be payable quarterly in arrears.
- Put option at the discretion of the noteholder who may choose to redeem the note at 90.5% of principal amount. The settlement date of the put option is 19 May 2022.
- In connection to the Exchange, a cash amount of 118.6875 per 1,000 in principal amount is payable, grossed up, on 19 April 2022.
- These notes are not eligible for integration in Tier 2 in the calculation of the capital adequacy ratio.

On 11 May 2022, the General Assembly resolved to approve: 1) granting of a put option in favour of the holders of the 2022 subordinated notes issued on 19 April 2022 pursuant to the resolution of the Ordinary General Assembly Meeting held on 12 February 2021, and (ii) all other terms of the 2022 subordinated notes, as per the Board of Directors' proposal and recommendations.

As at 19 May 2022, holders of notes representing USD 230 million had exercised the put option out of USD 347 million outstanding (66% of the total).

4.2.2.3. Shareholders' Equity

Consolidated shareholders' equity contracted by USD 459 million in 2021, the equivalent of 15.6%, from USD 2,951 million as at end-December 2020, to stand at USD 2,492 million as at end-December 2021. The share of consolidated shareholders' equity in total assets increased from 8.3% as at end-December 2020 to 9.3% as at end-December 2021, owing to a faster decrease in consolidated assets attributed to the sale of the foreign operations.

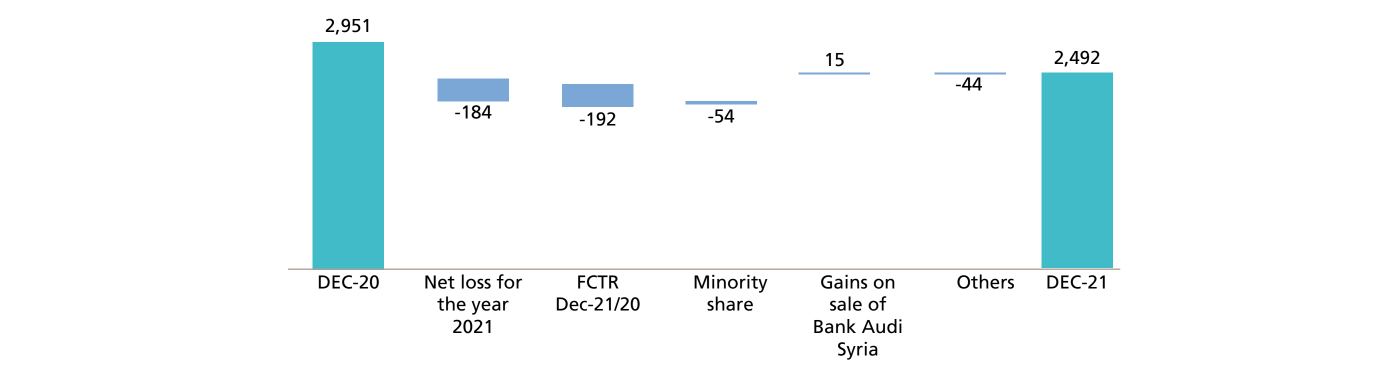
The decrease in consolidated shareholders' equity by USD 459 million was primarily due to:
- USD 184 million of net losses realised in 2021.
- USD 192 million of negative changes in foreign currency translation reserves principally following the devaluation of the Turkish Lira versus the US Dollar by 46%, from TRY 7.34 for each USD to TRY 13.5 for each USD.

- A net decrease in the minority share of mainly Odea Bank by USD 54 million.
- USD 15 million of gains on sale of Bank Audi Syria, as well as other instruments held at FVTOCI, in addition to
- USD -44 million other equity changes.

The movement in shareholders' equity during the year 2021 continues to reflect on the one hand the impact of the Lebanese crisis, in addition to the remedial measures undertaken thus far by the Group, as clearly highlighted in the chart below:

EVOLUTION OF SHAREHOLDERS' EQUITY IN 2021

(USD Million)



As at end-December 2021, total shareholders' equity comprised USD 1,829 million of common equity group share, in addition to USD 600 million of preferred equity and USD 62 million of minority shares. This is compared to USD 2,240 million, USD 600 million and USD 111 million respectively as at end-December 2020.

The Bank's common share capital amounted to USD 652 million, the same level as at end-December 2020. Said share capital represented 588,538,215 common shares (BSE: AUDI) as at end-December 2020 and 2021, each with a nominal value of LBP 1,670, of which 119,639,761 were represented by Global Depositary Receipts listed on the Beirut Stock Exchange (BSE: AUSR).

The USD 600 million of preferred equity represents 3 series as follows: Series "H" comprising of 750,000 shares, Series "I" of 2,500,000 shares and Series "J" of 2,750,000, all having a par value of USD 100 per share. The terms of Series "I" and "J" preferred shares include a loss absorption clause whereby a trigger event (capital adequacy or non-viability event) could result in the mandatory conversion of those preferred shares to common shares at a ratio of 15 common shares for each preferred shares. Such conversion would increase common shares by 78,750,000 shares.

The Bank's shareholders' equity is supported by a supplemental capital in the form of subordinated debt. As at end-December 2021, the Bank's subordinated debt stood at USD 817 million, of which USD 497 million issued by Bank Audi Lebanon (USD 150 million subscribed by IFC and USD 347 million subscribed by qualified investors). Accounted for as regulatory Tier 2 capital, the subordinated debt issued by Bank Audi Lebanon carries a loss absorption clause similar to the one of the preferred shares previously mentioned. Please refer to the previous section for further details.

Capital Adequacy

The regulatory capital of Bank Audi registered a contraction by USD 635 million in 2021, from USD 3,756 million as at end-December 2020 to USD 3,121 million as at end-December 2021 or by 16.9%, mirroring the decrease in consolidated equity by 15.6%. The said decrease is broken down over a decrease in Core Equity Tier 1 capital by USD 524 million and Tier 2 capital by USD 110 million. While the former is mostly justified by the USD 184 million loss registered over the period, as well as the USD 211.5 negative changes in the FCTR mainly following the devaluation of the Turkish Lira, the latter stems from amortization of subordinated debts issues maturing respectively in 2023 and 2024 in addition to a minor decline of minority share contribution to Tier 2 . Subsequently, the Bank's CET1 capital reached USD 2,159 million as at end-December 2021 compared to USD 2,679 million as at end December 2020. In parallel, Tier 2 capital stood at USD 350 million compared to USD 460 million as at end-December 2020.

In parallel, consolidated risk weighted assets contracted by 24.9% during the year 2021, mirroring the contraction of consolidated assets, reaching USD 21,505 million as at end-December 2021 compared to USD 28,619 million as at end-December 2020. Subsequently, the RWAs density remained almost stable across both dates, reaching 80.1% as at end-December 2021 compared to 80.8% as at end-December 2020.

The decrease in consolidated risk-weighted assets by USD 7.1 billion in 2021 is mainly attributed to:

- A USD 2.0 billion decrease of risk weights on BdL placements following their opportunistic transfer from long term maturities carrying risk weights of 150% to shorter ones with risk weights of 50%.
- A USD 2.8 billion decrease following the deconsolidation of entities in Egypt, Jordan and Iraq because of their sale.
- A USD 458 million decrease following a regulatory change of risk weights on unrated corporate loans from 150% to 50%.
- A USD 256 million contractionary impact on the contribution of Odea Bank following the devaluation of the Turkish Lira versus the US Dollar, with
- The remainder mostly accounted for by the continued deleveraging of the loan portfolio across all entities save for Odea Bank.

Based on a faster contraction in consolidated risk weighted assets than in regulatory capital, all components of the Bank's capital ratios improved in 2021: CET1 ratio moved from 9.4% as at end-December 2020 to stand at 10.0% as at end-December 2021, well exceeding the regulatory minimum of 4.5%. Additional Tier 1 ratio improved as well by 0.6% to reach 2.8%, while Tier 2 capital ratio remained stable across those dates standing at 1.6%. As a result, the Bank's capital adequacy ratio improved by 1.4% over the period, from 13.1% as at end-December 2020 to 14.5% as at end-December 2021.

The following table sets out the Bank's capital adequacy ratios as at end-December 2021 and end-December 2020:

CAPITAL ADEQUACY RATIO

(USD Million)	Dec-20	Dec-21	Change Dec 21/20
Risk-weighted assets	28,619	**21,505**	-7,114
o.w. Credit risk	24,927	18,940	-5,987
o.w. Market risk	1,572	1,512	-60
o.w. Operational risk	2,120	1,053	-1,067
Tier 1 capital	3,296	2,772	-524
o.w. Common Tier 1	2,679	*2,159*	*-520*
Tier 2 capital	460	350	-110
Total regulatory capital	3,756	3,121	-635
Common Tier 1 ratio	9.4%	10.0%	0.6%
+ Additional Tier 1 ratio	2.2%	2.8%	0.6%
= Tier 1 ratio	11.5%	**12.9%**	**1.4%**
Tier 2 ratio	1.6%	1.6%	
Total ratio	13.1%	**14.5%**	**1.4%**
Minimum capital requirements(*)			
Common Tier 1 ratio	4.5%	**4.5%**	
+ Additional Tier 1 ratio	1.5%	1.5%	
= Tier 1 ratio	6.0%	**6.0%**	
Tier 2 ratio	2.0%	2.0%	
Total capital ratio	8.0%	**8.0%**	

(*) BdL IC 567 changed the computation of regulatory ratios in 2020-onwards. Waiver on capital conservation buffer of 2.5% for 20 and 21 before progressively reinstating it.

4.3. | RESULTS OF OPERATIONS

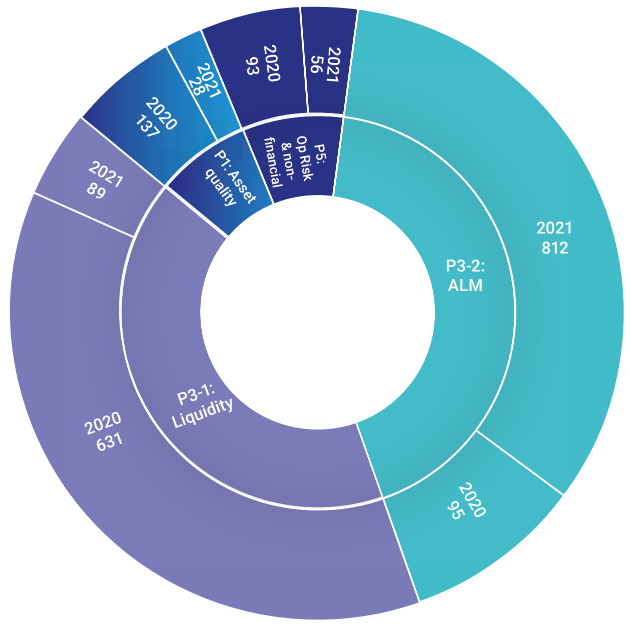
In 2021, Bank Audi reported a consolidated net loss of USD 184 million compared to a net loss of USD 145 million in 2020.

With the outset of the Lebanese crisis in October 2019 and its subsequent impacts, exacerbated by the COVID-19 repercussions on the economies of countries of presence, Management had, early on in the Crisis, decided to pursue a new direction to face the current financial and economic environment revolving around the going concern six pillars as follows: 1- Asset quality; 2- Quality of earnings; 3- Liquidity and ALM; 4- Solvency; 5- Operational and other non-financial risks and 6- Governance (please refer to sections X and section of this MD&A for further details). Within that scope, the Bank decided to allocate all the recurrent operating profits before tax and provisions to provisions while undertaking a number of remedial measures, which were translated in the income statement as one-off flows, reaching USD 754 million in 2020 and USD 959 million in 2021 (and USD1.1 billion in 2019). Out of these amounts, some major expenses are closely related to the six going concern pillars adopted by the Bank, valued at USD 956 million in 2020 and USD 985 million in 2021.

The chart below displays a breakdown of the one-offs expenses incurred by the Bank in 2021 and 2020 over the six going-concern pillars.

BREAKDOWN OF ONE-OFFS EXPENSES OVER SELECTED COMPONENTS OF THE SIX GOING-CONCERN PILLARS

(USD Million)



In summary, these major expenses cover:

- **Asset quality:** USD 165 million, of which USD 137million in 2020 and USD 28 million in 2021, of provisions against mostly the lending portfolio.
- **Liquidity:** USD 720 million, of which USD 631 million in 2020 and USD 89 million in 2021, of markup transactions strengthening liquidity.
- **ALM:** USD 907 million, of which USD 95 million in 2020 and USD 812 million in 2021, of FX cost to reduce open FX position (resulting from operations with customers at preferential rates including USD bought from customers at a rate of 1 USD = 3,900 LBP with no intention to resell to BdL). These operations corollary strengthened capital adequacy (Pillar 4 – Solvency).
- **Operational & non financial risks:** USD 140 million, of which USD 93 million in 2020 and USD 56 million in 2021, of the Group's restructuring cost in addition to a one-off tax charge from the budget law.

Adjusted to those flows tied to the Crisis, consolidated net profits of Bank Audi would have moved from USD 609 million in 2020 to USD 775 million in 2021, representing an increase by USD 166 million or 27.3%.

The table below sets out the evolution of the Bank's net consolidated results in 2021 compared to 2020 while showcasing one-off flows tied to the Crisis and the results of discontinued operations:

SUMMARISED NORMALISED CONSOLIDATED INCOME STATEMENT

(USD Million)	2020	2021	Normalised YOY 2021/2020	
Interest income[1]	884	1,087	203	23.0%
Net of new taxes on financial investments	*180*	*150*	*-30*	*-16.7%*
Non-interest income	150	166	16	10.7%
Total income	1,034	1,253	219	21.2%
Operating expenses	457	510	53	11.6%
Credit expense	37	14	-23	-62.2%
Income tax	21	7	-14	-66.7%
Total expenses	515	531	16	3.1%
Net profits after tax (normalised from operations)	519	722	203	39.1%
Results of discontinued operations	90	53	-37	-41.1%
Net profits after discontinued operations	609	775	166	27.3%
+ Crisis-related one-offs	-754	-959	-205	27.2%
= Net profit (loss) after tax and one-offs	-145	-184	-39	26.9%

[1] Includes interest revenues from financial assets at FVTPL.

The analysis that follows focuses on the flows leading to the normalised net profits from operations, excluding the crisis related one-offs discussed above and net profits from discontinued operations.
By geography, excluding one-off flows, the USD 775 million of consolidated net profits after discontinued operations is broken down over a contribution to net profits of entities operating in Lebanon by USD 688 million amid a contribution of Private Banking entities by USD 16.5 million, Odea Bank by USD 7.6 million, and other entities (mainly Bank Audi France and Bank Audi Qatar) by USD 9.8 million, while the contribution of discontinued operations (Egypt, Jordan and Iraq) reached USD 52.8 million.

The USD 166 million increase in the Group's normalised net profits resulted predominantly from an increase in total income by USD 219 million (i.e. rising by 21.2%) offsetting an increase in total cost by USD 16 million, growing by 3.1%.

The increase in total income is broken down over an increase in consolidated interest income net of withholding tax of USD 203 million (growing by 23.0%), to be added to an increase in consolidated non- interest income by USD 16 million (growing by 10.7% in 2021).

Interest Income

In 2021, consolidated net interest income net of taxes rose by 23.0% relative to 2020, moving from USD 884 million in 2020 to USD 1,087 million in 2021. The USD 203 million increase stems from significant changes in the cost of deposit grid, particularly in Lebanon where cost of deposits is at an all times low of 0.8% in the month of December 2021 amid a de-facto capital control, of which 1.7% on LBP deposits and 0.6% on FCY deposits.

Consolidated net spread improved year-on-year by 1.20%, from 2.38% in 2020 to 3.58% in 2021. Bank Audi Lebanon and Odea Bank are the main drivers of this improvement. Spread in Bank Audi Lebanon moved from 2.9% to 4.5% over the same period. Cost of deposits is the main driver behind the spread enhancement in Lebanon, moving from 3.1% in 2020 to 1.1% in 2021 following strict abidance by the flat customers paid interest rate grid within lower interest paid and received from Banque du Liban.

In parallel, Odea Bank's spread has shrinked from 2.4% in 2020 to 2.1% in 2021, driven by a surge in cost of deposits in the sector in the fourth quarter of 2020 justified by increased market competition. With the yield on assets of Odea Bank gradually catching up with the changes in cost of deposits, Odea Bank's net spread including swaps improved from 1.34% in the fourth quarter of 2020 to 1.25% in the first quarter of 2021, 1.32% in the second quarter of the year, 2.17% in the third quarter of 2021 and 3.43% in the fourth quarter of the year.

Based on the above, the USD 203 million increase in net interest income was due to a price effect of USD 443 million offsetting a negative quantity effect of USD 240 million attributed to consolidated average assets contracting by 18.1%, from USD 37.1 billion in 2020 to USD 30.4 billion in 2021, resulting mostly from the completion of the sale of the entities in Jordan, Iraq and Egypt.

Non-interest Income

Consolidated non-interest income increased from USD 150 million in 2020 to USD 166 million in 2021, corresponding to a rise by 10.7%. This increase by USD 16 million is predominantly accounted for by higher net commissions increasing by USD 21.7 million during the year, coupled with less income from financial operations and other operating income generation.

In parallel, the increase in consolidated net fees and commissions in 2021 relative to 2020 is principally generated in Bank Audi Lebanon (USD 15.2 million including Audi Private Bank contribution), witnessing to the efforts deployed throughout the year to generate additional fees, followed by Banque Audi (Suisse) with USD 8.9 million and Bank Audi France with USD 2.0 million, amid a decrease in the contribution of Odea Bank to consolidated net commissions by USD 7 million mostly due to FX translation effect following the devaluation of the Turkish Lira versus the US Dollar.

Net commissions, excluding one-off flows, represented 0.44% of average assets in 2021, increasing from 0.30% in 2020. In parallel, non-interest income, excluding one-off flows, accounted for 0.55% of average assets in 2021 as compared to 0.40% of average assets in 2020.

Cost of Credit

In 2021, Management allocated a consolidated credit cost of USD 14 million compared to USD 37 million in 2020. The relatively low levels across both dates underscore Management's proactive measures taken at the outset of the Crisis in 2019 to maintain adequate cover for the various IFRS9 stages, particularly at the level of the loan portfolio. As at the date of this report, Bank Audi has USD 130 million of general provisions (compared to USD 105 million as at end-December 2020), which can also be used to cover any additional provision requirements on the loan portfolio in Lebanon, although, with everything else being equal, Management does not foresee significant additional net credit expense on the loan portfolio of entities operating in Lebanon over the short term.

Accordingly, the USD 14 million of consolidated credit cost represent credit loss allowances booked in foreign entities. These are broken down over a USD 8.7 million allocation in Odea Bank, mainly in the form of general provisions, along with USD 6.6 million allocation mainly for Private Banking entities.

Total Operating Expenses

Consolidated general operating expenses increased year-on-year by USD 53 million, from USD 457 million in 2020 to USD 510 million in 2021. The increase reflects principally the impact of the inflation on the cost base, in particular in Lebanon and Odea Bank, totally offsetting the positive contribution of the strict optimisation plan implemented at Bank Audi Lebanon.

In Lebanon, the cost optimisation plan aimed at rightsizing the branch network and human capital with respect to the current level of business activity. Subsequently, it devised to consolidate activity of nearby branches through the temporary closure of selected branches, thereby decreasing the overall number of operating branches in Lebanon from 84 at the outset of the crisis, as at 31 December 2019, to 68 branches as at end-December 2020 and 63 branches as at end-December 2021. Corollary, the number of employees of Bank Audi Lebanon (including Audi Services, Solifac and Lebanon Invest) decreased from 3,123 at the outset of the Crisis to 2,628 staff as at end-December 2020 and to 1,882 as at end-December 2021. The contraction in staff count was facilitated by the voluntary exit of staff principally seeking jobs remunerated in fresh USD locally or internationally. The cost optimisation plan also extended to the reduction of IT investments and related licenses and the conversion of foreign payments related to some operating expenses into local ones. It is worth noting that 94% of the Bank's operating expenses are denominated in LBP, while 2% are in local dollars and 4% in fresh dollars. Although a significant portion of expenses are paid in LBP, some are however indexed to either fresh USD or local USD, or are based on a local oil pricing grid for some services.

Furthermore, in 2021, the Bank paid significant effort to building up on the synergies achieved from the merger of both Audi Private Bank sal and Audi Investments Bank sal under Bank Audi sal. Cost optimisation efforts continue to also be in effect at Odea Bank, although their impact is somehow also negatively impacted by an increased inflation reaching 36% at year-end 2021.

Consolidated total operating expenses reached USD 510 million in 2021, broken down over USD 309 million of staff expenses, USD 154 million of other operating expenses and USD 47 million of amortization and depreciation expenses. By geography, entities operating in Lebanon account for 67% of the consolidated general operating expenses, followed by 20% for Odea Bank, 9% for Private Banking entities, and 3% for other entities, a structure unchanged with respect to 2020.

Income Tax

Consolidated income taxes from normalised continuing operations achieved a mere USD7 million in 2021 as compared to USD 21 million in 2020, decreasing by USD 14 million. Tax savings are justified by tax relief benefits from previous year losses in Lebanon. Consequently, no tax costs were incurred in Bank Audi sal (Lebanon) on recurring income.

Results from Discontinued Operations

In 2021, Management devised to sell its operations in Jordan, Iraq and Egypt in a series of transactions initiated in 2020 and completed in 2021. As per applicable accounting rules, these entities were treated as discontinued operations and the results of their operations were booked under "net profits/loss from discontinued operations".

In 2020, these aforementioned operations generated USD 89.6 million of net profits, principally from Bank Audi Egypt achieving USD 80.7 million of net profits, followed by Bank Audi Jordan Network achieving USD 6.4 million, and Bank Audi Iraq Network achieving USD 2.6 million, coupled with impairment losses of USD 23.1 million.

In 2021, results from discontinued operations reached USD 52.8 million and included USD 36 million of gain from the sale of Bank Audi sae (Egypt) in addition to USD 16 million of net profits generated by Bank Audi sae (Egypt) in the five months leading to the completion of the sale transaction.

Components of ROAA and ROAE

The Bank's profitability ratios in 2021 continued, as in 2020, to be distorted by the magnitude of the one-off flows. A DuPont analysis at consolidated level, excluding the one-off flows and discontinued operation, reveals that the return on average assets stood at 2.37% as at end-December 2021 compared to 1.40% as at end-December 2020.

In turn, net common income represented 32.94% of average common equity compared to 21.7% as at end-December 2020. The table below sets a breakdown of key performance indicators in 2021 and 2020:

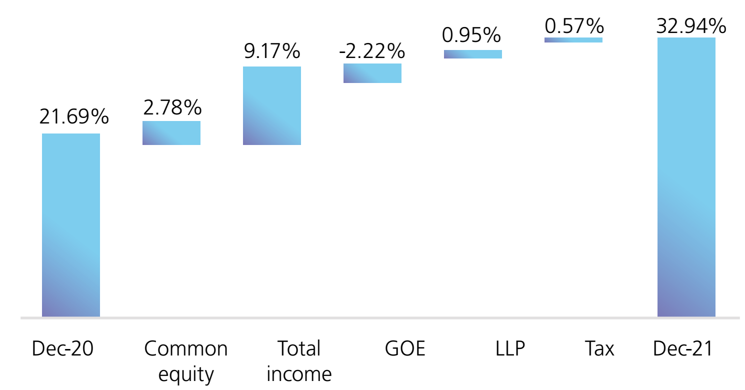
KEY PERFORMANCE METRICS(*)

	2020	2021	Change
Spread	2.38%	3.58%	1.20%
+ Non-interest income/AA	0.40%	0.55%	0.14%
= Asset utilisation	2.79%	4.12%	1.34%
X Net operating margin	50.23%	57.63%	7.40%
o.w. Cost to income	*44.22%*	*40.71%*	*-3.51%*
o.w. Provisons	*3.57%*	*1.12%*	*-2.44%*
o.w. Tax cost	*1.98%*	*0.54%*	*-1.44%*
= ROAA	1.40%	2.38%	0.98%
X Leverage	12.39	10.88	-1.50
= ROAE	17.34%	25.87%	8.52%
ROACE	21.69%	32.94%	11.25%

(*) Based on normalised consolidated income statement.

The chart below details the contribution of the various components to the movement in the return on average common equity ratio in 2021:

EVOLUTION OF ROACE IN 2021



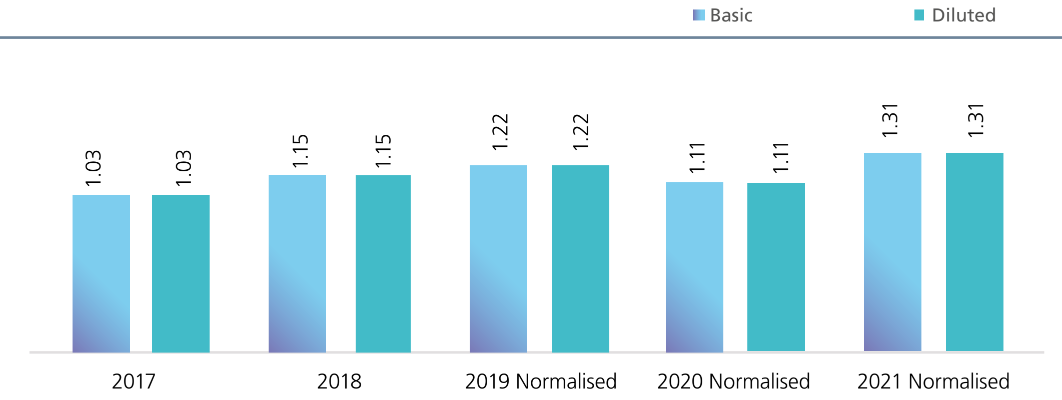
Earnings per Common Share and Common Book per Share

Owing to the net losses realised in 2021 and 2020, "basic earnings per common share" is in the negative territory reaching USD -0.32 in 2021 and USD -0.27 in 2020. Adjusting to the exceptional flows registered across the two years, basic earnings per share would have reached USD 1.31 in 2021 compared to USD 1.11 in 2020.

"Basic earnings per common share" is calculated based on the weighted number of common shares in issue over the period and net profits after tax. For comparison on equal basis, we exclude from the calculation net profits from discontinued operations in 2017, while excluding the exceptional flows in 2019, 2020 and 2021.

EARNINGS PER COMMON SHARE GROWTH

(USD)



The table below sets out the common book per share as at end-December 2021 as compared to end-December 2020:

EQUITY METRICS

(USD Million)	Dec-20	Dec-21	Change	Percent
Shareholders' equity	2,951	2,492	-459	-15.6%
- Minority shares	111	62	-49	-44.1%
= Shareholders' equity group share	2,840	2,429	-411	-14.5%
- Preferred stock (including dividends)	600	600		
= Common shareholders' equity	2,240	1,829	-411	-18.3%
Weighted average of outstanding shares (net of Treasury stock)	545,069	587,366	42,297	7.8%
Common book per share (USD)	4.11	3.11	-1.00	-24.3%
Share price at end-December (USD)	1.22	2.30	1.08	88.5%
P/Common book	0.30	0.74	0.44	146.7%

The common book per share decreased from USD 4.11 as at end-December 2020 to USD 3.11 as at end-December 2021, mirroring the decrease in common equity (please refer to the section titled Shareholders' Equity for further details).

4.4. | RESULTS ACROSS MAIN DEVELOPMENT PILLARS

In 2020, and as mentioned earlier in this discussion, Management placed in discontinued operations its entities in Egypt, Jordan and Iraq because of the imminent completion of their sale. Subsequently, the assets and liabilities of those entities are aggregated respectively under "assets held for sale" and "liabilities held for sale" in the financial position statement. In the income statement, the net profits generated by those operations in 2020 and 2021, as well as the gains from their sale, are booked under "results from discontinued operations".

Today, Bank Audi Group is a leading Lebanese banking group with continuing operations mainly in Lebanon and Turkey, in addition to a number of entities grouped under the Private Banking business line, along with other entities in France and the MENA region. Its consolidated activity and results in 2021 were principally driven by all those constituents.

The table below sets out the contribution of each those entities as at end-December 2021 as compared to end-December 2020:

	Dec-20		Dec-21		Change Dec-21/20	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	%
ASSETS						
Lebanese entities	22,277	62.9%	20,600	76.7%	-1,677	-7.5%
Turkey	5,448	15.4%	4,110	15.3%	-1,338	-24.6%
Private Banking entities	2,146	6.1%	2,033	7.6%	-113	-5.3%
Other entities	1,406	3.9%	1,350	5.0%	-56	-4.0%
Entities held for sale	6,297	17.8%			-6,297	-100.0%
Consolidation adjustments	-2,143	-6.1%	-1,236	-4.6%	907	-42.3%
Total	35,431	100.0%	26,857	100.0%	-8,574	-24.2%
DEPOSITS						
Lebanese entities	15,596	72.4%	14,688	73.1%	-908	-5.8%
Turkey	3,394	15.8%	2,828	14.1%	-566	-16.7%
Private Banking entities	1,693	7.9%	1,726	8.6%	33	1.9%
Other entities	1,036	4.8%	1,100	5.4%	64	6.2%
Consolidation adjustments	-191	-0.9%	-241	-1.2%	-50	26.2%
Total	21,528	100.0%	20,101	100.0%	-1,427	-6.6%
LOANS						
Lebanese entities	2,617	42.6%	1,979	41.7%	-638	-24.4%
Turkey	2,507	40.9%	1,783	37.6%	-724	-28.9%
Private Banking entities	600	9.8%	553	11.7%	-47	-7.8%
Other entities	480	7.8%	428	9.0%	-52	-10.8%
Consolidation adjustments	-68	-1.1%			68	-100.0%
Total	6,136	100.0%	4,743	100.0%	-1,393	-22.7%

Net earnings	FY-2020		FY-2021		Change FY21/FY20	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	%
Lebanese entities	-286	197.2%	-235	127.7%	51	-17.8%
Turkey	13	-9.0%	12	-6.5%	-1	-7.7%
Private Banking entities	21	-14.4%	13	-7.1%	-8	-38.1%
Other entities	17	-11.7%	9	-4.9%	-8	-47.1%
Entities held for sale	90	-62.1%	17	-9.2%	-73	-81.1%
Total	-145	100.0%	-184	100.0%	-39	26.9%

Normalised net earnings	FY-2020		FY-2021		Change FY21/FY20	
(USD Million)	Volume	Share in Total	Volume	Share in Total	Volume	%
Lebanese entities	469	77.0%	724	93.4%	255	54.4%
Turkey	9	1.5%	8	1.0%	-1	-11.1%
Private Banking entities	25	4.1%	17	2.2%	-8	-32.0%
Other entities	17	2.8%	9	1.2%	-8	-47.1%
Entities held for sale	89	14.6%	17	2.2%	-72	-80.9%
Total	609	100.0%	775	100.0%	167	27.4%

What follows is a brief discussion of the overall growth trends across other main constituents of the Group:

4.4.1. | LEBANESE ENTITIES

Activity Evolution in Entities Operating in Lebanon

Total assets of entities operating in Lebanon (including consolidation adjustments) decreased by USD 770 million in 2021 (i.e. a contraction by -3.8%), driven by a decrease in customers' deposits by USD 958 million (i.e. a contraction of 6.2%) within a net contraction of loans booked in those entities by USD 571 million (i.e. a decrease by -22.4%), with the remaining decrease attributed to the exposure to the Central Bank of Lebanon and the Lebanese sovereign.

By currency, the USD 958 million decrease in deposits is mainly driven by customers' deposits denominated in foreign currencies decreasing by USD 1,052 million during the year, slightly offset by an increase in customers' deposits denominated in Lebanese Pounds by USD 93 million. In parallel, the decrease in net loans by USD 571 billion is broken down over a decrease by USD 574 million of loans denominated in foreign currencies, coupled with a decreased in loans denominated in LBP by USD 4 million. Accordingly, the currency structure of the loan booked continues to shift to the advantage of loans denominated in Lebanese Pounds, representing 65.5% of the total net loans book as at end-December 2021, compared to 49.5% as at end-December 2020. By type, corporate customers accounted for 35% of the decrease in net loans of Bank Audi in Lebanon in 2021, while retail loans accounted for 55% and commercial and SME loans for 10%.

Management is focusing in priority on maintaining and strengthening the relationships with clients having external sources of income. These include customers with business operations that generate sustainable inflow of fresh funds, be it international firms or locally incorporated firms with substantial offshore revenues.

Outstanding LCs and LGs stood at USD 271 million as at end-December 2021, decreasing by USD 191 million during the year, underscoring the impact of the severe economic crisis in the country exacerbated by the COVID-19 pandemic across both dates. Outstanding letters of credit stood at a mere USD 14 million as at end-December 2021 compared to USD 21 million a year ago, while outstanding letter of guarantees reached USD 257 million as at end-December 2021 compared to USD 441 million as at end- December 2020.

The contraction in loans of entities operating in Lebanon was met by a similar contraction in Stage 3 loans reaching USD 186 million or 24.5% during the year to stand at USD 572 million as at end-December 2021. Entities operating in Lebanon faced challenging economic and operating conditions translating in high uncertainties and impacting negatively loan quality. Subsequently, the Stage 3 ratio improved slightly from 22.5% as at end-December 2020 to 21.7% as at end-December 2021, while coverage of those loans improved from 61.4% as at end-December 2020 to 72.1% as at end-December 2021.

(USD Million)	Dec-20	Dec-21	Change Dec-21/Dec-20
Balance sheet data			
Assets	22,277	20,600	-1,677
Deposits	15,596	14,688	-908
Loans	2,617	1,979	-638
Equity	2,640	2,501	-139
Outstanding LCs + LGs	462	271	-191
Earnings data	2020	2021	Change
Net interest income	729.3	963.8	234.5
+ Non-interest income	-477.9	-813.8	-335.9
Total income	251.4	150.0	-101.4
General operating expenses	313.5	331.4	17.9
= Operating profits	-62.1	-181.4	-119.3
Loan loss provision charge	143.7	85.5	-58.2
- Income tax	56.9	4.9	-52.0
Net profits	-262.7	-271.7	-9.0
+ Results from discontinued operations	-23.1	36.1	59.2
Net profits after discontinued operations	-285.8	-235.7	50.1
Spread	2.9%	4.5%	1.6%
ROAA	-1.0%	-1.3%	-0.3%
Normalised earnings data	2020	2021	Change
Net interest income	729.3	963.8	234.5
+ Non-interest income	53.4	66.5	13.1
Total income	782.7	1030.3	247.6
General operating expenses	296.7	342.5	45.8
= Operating profits	486	687.9	201.9
Loan loss provision charge	6.3	-1.5	-7.8
- Income tax	10.6	1.4	-9.2
Net profits	469.0	688.0	219.0
+ Results from discontinued operations	0.0	36.1	36.1
Net profits after discontinued operations	469.0	724.0	255.0
Spread	2.9%	4.5%	1.6%
ROAA	1.9%	3.2%	1.3%

Based on the official rate of 1 USD = 1507.5 LBP, Lebanese entities would have reported a loss (before discontinued operations) of USD 272 million in 2021 compared to a loss of USD 263 million in 2020. Adjusted to the one-off flows and cost tied to the Lebanese crisis, Lebanese entities would have achieved normalised profits of USD 688 million in 2021 compared to USD 469 million. This outperformance is mainly related to the significant decrease in the applied cost of deposits facilitated by the imposed informal capital control, within no allocation for credit impairments justified by an adequate level of coverage. The large differential between the actual net results and the normalised one during 2021 is explained by the FX losses incurred by the Bank on transaction involving the purchase of foreign currencies at preferential rates or USD 3,900 within the scope of BdL 151 (and not sold back to the BdL) which have been revaluated at the official rate of LBP 1507.5 per USD.

4.4.2. | ODEA BANK

Banks' operating conditions in Turkey in 2021 were marked by increased political and economic volatility translating into a steep currency devaluation and a corollary high inflation. The Turkish Lira has followed an overall depreciatory path in 2021, despite drastic monetary measures by year-end that softened the depreciation pace. Turkey's consumer price inflation rose to 36% year-on-year in December 2021, the highest rate in years and well above the Central Bank's policy rate due to the Lira's weakness. The Central Bank of Turkey's policy rate witnessed consecutive cuts since September 2021 (from 19% to 14%) despite soaring inflation rates. Within this environment, banking sector aggregates, when expressed in US Dollar, fell by double digit rates amid an acceptable earning power with banks' return on average assets reporting 1.3% in 2021, and return on average equity reporting 15.5%.

Within this context, assets of Odea Bank increased from TRY 40 billion as at end-December 2020 to TRY 55.4 billion as at end-December 2021, corresponding to a nominal increase by TRY 15.4 million. In real terms, this corresponds to a real decrease by TRY 1.7 billion totally offset by a positive FX translation impact of TRY 13.8 billion resulting from the devaluation of the Turkish Lira by 46% during the year (from TRY 7.34 per USD to TRY 13.49 per USD). In parallel, deposits of Odea Bank increased from TRY 24.9 billion as at end-December 2020 to TRY 38.2 billion as at end-December 2021, representing a rise by TRY 13.2 billion or 53%, underscoring a real decrease by 5%. Likewise, loans to customers at Odea Bank reported a mere contraction in real terms by 7%, totally offset by a 40% FX translation effect, leaving a nominal increase by 31%, reaching TRY 24.1 billion as at end-December 2021.

(TRY Million)	Dec-20	Dec-21	Change
Balance sheet data			
Assets	40,006	55,445	15,439
Deposits	24,922	38,144	13,222
Loans	18,406	24,052	5,646
Equity	3,456	3,567	111
Outstanding LCs + LGs	2,972	6,052	3,080
Earnings data	2020	2021	Change
Total income	1,091.2	1,256.1	164.9
Net profits	134.2	205.7	71.5
Spread	2.4%	2.1%	-0.3%
ROAA	0.4%	0.5%	0.1%
ROACE	4.0%	6.0%	2.0%

At the loan quality level, the credit-impaired loans to gross loans ratio improved by 3.8% from 11.3% as at end-December 2020 to 7.5% as at end-December 2021. This evolution is mostly attributed to a TRY 291 million contraction in credit-impaired loans from TRY 2.3 billion as at end-December 2020 to TRY 2.0 billion as at end-December 2021. Odea Bank posted net profits of TRY 206 million in 2021 compared to TRY 134 million in 2020, with the increase stemming from a higher trading income on mark-to market transactions and gains on derivatives amid lower loan loss allowances allocation. Notwithstanding, loan loss allowance reached TRY 75.7 million in 2021. Adjusted to allocated free provision, Odea Bank would have reported net profits of TRY 314 million in 2021.

4.4.3. | PRIVATE BANKING ENTITIES

At Bank Audi, the Private Banking business operates under the brand Bank Audi Private Bank which owns, through a Cyprus holding, two financial institutions: Banque Audi (Suisse) SA and Audi Capital (KSA), and operates a sales platform in the UAE. Bank Audi Private Bank also covers Sub-Saharan Africa and Latin America through dedicated desks. The following analysis covers the performance of Private Banking entities in 2021 as compared to 2020, excluding Audi Private Bank, which as a result of the Lebanese crisis, was sold back to Bank Audi sal (and subsequently merged) in December 2020:

(USD Million)	Dec-20	Dec-21	Change
Balance sheet data			
On-balance sheet assets	2,317	2,042	-275
Total client assets	6,927	6,795	-132
o.w. AuMs (off-balance sheet)	4,113	4,218	104
o.w. Deposits (on-balance sheet)	1,684	1,679	-4
o.w. Fiduciary deposits (off-balance sheet)	1,130	898	-232
Client loans	600	553	-47
Equity	427	285	-142
Earnings data	2020	2021	Change
Total income	77.1	73.0	-4.1
Net profits	21.4	12.6	-8.8
Spread (on AA +AAuMs)	0.3%	0.2%	-0.1%
ROAA+AAuMs	0.3%	0.2%	-0.1%
ROACE	5.7%	3.6%	-2.1%

Clients' assets (comprising of clients' deposits as well as off-balance sheet AuMs including AuMs, fiduciary deposits and custody accounts) at Bank Audi Private Bank decreased by USD 132 million in 2021, from USD 6.9 billion as at end-December 2020 to USD 6.8 billion at end-December 2021, with the decrease reflecting principally the continuing impact of the Lebanese crisis on the activity of the operations, coupled with difficult market conditions as a result of the outbreak of the COVID-19 pandemic worldwide. As a result, Private Banking entities reported a decrease in net profits, from USD 21.4 million in 2020 to USD 12.6 million in 2021.

4.5. | PRINCIPAL BUSINESS ACTIVITIES

4.5.1. | COMMERCIAL AND CORPORATE BANKING

The continued impact of the COVID-19 pandemic on corporate and commercial businesses globally has been tremendous. Bank Audi has taken rapid action to navigate extreme volatility across its markets of operations while factoring in frequent and wide-ranging regulatory developments. The main objectives of the Bank have been to support clients' business continuity while ensuring adequate portfolio quality.

During 2021, and on the backdrop of the Bank's overall strategy to contain its credit portfolio, net consolidated lending by Corporate and Commercial Banking decreased by 20%, from USD 5.1 billion as at end-December 2020 to USD 4.1 billion as at end-December 2021 due to the rapid deleveraging in Lebanon and Turkish Lira depreciation which impacted the size of the loan portfolio in Odea Bank.

Lebanese Operations

Following the economic fallout of the Lebanese crisis exacerbated by the COVID-19 pandemic and the August 4 Beirut Port blast, and despite the challenges faced by the Lebanese banking sector, Bank Audi has strived to (1) provide banking support to its Corporate and Commercial Banking clients to ensure business continuity, and (2) proactively deleverage the corporate and commercial portfolio in line with the contraction of the Lebanese economy while ensuring proper portfolio quality.

The Bank supported its clients to maintain their business operations and survive the crisis, through select lending from its foreign entities or in local currency and the "External Account" which allows companies to make unrestricted daily foreign currency transactions (in cash or trade instruments). This has supported the continuity of the vital flow of goods to Lebanon, despite the difficulty in obtaining confirmations by correspondent banks on letters of credit issued by Lebanese banks.

Moreover, the Bank provided financial support and procured foreign currency to its clients backed by Central Bank regulation, subsidy programs and the "Sayrafa" platform.

In light of the economic and financial challenges and the contraction of the Lebanese economy with real GDP shrinking by 11% in 2021, the Bank adopted a de-risking policy, which resulted in a significant drop of the Lebanese corporate and commercial loan portfolio. Total net loans to corporate and commercial clients dropped by 18% from USD 1.6 billion as at end-December 2020 restated to USD 1.3 billion as at end-December 2021. A large part of the drop has been driven by clients (i) carrying out set-offs of debt against deposits and (ii) clients taking advantage of repayment in local dollars.

Foreign Entities

In Turkey – As at end-December 2021, the corporate and commercial net loan portfolio at Odea Bank reached USD 1.8 billion, down by 28% when compared to USD 2.4 billion as at end-December 2020. This decrease is largely due to the depreciation of the Turkish Lira, which shed 46% of its value over the year 2021. This has impacted the counter value in dollars of the loan portfolio in local currency.

In France – The corporate and commercial net loan portfolio at Bank Audi France remained stable at USD 329 million as at end-December 2021 compared to USD 327 million as at end-December 2020, as Bank Audi France continues to support the Group's corporate customers in their businesses and investments internationally.

4.5.2. | RETAIL BANKING

The Lebanese political, financial and monetary crisis, and the prevailing uncertainties continue to weigh heavily on the operating conditions of banks in Lebanon, translating into a negative economic environment, deepening recession, hyperinflation and applying a multitude of exchange rates (please refer to section 4.1. of this discussion for more details).

Within this environment, Bank Audi kept responding to these challenges by taking a number of measures to reinforce not only its financial standing, but also its customer experience. This tough operating background was further exacerbated by the outbreak of the COVID-19 pandemic in 2020 which continued to weigh heavily on the day-to-day operations in 2021. Throughout the year 2021, the Bank managed to successfully run the operations with no significant disruption by applying serious precaution measures, offering more services on the digital channels, facilitating remote work and reducing onsite presence.

- In Lebanon, Bank Audi has put all its effort to continue serving all the clients properly, given the daily challenges, and to swiftly implement the regulator's new directions while awaiting a full macro-economic plan by the government. The Bank has succeeded to implement an end-to-end banking service for fresh money in branches and across the digital channels, offering the best service in the market with the best pricing.
- In Turkey, Bank Audi (Odea Bank) has been implementing a customer-focused strategy with a new digital transformations based on a "phygital" banking approach (combining physical with digital offering).

The below analysis highlights the Group's Retail Banking activity and its evolution in 2021 across main geographical development pillars:

Bank Audi Lebanon (BASAL)

For more than 2 years, Lebanon has been confronting an economic, financial and health crisis decreasing drastically our citizens' purchasing power and transforming their consumption behaviour.

All over 2021, the Bank continued to operate in a conservative way focusing on Transaction Banking business while closely monitoring collection and asset quality enhancement.

Translated in USD, consolidated retail loans at BASAL decreased from USD 1.2 billion at end-December 2020 to USD 0.9 billion at end-December 2021. The contraction was mainly driven by the continued deleveraging of the retail portfolio of BASAL in Lebanon.

The breakdown by products as at end-December 2021 showed that housing loans backed by mortgages constituted 66% of the consolidated retail loan portfolio, followed by personal loans with 16%, credit cards with 12.5%, and car loans with 1.5%, in addition to 4% of small/multipurpose loans.

The ratio of credit-impaired retail loans to gross retail loans increased in 2021 to 20.3% as at end-December 2021, from 17.0% the previous year. The ratio takes into account loans fully provided for bad debt or loans identified as subject to write-off, but not written off due to regulatory requirements and or market practices. Excluding these loans, the ratio of credit-impaired retail loans would reach 10.5% of gross retail loans as at end-December 2021. 82.7% of credit-impaired retail loans are covered by ECL allowances for Stage 3 loans (excluding collaterals), while the credit loss allowance for Stages 1 and 2 retail loans amounted to USD 95 million as at December 2021.

Within the context of ensuring quality enhancement initiatives, and the lack of a sound restructuring plan for banks in Lebanon to regain stakeholders' confidence, the main objectives of this year were to properly service client needs given all the challenges, and to develop the transaction banking business specifically on fresh funds.

In this perspective, the Bank managed to swiftly implement new regulations issued by the Central Bank of Lebanon while making sure that customer experience is at its best possible. The Bank also worked on offering a full product suite based on unrestricted business (covering both fresh USD and LBP-denominated activities), be it fresh foreign currency or local currency, to be able to adapt to the new market needs. The Bank also made sure that all those new services and products are available on alternative delivery channels. The Bank reduced the number of "on shelves items" and simplified the offering to prevailing customers' needs, taking into consideration the new regulatory context. For instance, the Bank launched the new "LBP Cash Account" to facilitate LBP cash management and storage for companies in a market where cash in circulation has exponentially increased, creating tremendous challenges for those companies.

The Bank's digitisation focus in Lebanon was accelerated during 2021 amid a temporary close of multiple branches driven both by the strict cost optimisation plan, as well as health precautions dictated by the wide spread of COVID-19 cases, a measure taken in 2020. As always, customers' banking needs were promptly catered for during the pandemic through BASAL's fully integrated 24/7 Contact Center (1570) and ADCs (i.e. ATMs, Interactive Teller Machines [ITMs], as well as Mobile and Online Banking). The Bank's well-trained agents were working around the clock to answer all clients' inquiries efficiently, and contacting back all unanswered calls. The Bank constantly replenished its ATM network, around the clock, with fresh USD and LBP banknotes to absorb high customer demand. It also made sure to enable USD cash withdrawal on 72 ATMs from fresh Dollar accounts after it was discontinued in 2020. The Bank changed the denominations in multiple ATMs to cope with the pressure of withdrawing salaries in fresh dollars as per Circular 161. On the other hand, only LBP high denominations were used to cater for hyperinflation and increased cash withdrawals due to the limited number of merchants accepting payments through POS. On the other hand, as number of customers and counter transactions between 2018 and 2021 decreased, the Bank went into a branch network consolidation phase, reducing its network to 63 operating branches as of end of 2021 from 84 in 2019.

In a continuous effort to always provide innovative solutions to its customers, the Bank kept adding new features to Bank Audi's Mobile App and Audi Online, such as (1) AOL self-enrollment and user creation, (2) password reset using debit cards, and (3) External Account opening requests. The main goal is to encourage customers to self-onboard on the Online/Mobile platform using their debit card, as well as to open an account remotely without the hassle of visiting the branch. This has eventually minimised traffic within branches post lockdown period and encouraged customers to migrate to digital channels. Moreover, customers were allowed to make outgoing transfers from their external accounts (funded in fresh Dollars) to international banks and to fresh funds accounts in local banks via Mobile/Online Banking.

The Bank was as agile as ever in responding to Circular 158 and communicated to all eligible customers the possibility to benefit from this circular.

As for the Cards business line, the Cards department showed flexibility and adaptability to the ever-changing financial situation in the country. The Bank kept on migrating its activities from USD to Lebanese Lira. As such, we offered a wide selection of credit cards in LBP to cover all segments and profiles. The Bank took this initiative in light of the economic situation, whereby merchants are not accepting any more settlements in local USD. Therefore, this step was taken to encourage cards' acceptance despite flourishing cash transactions.

Additionally, we continued to offer dedicated products to our customers, such as international credit cards to be used abroad, provided they are funded in fresh Dollars.

Overall, the Bank exerts permanent efforts to work on customer experience and better serve clients despite the country's situation, in waiting for a resolution of the prevailing political and financial crisis and the normalisation of operating conditions.

In Turkey, Bank Audi (Odea Bank)

Despite global uncertainty affecting Turkish markets due to the COVID-19 pandemic, Odea Bank maintained its growth pattern due to the successful implementation of a customer-focused strategy and focus on enabling new digital transformations. The Bank went on with its technological investments to develop and improve service quality on the way to digitalisation, intensifying its efforts to provide personalised services to a much wider audience within the scope of digital investments. In this direction, Odea Bank offered its customers a new-generation service in the most suitable way, with a "phygital" banking approach by blending physical and digital experiences for affluent customers, leveraging RM power. The Bank also added Silver transactions to its digital channels, which enabled customers to easily perform Silver purchase and sale transactions through various channels.

As part of its ongoing digital innovation, the Bank set up a remote acquisition tool to seamlessly onboard new customers. This allowed clients to open an account via video conferencing from the comfort of their homes and without the hassle of visiting the branch. The solution filled the gap and provided mutual benefits for both the customers and the Bank. It mainly (1) improved customer experience, (2) removed barriers, (3) reduced dependency for physical network, (4) enhanced ID verification and due diligence, and (5) reduced fraud risk. As such, performing banking operations remotely became a reality for more than 1,700 customers in 2021. Further, customers were offered many benefits such as automatic ID reading from screens with NFC, identity fraud control and confirmation of ID chip information. Thus, Odea Bank helped customers access banking services faster and more conveniently to make their lives easier.

Moreover, Odea Bank launched the new "Currency Protected Time Deposit" bank account which enables depositors to earn interest in their LCY savings while protecting their capital from losing value against the fluctuations in exchange rates at maturity date.

4.5.3. | PRIVATE BANKING

Bank Audi Private Bank, which provides services to high net worth individuals through its network in Europe (Geneva) and the Middle East (Beirut, Riyadh, Abu Dhabi and Amman), comprises two main booking entities, namely Banque Audi (Suisse) SA and Audi Capital (KSA).

Bank Audi Private Bank offers a full and diversified range of services, with access to major markets worldwide and global investment products, including discretionary portfolio management, investment advisory and trade execution services in all asset classes, structuring and management of Saudi and regional funds, and other Private Banking services. Its main customers are high net worth individuals in Lebanon, Europe and the Gulf region, as well as the Lebanese diaspora in Sub-Saharan Africa and Latin America.

Bank Audi Private Bank entities have consolidated assets under management (comprising of assets under management, fiduciary deposits and custody accounts) reaching USD 6.8 billion at end-December 2021. In Switzerland, Banque Audi (Suisse) SA represents the main Private Banking arm of the Group, with over USD 6.0 billion in AuMs. In Saudi Arabia, Audi Capital (KSA) serves as the Group's main Private Banking hub for GCC markets, with AuMs of USD 0.8 billion.

The restructuring of the Private Banking business line continues to advance, with the Private Banking entities and related business under one legal operating holding. Private Banking entities now have the same management structure, which will progressively ensure better synergy and accountability, effective management, corporate governance, and alignment of business objectives. The de-risking of its balance sheet by the sale of Audi Private Bank sal in 2020 has helped ensure that the Private Banking business is well-poised for future growth outside of Lebanon, particularly given the persisting challenging domestic and global economic conditions.

4.5.4. | TREASURY AND CAPITAL MARKETS

Lebanon has been facing an unprecedented economic and financial crisis since October 2019 which has significantly affected the ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and withdrawals of cash to private depositors, all of which have added to the disruption of the country's economic activity.

The year 2021 saw a continuation, if not an exacerbation, of this crisis: the Lebanese Pound plummeted to new historical lows against the US Dollar on the parallel FX market, while BdL FX reserves continued their nosedive, though at a slower pace relative to the previous year, and the Eurobond market dipped further into the red. In contrast, the equity market registered strong price rebounds of 48% in 2021, mainly on hedging activity against crises amid investor tendency to avoid haircuts on their financial placements, noting that equity prices are denominated in local US Dollars (Lollars).

Within this context, Bank Audi exerted extended efforts to consolidate its financial position and reinforce its financial standing. Treasury and capital markets activity was focused primarily on strengthening the Bank's capitalisation, building up foreign currency liquidity abroad liquidity, reducing its commitments and contingencies to parties outside Lebanon, and attracting new foreign currency deposits, while implementing regulatory requirements.

5.0. | EARNINGS ALLOCATION

From 1996 and until 2018, the Board of Directors of the Bank has recommended the distribution to holders of common shares of a dividend payment of at least 30% of after-tax profits in each year.

With the outset of the financial crisis in 2019, the Central Bank set limits on banks' own equity dilution within the perspective of a forthcoming restructuring plan requiring significant contribution from the shareholders' base. Consequently, it issued two circulars impacting the Bank's dividend distribution policy: in November 2019, BdL Intermediary Circular 532 restricted banks operating in Lebanon from distributing dividends from 2019 profits while Intermediary Circular 543, issued in February 2020, prohibited banks from paying dividends on future periods if capital adequacy ratios fall below the newly introduced levels of 7%, 8.5% and 10.5% respectively for CET1, Tier 1 and total capital. Pursuant to those circulars, the Board of Directors recommended to the Ordinary General Assembly in its April 2020 meeting not to distribute common and preferred dividends on the 2019 exercise.

The table below highlights dividends' distribution latest practices at Bank Audi:

CONSOLIDATED PAYOUT RATIO

(USD Million)	2014	2015	2016	2017	2018
Common earnings	320.0	380.3	439.7	516.6	458.9
Dividends on common shares	159.7	159.9	199.9	219.9	219.9
Dividends per common shares (USD)	0.40	0.40	0.50	0.55	0.55
Payout ratio on common shares	49.9%	42.1%	45.5%	42.6%	47.9%
Dividends on preferred shares	30.4	22.9	30.4	42.4	41.6
Total dividends	190.1	182.8	230.2	262.2	261.5
Net earnings	350.3	403.1	470.1	559.0	500.6
Total payout ratio	54.3%	45.3%	49.0%	46.9%	52.2%

Pursuant to the decision of the Ministry of Finance in Lebanon late 2017 (Law No. 64 published in the Official Gazette on 26 October 2017), the withholding tax on dividends of listed companies has increased from 5% to a current 10%.

6.0. | RISK MANAGEMENT

During 2021, the Group continued to navigate the many challenges and related high uncertainties governing the economic and operating environment in its main countries of presence, specifically in Lebanon.

In view of these challenges, the Group has been primarily focusing on: 1- strengthening its foreign currency liquidity through proceeds from the sale of foreign assets and other transactions; 2- managing its international commitments mainly through negotiating terms amendments of existing agreements with international financial institutions; 3- enhancing international income generation through non-interest income (fees and commissions); 4- reducing the FX net open position to limit its impact on the Bank's financial position under an official devaluation of the Lebanese Pound; 5- strengthening asset quality metrics through increased provision coverage, enhanced collection efforts and settlements of problematic exposures; 6- improving local earnings through cost optimisation initiatives and operational restructurings; and 7- closely managing non-financial risks, focusing on litigation and cyber security risks.

While the above remedial measures have helped bolster the Group's financial position, high uncertainties still remain with regard to: 1- the impact of the official devaluation of the LBP; 2- potential future losses on BdL exposure in foreign currency and uncertainty around future income stream from certain asset classes (e.g. Treasury bills, BdL placements and CDs); and 3- increased exposure to litigation risk, in the absence of a formal Capital Control Law governing current restrictions on international transfers.

6.1. | EVOLUTION OF THE GROUP'S RISK MANAGEMENT FRAMEWORK

Compliance with Regulatory Requirements

The Bank remains committed to the full and complete implementation of all laws and regulations governing its activities.

During 2021, the Central Bank of Lebanon and the Banking Control Commission issued a number of regulations, including those in relation to the repayment of customers' deposits in foreign currency under specific conditions stipulated by BdL Circulars 151, 158 and 161. The Group has taken the necessary measures to ensure adequate implementation of these new circulars, while maintaining adequate international liquidity buffers.

Scenario Analyses and Simulations

As part of its risk management framework, the Bank relies on scenario and sensitivity analyses to simulate and quantify the impact of potential future and emerging risks on the Bank's main pillars including solvency, profitability and asset quality.

Conducted scenario analyses covered simulations of an official devaluation of the Lebanese Pound or a unification of LBP/USD exchange rates and their corresponding potential impact on the Bank's loan portfolio in foreign currency, net interest income and capital adequacy ratios. Also, the Bank simulated the impact of various scenarios of loss distribution plans on its financial position, as well as the impact of BdL regulation (e.g. BdL Circular 158) on its international liquidity.

Foreign entities also continue to run sensitivity and scenario analyses on a regular basis, as part of their yearly Internal Capital Adequacy Assessment Processes (ICAAP) and in their periodic quarterly risk reports. For example, Odea Bank regularly simulates the impact of various levels of devaluation of the Turkish Lira on the Bank's asset quality and solvency. It also assesses the impact of the cessation of certain regulatory forbearance measures on its solvency metrics.

Recovery Plan

Following the October 2019 crisis in Lebanon and resulting stressed conditions, Bank Audi activated its internal Recovery Plan for Lebanon, prepared as per BdL Circular 141 (issued in 2017). During the course of 2020-2021, most of the recovery actions featured in the Recovery Plan have been implemented and, together with other new actions, continue to be implemented to date.

The activation of this plan entailed the implementation of a set of remedial measures aiming at improving, among other, international liquidity, profitability and solvency metrics of Bank Audi Lebanon. Remedial measures implemented included the sale of foreign branches and subsidiaries, revenue and cost optimisation initiatives, including organisational restructurings, replenishment of international liquidity, ring-fencing remaining foreign entities from Lebanese risk, as well as meeting the capital increase requirement of BdL Circular 154.

Cyber Security Management Framework
The Bank continued to focus on strengthening its information and cyber security risk management framework in light of growing cyber threats worldwide. The Bank has been actively adopting best practices through streamlining the management of such risk through regular IT security and cyber security updates and assessment, reviewed by local Management committees. Also, the Bank has allocated a dedicated budget in 2022 to keep its IT infrastructure up-to-date and reduce its vulnerability to such threats.

Revised Risk Appetite
The Bank duly updated its annual risk appetite and limits framework in line with its proposed budget for 2022 and operating environment, as well as regulatory updates.

The framework focuses on the six “Going Concern” main pillars adopted by Management post the October-19 crisis. They cover: 1- asset quality, 2- quality of earnings, 3- liquidity & ALM, 4- solvency, 5- operational and other non-financial risks, and 6- governance.

The framework has been updated to ensure indicators are representative of the new underlying risks and market dynamics, especially reflecting the multitude of LBP/USD prevailing exchange rates.

The Group also ensures that each of its foreign entities has a robust risk appetite framework that is constantly monitored at the local as well as group levels.

6.2. | PRIORITIES FOR 2022

From a risk perspective, priorities in 2022 will focus on: 1- preserving and enhancing international liquidity; 2- strengthening and diversifying international income; 3- addressing non-financial risks, particularly in relation to litigation risk (in the absence of a formal capital control law) and increasing cyber security risk; 4- reducing the Bank’s exposure to official LBP devaluation risk; 5- reinforcing asset quality metrics by: i) maintaining relatively high provision coverage on both performing and non-performing loan portfolios, ii) maintaining robust collection efforts while continuing deleveraging the loan portfolio, and iii) restructuring problematic loans and tightening underwriting lending criteria in foreign entities.

6.3. | CREDIT RISK

6.3.1. | CORPORATE CREDIT RISK

During 2021, the Bank continued deploying efforts to further deleverage its loan portfolio, particularly in Lebanon, and increase collection of delinquent loans.

The consolidated non-retail net loan portfolio contracted by 20.3%, from USD 5.1 billion as at 31 December 2020 to USD 4.1 billion as at 31 December 2021. Around 66% of this drop resulted, however, from the decrease in Odea Bank’s non-retail loan portfolio due to the sharp devaluation of the TRY which lost up to 46% of its value during 2021. The remaining of the decrease in consolidated non-retail portfolio is related to Bank Audi Lebanon’s non retail net loans, which contracted by around USD 0.6 billion, from USD 2.4 billion as at 31 December 2020 to USD 1.8 billion as at 31 December 2021.

6.3.2. | RETAIL CREDIT RISK

Following the continuous de-risking strategy implemented in Lebanon and Turkey, the consolidated retail net loan portfolio dropped by 37%, with retail net loans decreasing from USD 1.1 billion as at 31 December 2020 to USD 0.7 billion as at 31 December 2021. Bank Audi Lebanon’s retail portfolio, which now represents the majority of the consolidated retail exposure, contracted by around USD 0.4 billion, from USD 1.0 billion as at 31 December 2020 to USD 0.6 billion as at 31 December 2021.

Management has made significant efforts to increase provisions to cover for potential further deterioration in the asset quality of the Lebanese retail portfolio since the October 2019 events. As at 31 December 2021, Stage 3 provision coverages for the Lebanese retail portfolio stood at 100% for all products excluding housing loans and around 83% including housing loans. To note that 74% of the Lebanese retail portfolio is denominated in Lebanese Pounds, which helps alleviate the pressure on asset quality going forward.

6.3.3. | PRIVATE BANK

Private Banking activities are mainly channeled through Bank Audi Switzerland, which also engages in low risk Lombard lending products. These are lending against highly liquid and diversified collaterals with very conservative loan to value thresholds. This lending discipline, together with very tight and automated monitoring standards, ensures the portfolio remains of very high quality.

6.3.4. | IFRS 9 IMPAIRMENT

The Group applies the IFRS9 standard on a consolidated basis. This necessitates the estimation of the Probability of Default (PD) and Loss Given Default (LGD) for each portfolio by country of operation and segment. The Group, to the most extent possible, has relied on its own historical information to estimate PDs and LGDs. When such information was not available internally and for selective portfolios, the Group has used external information such as PDs and LGDs reported by various external rating agencies.

In view of the prevailing crisis in Lebanon, Management has maintained, during 2021, its focus on improving provisioning coverage on its Lebanese loan portfolio. This was applicable to both the retail and non-retail Lebanese exposures. As at 31 December 2021, provision coverage of funded Stage 3 portfolio stood at 72.1% up from 61.4% end of 2020.

6.4. | ALM AND LIQUIDITY RISK MANAGEMENT

6.4.1. | LIQUIDITY RISK

Following the October 2019 events and de-facto restrictions on international fund transfers, the Bank in Lebanon started managing international foreign currency liquidity separately from the local foreign currency one.

Since then, the Bank has made considerable efforts to improve its foreign liquidity position in order to meet its international commitments, as well as to comply with the 3% regulatory liquidity limit set by the Central Bank of Lebanon through BdL Basic Circular 154.

The Group also took several measures to ring-fence the Bank’s foreign subsidiaries from the spillover effects of the Lebanese crisis.

To monitor and manage liquidity under normal and stressed conditions, the Bank employs a number of key metrics, such as:

- International foreign currency liquidity coverage relative to international commitments, including external account balances and estimated impact of BdL Circular 158. This is specifically applicable to Lebanon.
- Net cash flow coverage to deposit ratios over a given horizon.
- Liquidity Coverage Ratio (LCR).
- Cash flow gap analysis that compares the timing of cash inflow with cash outflow.
- Other relevant metrics, e.g. loan-to-deposit ratio.

As at 31 December 2021, all foreign entities of the Group (operating outside Lebanon) enjoy comfortable levels of liquidity.

The Group also performs liquidity stress tests as part of its liquidity monitoring. The purpose is to ensure sufficient liquidity is maintained under both idiosyncratic and systemic market stress conditions.

6.4.2. | INTEREST RATE RISK

Interest rate risk arises out of the Bank’s interest-sensitive asset, liability and derivative positions. The mismatch in the repricing dates of these positions creates interest rate risk for the Bank, which is inherent to its banking activities.

Interest rate hedging activities are undertaken through natural balance sheet hedges or derivatives where appropriate.

The following measurements are used, among others, to enable greater understanding of:
- Changes in the Bank’s net interest income to given interest rate scenarios.
- Changes in the Bank’s economic value of equity to given interest rate scenarios.

These measurements are calculated under both the regulatory and economic approaches, with the latter reflecting Management’s own views and assumptions.

Following the crisis in Lebanon and the resulting distortion in yield curves both in local and foreign currencies, the calculation of interest rate risk measures for Bank Audi Lebanon has been temporarily put on hold. Instead, focus has been diverted to the sensitivity of the Bank’s Net Interest Income to changes in the official LBP/USD exchange rate and uncertainty around future income stream from certain asset classes (e.g. Treasury bills, BdL placements and CDs).

6.4.3. | MARKET RISK

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

The Bank maintains a very low appetite to market risk, be it from changes in interest rates, equity prices or foreign exchange rates. However, operations in Turkey present revenue-generating opportunities from trading activities in FX and interest rates. The Bank, through its Turkish subsidiary, engages in such operations under a strict trading mandate that ensures risk of loss from these activities is kept very low and within comfortably manageable levels.

In Lebanon, the significant devaluation of the LBP on the parallel market during 2020 and 2021 and the risk of further devaluation in the future, as well as the presence of multiple exchange rates, present a number of impediments for the Bank to manage effectively its market risk position stemming from foreign exchange risk. The Lebanese crisis post October 2019 exerted significant pressure on the Bank's FX open position due to major market disruptions on local conversions between LBP and USD. During 2021, the Bank reduced gradually but significantly its FX open position and hopes to continue to do so during the course of 2022.

6.5. | NON-FINANCIAL RISKS

6.5.1. | OPERATIONAL RISK

The Basel framework defines Operational Risk as the loss that may result from inadequate or failed internal processes, people, systems and external events.

The first pillar upon which the mitigation of operational risk rests is a robust Board-approved framework that sets a sound governance, along with high-level standards for managing operational risks, while ensuring compliance with laws, regulations and best practices. The second pillar is the effective implementation of this framework, which should be subject to periodic reviews to maintain its relevance given the Bank's operating environment and the overall strategy of the Group.

At Bank Audi, the management of operational risk is decentralised and based on a three-line-of-defense approach. Business line managers act as a first line of defense by managing operational risks arising from their daily activities. The second line of defense is assumed by several support functions that mainly include: Operational Risk, Information & Cyber Security Risk, Business Continuity Planning & Conduct Risk, Legal, Compliance, Regulatory Compliance and Internal Control. Internal Audit, which constitutes the third line of defense, provides an independent assurance on the effectiveness and relevance of the operational risk framework.

Operational risks are identified, assessed, monitored and controlled through dynamic risk and control assessments, key risk indicators, incident reporting, and risk sign-offs on new or major changes in products, services, processes, systems and outsourced activities. To support a sound, efficient and standardised group-wide adoption of operational risk management practices, the Bank uses an internally developed Group-wide operational risk solution (for incident reporting and action plan recording and management). As an additional layer of mitigation against operational risk events, the Bank purchases insurance coverage against risks such as cybercrime, computer crime, infidelity, professional indemnity, property, political violence, etc.

The deteriorating operating environment in Lebanon that started in October 2019 brought major stress upon the operations of branches and several departments. This stress sometimes materialised in terms of physical attacks and damage to assets, increased clients' queues, requests and complaints, as well as legal notices and lawsuits filed by clients in local and foreign jurisdictions, particularly in relation to restrictions applied on payment of deposits by Lebanese banks.

6.5.2. | INFORMATION SECURITY RISK AND BUSINESS CONTINUITY

Bank Audi is committed to protect the interest of its stakeholders and maintain a high quality of service to its customers with minimum disruption. Several initiatives were implemented to enhance the Bank's information and cyber security posture, improve crisis management and the handling of security incidents, as well as ensure the continuity of business operations.

6.5.2.1. Information Security

The Bank adopts a proactive risk-based management approach to protect its information assets, prevent data loss, reduce its vulnerability to cyber attacks, and improve the security of its systems, networks and underlying IT infrastructure. Risk and vulnerability assessments are conducted on a regular basis to identify threats and vulnerabilities to information assets, and appropriate measures are implemented to reduce identified risks to an acceptable level. Measures are also taken on a continuous basis to ensure compliance with Information Security regulatory requirements.

6.5.2.2. Cyber Resilience

Given the increasing threat of cybercrime globally, the Bank remains focused on the latest cyber security trends, threats, countermeasures, technologies and tools, through ongoing research and continuous education. As a result, it has implemented several technical and non-technical measures to minimise the risks from a cyber-attack and to strengthen its cyber resilience position. In addition, external expert support is sought when needed. Starting 2018, the Bank contracted a cybercrime insurance policy which is yearly renewed, as an additional layer of security protection against cyber risk.

6.5.2.3. Business Continuity

Bank Audi's Business Continuity framework was designed to ensure the continuity of critical business activities in the event of unforeseen incidents disrupting its operations, such as system failures, staff absences due to a pandemic or inaccessible primary head office location. To that effect, the Bank established a world-class business continuity site, along with a disaster recovery site that was awarded the Tier 4 – Fault Tolerant Certification of Design Documents and Constructed Facility.

Additionally, a Business Continuity Plan (BCP) was developed and implemented to counteract interruptions to business activities and to protect critical business processes from the effects of major failures of information systems or disasters by ensuring their timely resumption. This plan identifies, among other, business continuity teams and the role of each, calling trees, emergency procedures, vital records and assembly points. The BCP is updated on an annual basis and upon major changes. Several tests are conducted on a yearly basis to evaluate the effectiveness of the Bank's Business Continuity readiness. The BCP was activated several times since the crisis started on 17 October 2019, to support the continuity of business operations by hosting key personnel who were occasionally not able to access their usual office in alternate locations. The Bank regularly updates evacuation procedures for its headquarters. In addition, fire and emergency systems are maintained and tested on periodic basis.

Since the beginning of the COVID-19 pandemic, standard and cross contamination measures were being enforced throughout the Group (including temperature checks, hand sanitizers, social distancing, masks, cleaning with disinfectants, team split, working remotely). These measures have allowed the Bank to continue operating in all its markets with limited disruption despite the many challenges faced.

7.0. | DEPLOYED RESOURCES

7.1. | INFORMATION TECHNOLOGY

The year 2021 saw the multifaceted crisis that started in 2019 reaching unprecedented peaks, namely on the political, economic, sanitary, financial and monetary levels.

In this context, the expression "exceptional times call for exceptional measures" never sounded more true!

During this year, Bank Audi Lebanon (BASAL) once again rose to the challenge, and showed great resilience in dealing with unmatched complications, always going the extra mile to preserve its tradition in offering its valued customers the best possible service given the circumstances.

The Information Technology (IT) department continued to play its role as a partner in every strategy the Bank adopts, and displayed great flexibility by adapting its work style, with the intention of sustaining the availability and security of its services, in addition to maintaining its infrastructure and platforms. One such example is the Disaster Recovery rehearsal that took place in March 2021, which provided the assurance of the availability of all the Bank's mission critical systems and solutions, and in which the IT department was a key and primary player.

The year 2021 also witnessed the conclusion of the Bank's selling of its entities in Jordan, Egypt, and Iraq, a strategic decision made to strengthen its financial position. The involvement of the IT department was crucial in the tasks of due diligence, and where applicable, in assisting the IT departments of the concerned entities in the exercise of migrating their core banking data and infrastructures to the platforms of the buying organisations.

In addition, and in line with Bank Audi Lebanon's strategy of adjusting its organisational structure, the IT department worked on incorporating the activities of Audi Private Bank (APB) within Bank Audi sal.

The IT department also ensured that the Bank's operations remain in full compliance with all the Central Bank of Lebanon's circulars and new regulatory requirements.

Finally, it is noteworthy to mention that the IT department was able to fulfill its responsibilities and duties with success despite the challenging impact of the crisis on its human capital – an impact perceived by most of Lebanon's business organisations.

7.2. | HUMAN RESOURCES DEVELOPMENT

At the start of 2021, many of us expected the world to return to normalcy and Lebanon to witness an improvement in its situation. The year turned out to be more volatile than expected with the rise of new COVID-19 variants, a massive war for talent with quit rates at an all-time high, and the highest inflation levels in a generation. Lebanon looked even more marginal to its own crisis management, struggling to address a series of challenges, notably at the socioeconomic and medical levels.

The Bank was no stranger to such unfortunate events, which changed the business environment, along with human resources priorities and practices. In order to survive and keep a shred of hope for future success, the Human Resources team (HR) weathered the storm successfully, facing and managing more downs than ups along the way.

Ever since the pandemic started, the world has been talking about and living waves of COVID-19, which initially disrupted world markets severely and negatively affected employee turnover and business continuity. While this disruption reached the Lebanese business environment, the Bank had to deal with the increasing brain drain and challenged the local circumstances with an on-going restructuring plan aiming to keep at par with business changes while saving jobs and better integrating people, processes and structures.

HR has been playing a central role in the re-design of the organisation structure landscape and re-definition of jobs; managing succession and retention of key functions – thus reaching a more holistic status in 2021. One major initiative worth noting targeted the IT team and considered a talent pool needing retention for technical business continuity. A scheme was devised for that purpose resulting in their move to a separate entity with its distinct remuneration policy and recruitment strategy.

Furthermore, while the most obvious impact at the onset of the COVID-19 on the labour force was the dramatic increase in employees working remotely, 2021 witnessed a "controlled" return to the workplace while maintaining the necessary safety protocols and providing the utmost care to infected employees and their families. As HR ensured prompt short-term replacements covering for the sick, its "supportive" and "compassionate" role grew in length. HR followed-up on 430 employees who tested positive in 2021, ensuring access to all the needed medical treatments and facilities. As a preventive measure, the Bank also supplied COVID-19 vaccines for employees and their dependents. Until end of 2021, 2215 vaccinations were administered, resulting in 100% coverage of employees who requested to be vaccinated.

HR also addressed other health concerns despite the disrupted work of the Lebanese National Social Security Fund (NSSF) and insurance providers. The needed medical support was secured by the Bank, including full coverage of medications and doctors' visits whose market prices increased way beyond the refunded NSSF rates. It is essential to note that the Bank had also been covering 100% of hospital expenses of employees and their dependents, regardless of NSSF. The provided medical support took into consideration dental treatment as well. The partnership with "Saint Joseph University" dental care allowed employees and their dependents to be treated with major expenses fully covered by the Bank.

Other health-related initiatives were set in motion, among which online awareness campaigns, free flu vaccines and collaboration with local laboratories for easy access to mammograms under the Breast Awareness campaign.

Aside from the health challenges, the Bank gradually improved the deteriorating livelihoods of the workforce resulting from the skyrocketing local inflation. HR worked on a multitude of initiatives and key responses to the social and financial needs of employees. On several occasions, a change in the individual overall income was implemented to ensure a decent living for all. In addition, the Bank paid a supplementary schooling fee per child and distributed supermarket vouchers to general services staff. Employees with deep social and financial needs were assisted under the umbrella of the Social Work function through targeted support to 250 employees and their dependents during 2021. Further initiatives went beyond the organisation's workforce towards society at large, notably through a food and clothes donation campaign during Christmas.

While the medical, social and financial aspects were core priorities, HR had to uphold its responsibilities towards regulatory bodies ensuring that branch and head office employees remain up to date with new regulations for accurate implementation, and certified where applicable – namely in Audit, Compliance and Capital Markets registrable functions.

On a final note, expectations are that the level of worldwide volatility will only increase in 2022 and more specifically in Lebanon with the on-going socio economic and political instability and uncertainty. For 2022 to witness more positivity, the HR team will keep on contributing with its endeavours to alleviate the impact of the current situation on the workforce, maintain human relationships with employees, and build new equitable and flexible practices to compete in the war for knowledge worker talent.

ODEA BANK

Odea Bank's HR practices kept on being shaped around Management's strong belief that Human Capital is the Bank's most valuable asset for success. Within that scope, and along the same lines of the previous years, HR ensured close monitoring of business line needs and provided guidance and counseling to employees to help them improve their performance and manage their careers effectively. In addition, HR played a role in the efforts to increase cross-organisational cooperation and create synergy between business units through internal communication.

Throughout 2021, HR had given priority to protecting the health of employees, keeping their spirits high through frequent and open communication. Employees were regularly contacted to inquire about their health and online individual meetings were held to provide support and maintain morale and motivation. "Get Well Soon" gifts were specifically sent to employees who tested COVID-19 positive. In addition, the 24/7 "Employee Support Line" program kept providing employees with access to expert services, including psychological, medical and financial counseling, on top of technical support.

The HR team also carried out online departmental "visits" to understand, evaluate and provide support accordingly. Moreover, and in line with the Career Management policy, employees had opportunities for vertical and horizontal moves with corresponding authority and responsibilities in alignment with their competency development. Employee transfers were managed in response to the 2021 internal career opportunities. Guidance and personal development opportunities were also provided to employees in accordance with their competencies and areas of expertise.

On another note, it is the belief of Odea Bank's Management that one of the most important factors behind its success lies in the effective organisational structure, which is strongly supported by a fair, objective and efficient reward system. During 2021, salary review and bonus studies were carried out taking into consideration average wages in the banking sector, job complexity and job content across all positions, as well as performance indicators; all were well-adjusted within the Bank's annual budget.

Other HR initiatives were implemented under the "Employer Branding" umbrella which consisted in redefining the mission, vision and cultural "codes" of the Bank. A rebranded welcome kit and documentation were also designed and handed over to new recruits.

Lastly, and considering employee training and development as one of the most important factors in the Bank's success, HR planned and conducted a comprehensive range of training activities in order to contribute to its staff advancement and development. In order to facilitate the learning process, all trainings were provided on online platforms due to the pandemic. The professional development of all employees kept being supported by the "e-Odea Human Resources Training Platform" and Vide'O e-learning platforms.

8.0. | COMPLIANCE

The significant challenges of 2020 (notably the deep local financial, economic and political crisis and the COVID-19 pandemic) extended to 2021. The aforementioned challenges significantly affected the Compliance risk landscape with major shifts in customer behaviours, and with a particularly complex regulatory environment. However, initial lessons learned and measures adopted in 2020 helped the Bank mitigate their impact.

In 2021, the compliance function, under the guidance and support of the Board of Directors and in coordination with Executive Management, adapted its controls and plans to the persisting Lebanon specific risks, as well as to the operational challenges caused by the sanitary measures of the COVID-19 pandemic.

The compliance program continued to focus on:

1- Verifying the implementation of the Enterprise-Wide Compliance Program that aims at maintaining positive relationships with regulators and correspondent banks and at preventing the conduct of transactions linked to money laundering, terrorism financing, and other financial crimes.

2- Maintaining and adapting risk-based controls to identify, assess, monitor, and limit the risks of financial crimes.

3- Aligning the Bank's compliance policies and practices with the evolving regulatory environments.

4- Monitoring and minimising the Sanctions risk exposure.

5- Monitoring abidance by compliance standards and by compliance policies and procedures across the Group.

6- Engaging with the Board of Directors (through the Board Compliance & AML/CFT Committee, and other committees of the Board) by providing extensive reporting of compliance risks and developments, and follow-up on mitigating measures and actions.

7- Coordinating with the Group Executive Committee and with Senior Management for the purpose of further implementing risk-based compliance controls.

8- Reporting robustly any identified suspicious activity.

9- Supporting and advising business lines.

10- Empowering Compliance teams and promoting a compliance culture by raising staff awareness across businesses, functions and entities on compliance matters, notably in connection with laws, regulations, sanctions and other relevant compliance standards.

Continuing the cooperation and coordination with the Risk function and with the Internal Audit function to reinforce the control framework and ensure a common risk approach by the various lines of defense.

9.0. | CORPORATE SOCIAL RESPONSIBILITY

IN LEBANON

In the challenging period prevailing in Lebanon on several fronts, where health, economic and financial sustainability have been priorities, our values still define our humanity.

The general mood has mostly been introspective with our human capital's health remaining a priority as we processed COVID-19 vaccinations to our immediate community and their close family members, resulting in 2,215 persons vaccinated. This was coupled with continuous health awareness interactive live sessions with specialised physicians on our internal platform, allowing one-on-one assistance as needed for staff testing positive. Externally, we supported healthcare institutions as the battle against COVID-19 continued. For the same reason, we donated locally produced ventilators to hospitals across Lebanon, aiming to fill equipment gaps and empower local industries simultaneously.

To counter any uncontrollable spread of the virus in our branch network, we maintained all safety measures with regular sanitation of the premises. Though the pandemic hit our staff hard, a contingency plan was put in place whereby our branches pursued their operations with minimal staff capacity, with the aim to ensure business continuity. In parallel, we streamlined our communications, encouraging clients to shift to our Alternative Delivery Channels for their urgent banking operations. This was translated into a migration of our clients to the Mobile Banking application where an average of 91,000 transactions were performed each month.

Pursuing the introspection, our Human Resources developed green fencing policies such as a whistle blowing initiative with its implementation procedure, commended by the UN Women Lebanon. It is relevant to mention that our gender parity has increased to 51% female versus 49% male employment, coupled with a 22% female representation in the Board of Directors.

Similarly, and with the aspiration of trickling our social responsibility aspects to our direct chain of supply, we released our Supplier Code of Conduct in Q4. The document guides our suppliers in responsible business conduct, ethical business and employment practices, environmental stewardship, and record keeping and compliance. It references the UN Declaration of Human Rights, ISO 26000 Principles, GRI, UNGC, and WEP guidelines, the EBRD Sustainability Index, Social Accountability International Index, the Ethical Trading Initiative and the ILO's Declaration on Fundamental Principles and Rights at Work – all being integrated elements within our social and environmental values and responsibilities. At present, suppliers are required to acknowledge the receipt of such a document, ensuring that internationally recognised procurement ethics are followed consistently.

Of course, we maintain our commitments to the UN Global Compact (UNGC), its Ten Business Principles and the Sustainable Development Goals (SDGs) capped by the 5 SDGs we pledged towards back in 2016. As such, we participated in the SDG Ambition Accelerator pilot program within the global track where we determined, in the identified priority benchmarks, the areas in which we can make the biggest impact on the SDGs, while creating business value and leveraging the influence on our ecosystem. Here, we chose to focus our efforts towards advancing on:

- Gender balance across all levels of Management (SDG 5 – Gender Equality).
- 100% of employees across the organisation earn a living wage (SDG8 – Descent Work & Economic Growth).
- Science-based emissions reduction (SDG13 – Climate Action).

Amid the various stakeholders' engagements, our colleagues voluntarily participated in the UNGC Academy where Gender Balanced Boardrooms, Target Gender Equality (TGE) and Human Rights modules were training focal points.

Given the current limitations of our economic support, we decided to offer key non-governmental organisations (NGOs) our airtime on the five national television networks to use for their communication advertisements. Six NGOs benefitted from this offering with the outreach peaking at an estimated 2.7 million persons per campaign. Other NGOs were recipients of used office furniture donations.

Among our continuous humanitarian actions is our close collaboration with the Lebanese Red Cross including annual blood donation. Internally, we have offered financial and social support to 250 employees and their families in need, especially the victims of Beirut Port blast.

Under the scope of Environmental Protection, we continue to monitor our own carbon footprint as we assess our consumption of resources, always aiming to reduce these year-on-year. Among the activities on that front, we participated in the UNGC Global Pilot Climate Ambition Accelerator Program where we are currently evaluating our KPIs in order to pledge towards the goals set therein.

In parallel, our community-based paper collection for recycling partnership has saved 1,154 trees since inception while our internal paper-recycling program has saved 1,046 trees. Additionally, 2021 saw the addition of a part of our branch network initiated to our recycling collection program. The first three months resulted in almost 200 kilograms of recyclables collected. We look forward to the growth of these numbers as we amplify engagement.

Inspiring the next generation has been among our key values at Bank Audi, and we have cherished opportunities where students from a variety of calibres reach out for mentoring. Doctorate and Masters Candidates refer to our CSR model and case study within Business Administration, Economics, or Human Resources majors. We guide younger generations in financial literacy and career orientation by engaging our Volunteer Program and the long-standing collaboration we enjoy with Injaz Lebanon to empower 100 middle school students and the SOS Youth CAN program.

Another portal for engaging other institutions, irrelevant of their size, occurs as we portray our social responsibility in regional conferences such as the CSR Regional Forum in 2021 or social entrepreneurs, as engaged through Berytech's IM Capital and Impact Rise Mentoring program where we have mentored participating individuals and organisations alike.

IN TURKEY

Pursuant to its commitment towards sustainable development, Odea Bank embraces corporate social responsibility and actively contributes to its community and society. It takes a proactive and collaborative role in improving the quality of life, public good, cultural development, and social wellbeing.

Amongst the ISO 26000 – Social Responsibility Standards, Odea Bank focuses on gender equality, organisational management, human rights, business practices, the environment, fair business practices, consumer issues, and social participation at the international level.

In collaboration with Can Publishing and under the content consultancy of Pedagogue Prof. Dr. Ayşe Bilge Selçuk, Odea Bank reinterpreted three of the famous and popular classical fairy tales raising awareness on gender equality. In 2021, two new "Fair Tales" stories were added to this project, all of which are available in their digital format on the Bank's website in Turkish language, in addition to an English edition enabling children to learn a foreign language while being initiated about gender equality. To date, the "Fair Tales" books have been distributed to 348 schools in 81 rural regions, reaching 281,000 children in total. With the collaboration of Süreyya Ağaoğlu Children's Friends Association, Odea Bank offered the books to 25 village school libraries, reaching hundreds of children. Further partnership with the LamOn9 Social Aid Association allowed 10 village schools to benefit from these books donations, reaching another 1,000 students. Odea Bank's commitment to this initiative comes in line with Sustainable Development Goal (SDG) 5 – Gender Equality – an objective and driver of sustainable development with a multiplier effect, essential to building strong economies, establishing more stable and fair societies, and improving the quality of life for communities.

In the same perspective, the project was brought to stage through a "Fair Tale" theatre play spreading the message of equality with the aim to reach even more children. In 2021, Odea Bank sponsored the play at the 25th İKSV Istanbul Theater Festival, organised under the theme "There is a Woman Behind This." On stage, the heroes of the five fairy tales united to spread further attention on gender equality, nature and environmental issues. The actions taken at hand to support gender equality can contribute positively to reducing poverty (SDG 1) by bringing work opportunities to women and ensuring equal access to economic resources (SDG 8); improving health (SDG 3) and educational (SDG 4) outcomes; directly contributing to reducing inequalities (SDG 10); and creating the foundations for more peaceful and inclusive societies (SDG 16).

Continuing the "Fair Tales" play, three plays and two separate panels sponsored by Odea Bank were hosted under the theme "There's a Woman Behind This", all of which were produced by women and aiming to shed light on women's role in production. In addition, the Bank participated in the panel entitled "How to find an equal path in children's narratives?" which occurred with the participation of Pedagogue Prof. Dr. Ayşe Bilge Selçuk and playwright/director Firuze Engin, and where gender equality was discussed. The "Fair Tales" initiative directly contributes to Goal 5.5 – "Ensure women's full and effective participation and equal opportunities for leadership", while implementing policies and practices that are free from and prevent gender-biased discrimination across the community. It promotes gender equality through advocacy.

Odea Bank is currently cooperating with the "Erişilebilir Her Şey (Everything Accessible)" Platform and added audio descriptions, sign language translations, and subtitles to the storytelling videos of the "Fair Tales" project, making it accessible to all children with visual and hearing impairments.

Odea Bank has played an active role in projects other than its own pertaining to gender equality. In 2020, the Bank signed up to the UN Women's Empowerment Principles consisting of 7 major principles, namely: establish high-level corporate leadership for gender equality; treat all women and men fairly at work – respect and support human rights and non-discrimination; ensure the health, safety and wellbeing of all women and men workers; promote education, training and professional development for women; implement enterprise development, supply chain and marketing practices that empower women; promote equality through community initiatives and advocacy; and measure and publically report on progress to achieve gender equality.

Continuing its collaboration with the TEMA Foundation since 2017 under the slogan of "Odea Bank Oksijen Account secures the oxygen of the future," active Oksijen Account holders have the opportunity to donate saplings to the foundation's nature awareness project while promoting children's education on the natural environment. Within this project, 32,429 saplings have been donated to date, and nature education of 12,457 children has been supported. This project falls under SDG 13 – Climate Action – "Promote climate conscious behaviour and build capacity for climate action", specifically target 13.3 – "Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning", and is totally aligned with SDG 15 – Life on Land – "Design and implement solution to accurately value and respect natural capital", and drive wider adoption of these solutions.

In 2021, on the occasion of the Oksijen Account's 7th anniversary, Odea Bank drew attention to the world's need for oxygen and the pollution of oceans by donating to Deniz Temiz Association/TURMEPA, the protector of Turkey's seas and water resources whose ambassador is Şahika Ercümen, the World Freediving Record Holder. Through this initiative, Odea Bank targeted SDG 14 – Life below Water – "Implement policies and practices to protect ocean ecosystems that are affected by business and supply chain activities". These 3 Goals – i.e. SDG 13, SDG 14 and SDG 15 – are tightly interlinked with an additional significant impact on SDG 12 – Responsible Consumption and Production; SDG 2 – Zero Hunger requires that ocean biodiversity loss be halted, and are also tied to SDG 6 – Clean Water and Sanitation through their regulation of global climate and precipitation.

In support of the International Day for the Elimination of Violence against Women, Odea Bank braced the Firefly project of United Nations Women, and raised awareness on Autism Day through an initiative to light its Etiler Branch façade with the associated occasion colour – blue. This project is aligned with SDG 5.2 – "Eliminate all forms of violence against all women and girls in public and private spheres", including trafficking, as well as sexual and other types of exploitation.

On 11 October 2021, for the International Day of the Girl Child, Odea Bank donated to the Turkish Education Foundation's Self-Sufficient, a "Future-Growing Girls Scholarship Fund", pushing towards equal rights and educational conditions of children. This initiative is aligned with SDG 4 – Quality Education, specifically targets SDG 4.1 – 4.2 – 4.5, and spills over to SDG 5 – Gender Equality and SDG 10 – Reduced Inequalities.

Following the forest fires that took place across the country in 2021, Odea Bank donated 5,000 saplings and supported the 1 Million Sapling Campaign launched by the Banks Association of Turkey.

On another front, within Odea Bank's art platform, O'art's continues to bring today's arts to everyone through various media, translated in a critique of today's sensitive issues in the socio-cultural arena. Within this scope, during the pandemic and throughout 2021, Odea Bank organised the online Art exhibitions "Şimdi 2021" and "Işiklik/Skylight" while the exhibitions "Sey: nesnenin ihtimali" and "Canan Hayal-i Alem" met art lovers both physically and online.

03

FINANCIAL STATEMENTS

RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL ASSEMBLY OF SHAREHOLDERS

In June 2022, the Board of Directors of the Bank adopted the following proposals to the Annual General Assembly of shareholders relating to the approval of the financial statements, to the constitution of reserves, to the allocation of the annual results, and to a number of other matters falling within the prerogatives of the Ordinary General Assembly:

Proposal No. 1

The Ordinary General Assembly of shareholders of the Bank is invited to approve the Bank's accounts, in particular the balance sheet and the profit and loss statement as at and for the year ended on 31 December 2021, and to grant full discharge to the Chairman and members of the Board of Directors in respect of their management of the Bank's activities during the year 2021.

Proposal No. 2

The Ordinary General Assembly of shareholders of the Bank is invited to approve the allocation of the aggregate net amount resulting from (i) the sale of Bank Audi sae, (ii) the sale of the branches of Bank Audi sal in Jordan and Iraq, (iii) the sale of the residual interest of Bank Audi sal in Bank Audi Syria, and (iv) dividends received in 2020 from Bank Audi sae, Bank Audi LLC and BAPB Holding Limited, to the account of "Non-distributable Reserves appropriated for Capital increase" pursuant to BdL letter dated 27/01/2022 ref. 260/1.

Proposal No.3

The Ordinary General Assembly of shareholders of the Bank is invited to approve the transfer of the 2021 annual results in deduction of previously retained earnings, pursuant to the relevant circulars or memos of the Lebanese Banking Control Commission.

Other Proposals to the General Assembly

The Board of Directors of the Bank also adopted other proposals to the Annual General Assembly of shareholders to the effect of: (i) ratifying loans and transactions that are subject to the approval of the Ordinary General Assembly of shareholders; (ii) authorising the entry into similar loans and transactions during the year 2021; (iii) electing a new Board of Directors and determining the remuneration of its members; (iv) re-appointing the External Auditors and setting their fees; and (v) other matters falling within the prerogatives of the Ordinary General Assembly, all as more fully described in the present Annual Report, in the enclosed financial statements, and in the other supporting documents addressed to the General Assembly and published separately.

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BANK AUDI sal

Adverse Opinion

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

Basis for Adverse Opinion

1. As disclosed in Note 2.1 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29") in the consolidated financial statements for the year ended 31 December 2021. Had the Group applied the requirements of IAS 29, many elements and disclosures in the consolidated financial statements, including the comparative financial information for the year ended 31 December 2020, would have been materially different. The effects on the consolidated financial statements from this departure have not been determined. Our opinion for the year ended 31 December 2020 was modified for same reasons.

2. The Group translated its monetary assets and liabilities denominated in foreign currencies and the assets and liabilities of its foreign operations 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 financial statements from the departure of IAS 21 and the uncertainties relating to the appropriate exchange rates have not been determined.

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Basis for Adverse Opinion (continued)

3. As at 31 December 2021, the Group holds balances with the Central Bank of Lebanon amounting to LBP 15,350 billion (31 December 2020: LBP 16,476 billion), a portfolio of Lebanese government treasury securities and Certificate of deposits (under financial assets at amortized cost) totaling LBP 6,790 billion (31 December 2020: LBP 7,323 billion), a portfolio of loans amounting to LBP 2,986 billion (31 December 2020: LBP 3,898 billion) and other balances with banks and other assets amounting to LBP 1,645 billion (31 December 2020: LBP 1,519 billion), concentrated in Lebanon which represent 66% of the Group's total assets as at 31 December 2021 (31 December 2020: 55%). Other assets include a receivable from Central Bank of Lebanon amounting to LBP 1,280 billion (31 December 2020: LBP 1,334 billion) recognized based on the estimated present value of the future cash flows expected to be received from the leverage arrangements in local currency entered into with the latter against a loan to a debtor that was set off, time deposits with the Central Bank of Lebanon that have been derecognized and Lebanese government Eurobonds that have been derecognized, as further described in Note 29. Furthermore, the Group did not assess whether the modified financial assets resulting from the exchange of placements with the Central Bank of Lebanon with same maturities but at lower interest rates as disclosed in Note 31, have changed substantially, in order to determine whether it should be accounted for as a modification resulting in derecognition or no derecognition. Also the Group did not calculate and account for the impact of such modification, which constitutes a departure from the requirements of IFRS 9.

   In addition, our opinion for the year ended 31 December 2020 was qualified because balances with the Central Bank of Lebanon included accumulated fair value adjustments from hedge accounting amounting to LBP 264 billion as at 31 December 2020. The Group resolved to discontinue hedge accounting on 31 December 2021 and impaired the accumulated fair value adjustments which amounted to LBP 150 billion at discontinuation date as disclosed in Notes 11 and 19. Had the Group properly discontinued hedge accounting at the date of the deterioration in the credit risk of the hedged item, the nominal amount (before application of IAS 29 and the impact of using appropriate exchange rates) of the net trading loss should be decreased by LBP 114 billion, the nominal amount (before application of IAS 29 and the impact of using appropriate exchange rates) of the net impairment loss should be decreased by LBP 150 billion and opening retained earnings as at 1 January 2021 should be decreased by the LBP 264 billion. The effects of this matter on the consolidated financial statements from the non-application of IAS 29 (as referred to in paragraph 1 above) and the non-application of appropriate exchange rates (as referred to in paragraph 2 above) have not been determined.

   As disclosed in Note 1, the consolidated financial statements do not include adjustments required by IFRS 9 – Financial Instruments to the carrying amounts of the above assets and to many related accounts and disclosures that would result from resolution of the uncertainties described in Note 1.

   Also, as disclosed in Note 48, management did not produce the information about the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

   Had such adjustments and disclosures been determined and made, many elements and related disclosures in the accompanying consolidated financial statements for the years ended 31 December 2021 and 31 December 2020 would have been materially different. The effects of the resolution of these uncertainties on the consolidated financial statements and disclosures have not been determined. Our opinion for the year ended 31 December 2020 was modified for same reasons explained above.

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Basis for Adverse Opinion (continued)

4. The Group did not assess whether the modification of the terms loans as disclosed in Note 32, have changed substantially the terms, in order to determine whether it should be accounted for as a modification resulting in derecognition or no derecognition. Also, the Group did not calculate and account for the impact of such modification, which constitutes a departure from the requirements of IFRS 9. The effects of this departure on the carrying amount of term loans under due to banks and financial institutions and related income statement accounts have not been determined.

5. The Group did not reclassify to the consolidated statement of income during the year ended 31 December 2021, cumulative fair value losses and cumulative foreign currency translation reserve amounting to LBP 597 billion relating to assets held for sale derecognized during the year. Instead, the Group transferred these cumulative reserves directly to retained earnings, which constitutes a departure from the requirements of IAS 1 and IFRS 5. Accordingly, the nominal amount (before application of IAS 29 and the impact of using appropriate exchange rates) of the profit from discontinued operations for the year ended 31 December 2021 should be decreased by LBP 597 billion and other comprehensive loss from discontinued operations should be decreased by the same amount. The effects of this matter on the consolidated financial statements from the non-application of IAS 29 (as referred to in paragraph 1 above) and the non-application of appropriate exchange rates (as referred to in paragraph 2 above) have not been determined.

6. As at 31 December 2021, provision for end of service of employees in Lebanon is carried in the consolidated statement of financial position at LBP 131 billion. The assumptions used in calculating this provision are subject to high uncertainty from the prevailing financial and economic situation in Lebanon as illustrated in Note 1. Consequently, we were unable to determine whether any adjustments to these amounts, and related income statements and other comprehensive income accounts were necessary.

7. The financial statements of a consolidated subsidiary include a general provision of LBP 14 billion as at 31 December 2021, which was recognized as expense in the current period with a deferred tax asset on this general provision amounting to LBP 3 billion which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". This general provision is provided by the consolidated subsidiary's management for the possible effects of the negative circumstances which may arise in economy or market conditions. Had this general provision not been recognized, the nominal amount (before application of IAS 29 and the impact of using appropriate exchange rates) of provisions and deferred tax assets would have decreased by LBP 14 billion and LBP 3 billion respectively and the nominal amount (before application of IAS 29 and the impact of using appropriate exchange rates) of net loss would have decreased and other comprehensive loss would have increased by LBP 17 billion and LBP 6 billion respectively as of and for the year ended 31 December 2021. The effects of this matter on the consolidated financial statements from the non-application of IAS 29 (as referred to in paragraph 1 above) and the non-application of appropriate exchange rates (as referred to in paragraph 2 above) have not been determined.

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Basis for Adverse Opinion (continued)

8. The events and conditions and practices that would not qualify as normal course of business in a non-crisis environment described in Note 1 and the matters described in paragraphs 1, 2 and 3 above affect the financial position, liquidity, solvency and profitability of the Group, and expose the Group to increased litigation and regulatory risks. Significant uncertainty exists in relation to the outcome of the litigations and claims raised against the Group and the negative impact that they may have on the Group's offshore liquidity, foreign assets and foreign currency exposure as disclosed in Notes 1, 54A and 57. These events and conditions may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern. Our opinion for the year ended 31 December 2020 was modified for same reasons.

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

Emphasis of Matters

We draw attention to Note 60 to the consolidated financial statements, which describes

- The uncertainties surrounding the legal actions undertaken by the Mount Lebanon Public Prosecutor, subsequent to the balance sheet date, on the Bank and some members of its Board of Directors, and current and former employees.
- Subsequent to the balance sheet date, the Turkish economy will be defined as hyperinflationary economy.

Key Audit Matters

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

Other Information Included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. As described in the *"Basis for Adverse Opinion"* section of our report, the consolidated financial statements do not include adjustments to the carrying amounts of the assets concentrated in Lebanon and related accounts and disclosures as a result of the resolution of the uncertainties stated in Note 1. Further, the Group did not apply the requirements of IAS 29 and IAS 21 in the consolidated financial statements. We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group's 2021 Annual Report affected by these matters.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young

Ernst & Young

BDO, Semaan, Gholam & Co.

3 June 2022
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 LBP Million	2020 LBP Million
CONTINUING OPERATIONS			
Interest and similar income	4	2,548,476	2,995,084
Interest and similar expense	5	(894,887)	(1,666,771)
Net interest income		1,653,589	1,328,313
Fee and commission income	6	254,616	211,648
Fee and commission expense	7	(188,176)	(995,546)
Net fee and commission income (expense)		66,440	(783,898)
Net trading (loss) gain	8	(1,181,386)	336,289
Net loss on sale of financial assets at amortised cost	9	(14,777)	(139,521)
Non-interest revenues from financial assets at fair value through other comprehensive income		443	32
(Loss) profit from associates under equity method	25	(1,243)	330
Other operating income	10	58,072	27,349
Total operating income		581,138	768,894
Net impairment loss on financial assets	11	(163,782)	(262,688)
Net operating income		417,356	506,206
Personnel expenses	12	(438,053)	(407,373)
Other operating expenses	13	(248,922)	(230,585)
Depreciation of property and equipment and right-of-use assets	26	(51,678)	(64,558)
Amortisation of intangible assets	27	(19,819)	(21,640)
Total operating expenses		(758,472)	(724,156)
Operating loss		(341,116)	(217,950)
Net (loss) gain on revaluation and disposal of fixed assets		(400)	10
Loss before tax from continuing operations		(341,516)	(217,940)
Income tax	14	(15,472)	(100,575)
Loss for the year from continuing operations		(356,988)	(318,515)
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations, net of tax	45	79,625	100,255
Loss for the year		(277,363)	(218,260)
Attributable to:			
Equity holders of the parent		(285,751)	(225,147)
Loss for the year from continuing operations		(365,376)	(325,402)
Profit for the year from discontinued operations	45	79,625	100,255
Non-controlling interests		8,388	6,887
Profit for the year from continuing operations		8,388	6,887
Profit for the year from discontinued operations		-	-
		(277,363)	(218,260)
Loss per share:			
		LBP	LBP
Basic and diluted loss per share	15	(486)	(413)
Basic and diluted loss per share from continuing operations	15	(622)	(596)
Basic and diluted earnings per share from discontinued operations	15	136	183

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 LBP Million	2020 LBP Million
Loss for the year from continuing operations		(356,988)	(318,515)
Profit for the year from discontinued operations		79,625	100,255
Other comprehensive loss that will be reclassified to the income statement in subsequent periods from continuing operations			
Foreign currency translation			
Exchange differences on translation of foreign operations		(359,197)	(125,511)
Net foreign currency translation		(359,197)	(125,511)
Cash flow hedge			
Net hedging gain (loss) arising during the year	19	6,045	(2,909)
Loss reclassified to income statement	19	13,345	2,227
Tax effects	14	(727)	(417)
Net change in cash flow hedge		18,663	(1,099)
Debt instruments at fair value through other comprehensive income			
Change in fair value during the year		(23,738)	7,196
Tax effects	14	4,649	(1,104)
Net (loss) gain on debt instruments at fair value through other comprehensive income		(19,089)	6,092
Total other comprehensive loss that will be reclassified to the income statement in subsequent periods from continuing operations		(359,623)	(120,518)
Other comprehensive loss that will not be reclassified to the income statement in subsequent periods from continuing operations			
Remeasurement losses on defined benefit plans			
Actuarial loss on defined benefits plans	37	(78,028)	(5,057)
Tax effects	14	13,579	735
Net remeasurement losses on defined benefit plans		(64,449)	(4,322)
Equity instruments at fair value through other comprehensive income			
Net unrealised losses		(4,222)	(1,863)
Tax effects	14	(96)	612
Net unrealised losses on equity instruments at fair value through other comprehensive income		(4,318)	(1,251)
Total other comprehensive loss that will not be reclassified to the income statement in subsequent periods from continuing operations		(68,767)	(5,573)
Other comprehensive loss for the year from continuing operations, net of tax		(428,390)	(126,091)
Other comprehensive (loss) income for the year from discontinued operations, net of tax		(8,971)	3,217
Total comprehensive loss for the year from continuing operations, net of tax		(785,378)	(444,606)
Total comprehensive income for the year from discontinued operations, net of tax	45	70,654	103,472
Total comprehensive loss for the year, net of tax		(714,724)	(341,134)
Attributable to:			
Equity holders of the parent		(641,222)	(311,289)
Non-controlling interests		(73,502)	(29,845)
		(714,724)	(341,134)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 LBP Million	2020 LBP Million
ASSETS			
Cash and balances with central banks	16	18,917,582	19,486,210
Due from banks and financial institutions	17	2,680,674	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	18	127,877	264,246
Derivative financial instruments	19	287,067	218,820
Financial assets at fair value through profit or loss	20	161,038	392,067
Loans and advances to customers at amortised cost	21	7,079,127	9,142,352
Loans and advances to related parties at amortised cost	22	70,485	108,200
Debtors by acceptances		55,891	17,892
Financial assets at amortised cost	23	7,284,909	7,787,493
Financial assets at fair value through other comprehensive income	24	1,164,880	1,518,373
Investments in associates	25	14,581	113,923
Property and equipment and right-of-use assets	26	589,211	635,928
Intangible assets	27	65,876	81,081
Assets obtained in settlement of debt	28	131,662	203,160
Other assets	29	1,764,616	1,685,441
Deferred tax assets	14	48,552	53,656
Goodwill	30	42,419	42,384
Assets held for sale	45	-	9,493,147
TOTAL ASSETS		40,486,447	53,412,332
LIABILITIES			
Due to central banks	31	3,544,463	4,024,308
Due to banks and financial institutions	32	574,999	1,375,285
Due to banks under repurchase agreements	32	38,610	143,888
Derivative financial instruments	19	330,824	446,793
Customers' deposits	33	30,156,393	32,242,453
Deposits from related parties	34	145,494	211,261
Debt issued and other borrowed funds	35	1,232,271	1,317,813
Engagements by acceptances		55,891	17,892
Other liabilities	36	358,782	446,253
Current tax liabilities	14	6,614	78,748
Deferred tax liabilities	14	2,356	6,018
Provisions for risks and charges	37	283,557	150,599
Liabilities held for sale	45	-	8,502,601
TOTAL LIABILITIES		36,730,254	48,963,912
SHAREHOLDERS' EQUITY – GROUP SHARE			
Share capital – common shares	38	982,859	982,859
Share capital – preferred shares	38	10,020	10,020
Issue premium – common shares	38	902,290	902,290
Issue premium – preferred shares	38	894,480	894,480
Cash contribution to capital	39	72,586	72,586
Non-distributable reserves	40	1,869,717	2,209,661
Distributable reserves	41	496,533	17,270
Treasury shares	43	(9,190)	(9,190)
Accumulated losses – Retained earnings		(90,155)	767,489
Other components of equity	44	(1,181,287)	(753,456)
Reserves related to assets held for sale	45	-	(587,877)
Result of the year		(285,751)	(225,147)
		3,662,102	4,280,985
NON-CONTROLLING INTERESTS	46	94,091	167,435
TOTAL SHAREHOLDERS' EQUITY		3,756,193	4,448,420
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		40,486,447	53,412,332

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 LBP Million	2020 LBP Million
OPERATING ACTIVITIES			
Loss before tax from continuing operations		(341,516)	(217,940)
Profit before tax discontinued operations	45	45,889	178,080
Adjustments for non-cash items:			
Depreciation and amortisation	26 & 27	71,497	109,804
Net loss on financial instruments at amortised cost	9	14,777	139,521
Net impairment losses on financial assets	11	163,782	296,659
Other (loss) income resulting from leverage arrangements	8	59,891	(295,556)
Impairment of investments in associates	13	-	7,387
Share of net loss (profit) of associates	25	1,243	(330)
Net loss (gain) on sale or disposal of fixed assets		400	(205)
Provision for risks and charges		49,414	18,606
Write-back of provisions for risks and charges	10	(4,631)	(2,897)
Impairment unallocated under IFRS 5	45	-	34,848
		60,746	267,977
Changes in operating assets and liabilities:			
Balances with the central banks, banks and financial institutions maturing in more than 3 months		922,553	(1,316,565)
Change in derivatives and financial assets held for trading		64,713	13,183
Change in loans and advances to customers and related parties		2,217,507	2,569,712
Change in other assets		(271,040)	64,258
Change in deposits from customers and related parties		(2,083,686)	(3,861,197)
Change in other liabilities		(53,824)	(9,513)
Change in provisions for risks and charges		78,028	7,573
Cash used in operations		934,987	(2,264,572)
Provisions for risks and charges paid		(17,100)	(28,834)
Taxation paid		(75,288)	(76,895)
Net cash used in operating activities		(842,609)	(2,370,301)
INVESTING ACTIVITIES			
Change in financial assets – other than trading		716,154	1,975,783
Purchase of property and equipment and intangibles	26 & 27	(47,755)	(47,732)
Proceeds from sale of an associate		28,630	-
Proceeds from sale of property and equipment and intangibles		4,878	36,248
Proceeds from sale of assets obtained in settlement of debt		171,576	125,902
Proceeds from sale of assets held for sale		990,546	-
Net cash from investing activities		1,864,029	2,090,201
FINANCING ACTIVITIES			
Issuance of capital	38	-	315,278
Cost of issuance of capital	41	-	(3,638)
Debt issued and other borrowed funds	35	(85,542)	(75,826)
Lease liability payments	36	(21,486)	(37,261)
Net cash (used in) from financing activities		(107,028)	198,553
CHANGE IN CASH AND CASH EQUIVALENTS		2,599,610	(115,308)
Foreign exchange difference		(332,876)	(81,547)
Cash and cash equivalents at 1 January		6,339,750	6,513,047
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	47	8,606,484	6,339,750
Operational cash flows from interest and dividends			
Interest paid		(883,452)	(1,869,009)
Commission paid		(155,845)	(951,831)
Interest received		2,603,537	3,428,862
Dividends received		766	253

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to the Equity Holders of the Parent														
	Share Capital - Common Shares	Share Capital - Preferred Shares	Issue Premium - Common Shares	Issue Premium - Preferred Shares	Cash Contribution to Capital	Non-distributable Reserves	Distributable Reserves	Treasury Shares	Accumulated losses - Retained Earnings	Other Components of Equity	Reserves Related to Assets Held for Sale	Result of the Year	Total	Non-controlling Interests	Total Shareholders' Equity
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at 1 January 2021	**982,859**	**10,020**	**902,290**	**894,480**	**72,586**	**2,209,661**	**17,270**	**(9,190)**	**767,489**	**(753,456)**	**(587,877)**	**(225,147)**	**4,280,985**	**167,435**	**4,448,420**
Net loss for the year from continuing operations	-	-	-	-	-	-	-	-	-	-	-	(365,376)	(365,376)	8,388	(356,988)
Net profit from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	79,625	79,625	-	79,625
Other comprehensive loss from continuing operations	-	-	-	-	-	-	-	-	-	(346,500)	-	-	(346,500)	(81,890)	(428,390)
Other comprehensive loss from discontinued operations	-	-	-	-	-	-	-	-	-	-	(8,971)	-	(8,971)	-	(8,971)
Total comprehensive loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**(346,500)**	**(8,971)**	**(285,751)**	**(641,222)**	**(73,502)**	**(714,724)**
Appropriation of 2020 profits	-	-	-	-	-	9,392	-	-	(234,539)	-	-	225,147	-	-	-
Entities deconsolidated	-	-	-	-	-	(326,151)	-	-	(195,160)	(75,537)	596,848	-	-	-	-
Sale of FVTOCI	-	-	-	-	-	-	-	-	29,242	(6,304)	-	-	22,938	-	22,938
Transfer between reserves	-	-	-	-	-	(23,185)	479,263	-	(456,746)	510	-	-	(158)	158	-
Other movements	-	-	-	-	-	-	-	-	(441)	-	-	-	(441)	-	(441)
Balance at 31 December 2021	**982,859**	**10,020**	**902,290**	**894,480**	**72,586**	**1,869,717**	**496,533**	**(9,190)**	**(90,155)**	**(1,181,287)**	**-**	**(285,751)**	**3,662,102**	**94,091**	**3,756,193**
Balance at 1 January 2020	667,581	10,020	883,582	894,480	72,586	2,025,201	433,057	(9,190)	1,466,788	(1,252,582)	-	(912,177)	4,279,346	197,280	4,476,626
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	(225,147)	(225,147)	6,887	(218,260)
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(86,142)	-	-	(86,142)	(36,732)	(122,874)
Total comprehensive loss	-	-	-	-	-	-	-	-	-	(86,142)	-	(225,147)	(311,289)	(29,845)	(341,134)
Appropriation of 2019 profits	-	-	-	-	-	(9,179)	(110,125)	-	(792,873)	-	-	912,177	-	-	-
Discontinued operations (Note 45)	-	-	-	-	-	-	-	-	-	587,877	(587,877)	-	-	-	-
Capital increase	315,278	-	-	-	-	315,278	(315,278)	-	-	-	-	-	315,278	-	315,278
Cost of capital	-	-	-	-	-	-	(3,638)	-	-	-	-	-	(3,638)	-	(3,638)
Transfer between reserves	-	-	-	-	-	(7)	(35,724)	-	38,340	(2,609)	-	-	-	-	-
Related to the merger (Note 46)	-	-	18,708	-	-	(122,270)	49,005	-	54,557	-	-	-	-	-	-
Other movements	-	-	-	-	-	638	(27)	-	677	-	-	-	1,288	-	1,288
Balance at 31 December 2020	982,859	10,020	902,290	894,480	72,586	2,209,661	17,270	(9,190)	767,489	(753,456)	(587,877)	(225,147)	4,280,985	167,435	4,448,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2021

NOTES' INDEX

1.0. | CORPORATE INFORMATION

Bank Audi sal (the Bank) is a Lebanese joint stock company registered since 1962 in Lebanon under No. 11347 at the Register of Commerce and under No. 56 on the banks' list at the Central Bank of Lebanon. The Bank's head office is located in Bank Audi Plaza, Omar Daouk Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange. Effective 6 November 2020, the global depository receipts were delisted from the London SEAQ.

The Bank, together with its subsidiaries (collectively "the Group"), provides a full range of Retail, Commercial, Investment and Private Banking activities through its headquarters as well as its branches in Lebanon, and its presence in Europe, the Middle East and North Africa.

The consolidated financial statements were authorised for issue in accordance with the Board of Directors' resolution on 2 June 2022.

1.1. MACROECONOMIC ENVIRONMENT

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

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

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 USD/LBP. 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 Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index.

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

(a) Subsidised imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 USD/LBP (the official exchange rate). During 2021, this subsidy was lifted.
(b) Introduced the Platform Rate, currently at 3,900 USD/LBP, to be used only in specific circumstances.
(c) Subsidised imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate. During 2021, this subsidy was lifted.
(d) Introduced exceptional measures for bank depositors to withdraw small amounts of cash in LBP 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 LBP, as well as operations from/to foreign currencies external accounts against LBP. Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon.

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

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

LEBANESE GOVERNMENT'S FINANCIAL RECOVERY PLAN

A financial recovery plan was ratified by the Cabinet on May 20, 2022. The document was passed by the Cabinet in its final session hours before losing decision-making powers, following the election of a new parliament on May 15.

Lebanon's government foresees cancelling "a large part" of the Central Bank's foreign currency obligations to commercial banks and dissolving non-viable banks by November, according to the Plan.
The latter includes several measures that are prerequisites to unlock funds from a preliminary deal with the International Monetary Fund agreed in April, that could help pull the country out of a three-year financial meltdown.

The endorsed plan foresees a full audit of the Central Bank's forex financial standing by July. Then, the government "will cancel, at the outset, a large part of the Central Bank's foreign currency obligations to banks in order to reduce the deficit in BdL's capital," the document said. The largest 14 commercial banks, representing 83% of total assets, would also be audited. Viable banks would be recapitalised with "significant contributions" from bank shareholders and large depositors.

The plan makes no mention of a sovereign fund to manage state-owned assets but pledges to limit recourse to public assets, which had been a demand of Lebanon's commercial banks. The plan said it would protect small depositors "to the maximum extent possible" in each viable bank, but did not lay out a minimum amount to be protected – unlike draft plans. Non-viable banks, however, would be dissolved by the end of November, it added.

It also said the government would unify the official exchange rate, ending a system in which the government offered various exchange rates for different operations.

INTERNATIONAL MONETARY FUND (IMF)

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.

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.

On 7 April 2022, the IMF concluded a two-week mission to Beirut with an announcement of a staff level agreement for a USD 3 billion, 46-month Extended Fund Facility (EFF). This agreement is subject to approval by IMF Management and the Executive Board. Timely implementation of all prior actions and confirmation of international partners' financial support is required before formal approval by the Executive Board. Prior actions include: (i) cabinet/parliamentary approval of a bank restructuring strategy and enabling legislation, in conjunction with an audit of the 14 largest banks; (ii) parliamentary approval of a reformed bank secrecy law; (iii) completion of the Central Bank of Lebanon's audit; (iv) a restructuring of the outstanding commercial debt (including the Eurobonds); (v) parliamentary approval of the 2022 budget; and (vi) unification by the Central Bank of Lebanon of the exchange rates for authorised current account transactions.

The implementation of the prior actions is further complicated by the upcoming political agenda, with the parlimentary elections due in May and presidential elections due before end of October.

BEIRUT PORT EXPLOSION

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

COVID-19

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

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

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

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

1.2. REGULATORY ENVIRONMENT

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

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

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

- Intermediate Circular 552 issued on 22 April 2020 and requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for clients who are not able to pay their dues due to the current economic situation, as assessed by the Bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.

- Intermediate Circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively). The circular however changed the requirement for the recognition of expected credit losses in banks' financial statements from applying at a "maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "minimum". In addition, the circular introduced the following measures:
  - Allowing banks to constitute the expected credit losses on exposures to Lebanese sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.

  - Allowing banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of the COVID-19 pandemic, the Bank must immediately downgrade the loan classification and staging to Stage 3 (default).

  - Requesting from banks to finalise the assessment of the future financial position of their customers by 31 December 2020, and to estimate expected credit losses based on this assessment and recognise the financial impact in the statement of income for the year ended 31 December 2020.

  - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.

  - Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their common equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.

  - Changing the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain.
  - Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity Tier 1, 10% for Tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. However, under exceptional circumstances, the buffer may be drawn down during 2020 and 2021, but must be rebuilt progressively starting 2022, by at least 0.75% each year, to reach the minimum required of 2.5% by end of 2024.

  - Preparing and presenting to the Central Bank of Lebanon a comprehensive plan for rectifying non-compliances with regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL), as well as other losses or provisions that the Bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.

  - Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortised over a period of 3 years (2022-2024 by 25% yearly).

- Basic Circular 154 issued on 27 August 2020 and aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019, and rectifying any non-compliance with regulatory ratios and banking regulations. The circular mainly introduced the following measures:
  - Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in Intermediate Circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the Bank to their normal levels as at before October 2019.

  - Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019, and without a minimum threshold.
  - Requesting from banks to maintain a current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the Bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.

  - Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalisation needs, if any, to the Central Bank of Lebanon's Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.

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

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

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

- 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 LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

  The financing of the aforementioned process will be secured equally through (i) BdL reduction of compulsory reserves requirements from 15% to 14% as per BdL Intermediary Circular 586 and (ii) the Bank's offshore liquidity. To that end, 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 LBP 8,000 USD/LBP 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 LBP at limits set by the bank until 31 July 2022.

- Intermediate Circular 616 issued on 3 March 2022 prohibiting banks from distributing dividends to ordinary shareholders from results of financial years 2019,2020 and 2021.

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	
	Year-end Rate	Average Rate	Year-end Rate	Average Rate
	LBP	LBP	LBP	LBP
US Dollar	1507.5	1507.5	1,507.5	1,507.5
Euro	1,701.52	1,786.92	1,851.21	1,724.88
Swiss Franc	1,639.48	1,653.63	1,706.67	1,607.97
Turkish Lira	111.75	172.84	205.29	217.47
Jordanian Dinar	2,126.23	2,126.23	2,126.23	2,125.98
Egyptian Pound	95.88	95.98	95.78	95.26
Saudi Riyal	401.53	401.89	401.79	401.68
Qatari Riyal	414.03	413.04	414.03	413.57
Iraqi Dinar	1.03	1.03	1.03	1.27

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/LBP 3,900 throughout the period from the issuance of the circular. During 2021, it was increased to 1 USD/LBP 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 LBP, as well as operations from/to foreign currencies external accounts against LBP. 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:

	Rate as at 31 December 2021	Average Rate for the Period from 10 May to 31 December 2021	Rate as at 31 December 2020	Average Rate for the Year Ended 31 December 2020
	LBP	LBP	LBP	LBP
US Dollar	22,700	16,266	N/A	N/A

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 LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment, and Management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Group uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the 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 54 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 the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to banks' exposure 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 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 53 to these consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019.

The deterioration was further aggravated by the effects of the COVID-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese crisis, the Bank has been implementing a de-risking strategy by considerably reducing its assets size, specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralised and specialised remedial function to proactively review and manage the quality of its various portfolios. The Bank has recorded significant amounts of expected credit losses during the last quarter of 2019 and during 2020. 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 judgment. 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 53 to these consolidated financial statements.

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

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 are exposing the Group to litigations that are dealt with on a case by case basis when they occur. The Group has been subject to increased litigations as a result of these restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Pounds. Management is carefully considering the impact of these litigations and claims. There are still uncertainties related to the consequences of these restrictive measures based on the current available information and the prevailing laws and local banking practices. Due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, Management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency exposure (refer to Note 54). The amount cannot be determined presently.

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

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

On 1 October 2020, the Bank received a letter from the Central Bank of Lebanon, referring to Basic Circular 154 and Intermediate Circular 567, and requesting the Bank to submit a roadmap that sets out the following:
- The Bank's overall strategy for the years 2020-2024.
- The Bank's assessment of its portfolio of private loans and expected credit losses as at 31 December 2020, as well as total realised and expected losses for the year 2020.
- The amount of expected credit losses that have not been translated yet to foreign currencies.
- The capital needs to comply with the minimum required capital and the measures and sources that will be relied upon to cover the shortfall, when existing.
- The Bank's strategy with respect to its investments in foreign banks and branches.
- The mechanism to rectify any non-compliance with regulatory requirements.
- The measures that will be taken to rectify non-compliances with articles 154 and 153 of the Code of Money and Credit, if any.
- The measures that will be taken to attract foreign liquidity or "fresh funds" and to cover liquidity onshore and offshore commitments.

The roadmap was submitted to the Central Bank of Lebanon on 18 February 2021, including a number of assumptions that remain highly susceptible to material change depending on the evolution of the financial, monetary and operating conditions in Lebanon. Hence a definitive reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

The Bank's key strategic objectives during this challenging period focused on the consolidation and de-risking of the domestic franchise and operations, and the ring-fencing of foreign entities and branches from Lebanon's spill-over effects.

In practice, Management has adopted a new strategic direction focusing on six main pillars to face the current financial and economic environment. These pillars are:
1. Asset quality reduce the risk profile of the Group through the management of the Group's portfolio of assets by (1) sustaining the loan deleveraging policy, (2) maintaining higher loss allowances coverage, (3) closely monitoring the lending portfolios while taking early remedial actions on problematic files and (4) smoothly reducing sovereign debt exposure, especially in foreign currency.

2. Quality of earnings: efforts to attract low cost and stable funding, while maintaining relationships with good profile obligors with consistent and recurring returns and ancillary revenues. End result is for foreign entities to continue to provide the Group with diversified income generation capacity. Continuous rationalisation of operating expenses targeting a lean organisational structure improving operational efficiency and optimising cost structure to adapt to the changing operating environment and the level of revenue streams of the Group.

3. Liquidity and ALM: create a liquidity buffer in anticipation turbulences.

4. Solvency: maintain sufficient capital buffers over the minimum regulatory capital adequacy levels (calculated in accordance with the rules established by the Central Bank of Lebanon).

5. Operational and other non-financial risks: enhancing the management of Operational, Compliance, Legal, Conduct, Cyber, Strategic and third-party risks while constantly updating business continuity plans to counteract any disruption in business activities due to new and emerging risks, and

6. Governance: involving sustaining strict adherence to the internal and regulatory Governance principles, with a particular focus on the control and risk based oversight role of the Board of Directors to adapt to the particular requirements of the current challenging environment while mobilize the Bank's executive, control, and oversight committees for the continued effectiveness of the control framework. Maintaining abidance by the CSR principles to ensure sustainability of the Group taking into account the economic, social and environmental parameters of our operations in Lebanon and abroad.

The Bank has so far implemented a series of measures in relation to these key strategic objectives and pillars, including:

- Sale of the Bank's Egyptian subsidiary, as well as the Jordanian and Iraqi operations.
- In accordance with Central Bank of Lebanon Intermediary Circular 567, banks are required to increase their own funds (equity) by an amount equal to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments. The amount of increase required for the Bank is USD 622 million. On 18 February 2021, the Bank submitted to the regulators the measures taken in this respect which entail:
  - Issuance of common shares for USD 209 million.
  - Dividends distributed by foreign entities of USD 110 million of which USD 30 million in fresh dollars.
  - Positive impact on the Bank's and Lebanon branches stand alone equity, from the sale of the Bank's Egyptian subsidiary, investment in Bank Audi Syria and Jordanian and Iraqi operations up to USD 318 million of which USD 304 million in fresh dollars.

The Bank obtained the regulators' formal approval on 7 May 2021 on the aforementioned measures.
- Disposing of the majority of its Republic of Lebanon (RoL) Eurobonds portfolio during Q1-2020. As at 31 December 2021, Bank Audi sal's net exposure to RoL Eurobonds is only USD 5.5 million (USD 13 million on a consolidated basis).
- The Bank submitted to the regulators a calculation for meeting the regulatory requirement of 3% liquidity ratio with foreign banks in accordance with Central Bank of Lebanon Basic Circular 154.
- Re-establishing normal banking services with the active promotion of the "External Account" platform.
- Improving operational efficiency and strengthening governance by:
  - Building up on the synergies achieved from the merger of both Audi Private Bank sal and Audi Investment Bank sal under Bank Audi sal.
  - Implementing a cost optimisation plan.

All of these measures have helped strengthen the Bank's financial position, including international liquidity and solvency metrics. As at 31 December 2021, consolidated capital adequacy ratios stood at 10.04%, 12.89% and 14.52% for CET1, Tier 1 and Total CAR respectively, above the minimum required levels of 4.5%, 6% and 8% for 2020-2021 and 7%, 8.5% and 10.5% (including 2.5% capital conservation buffer) required by 2024. Part of the ratios' improvement between December 2020 and December 2021 is attributable to the deconsolidation of the Jordan and Iraq branches and Bank Audi Egypt which were completed during April 2021.

The Bank has also prepared financial projections covering future years until 2024, taking into account various additional planned actions, including:
- Strengthening its financial condition by using all of its future consolidated profits for that purpose.
- Continuing to deleverage its loan portfolio booked in Lebanon during 2021.
- Increasing significantly its international foreign currency liquidity position.

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

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

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

2.0. | ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

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

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

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

The Lebanese Central Administration of Statistics 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 2020.
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 summarised 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 amortisation charges of intangible assets recognised in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.

iv. Income and expenses are restated from the date when they were recorded, except for those profit or loss items that reflect or include in their determination the consumption of assets carried at the purchasing power of the currency as of a date prior to the recording of the consumption, which are restated based on the date when the asset to which the item is related originated; and except those profit or loss items originated from comparing two measurements expressed in the purchasing power of currency as of different dates, for which it is necessary to identify the compared amounts, restate them separately and compare them again, but with the restated amounts.

v. At the beginning of the first year of application of the restatement method of 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 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 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 financial statements including its statement of financial position, income statement, statement of comprehensive income and cash flow statement.

The Group uses the official exchange rate of 1,507.5 USD/LBP 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, since there is no official exchange or payment mechanism for transactions and balances denominated in foreign currencies, the Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or of the 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 impact the consumer price index and might need to be revisited based on the new behaviour of the population as a result of the crisis facing Lebanon.

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

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

STATEMENT OF COMPLIANCE

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

PRESENTATION OF FINANCIAL STATEMENTS

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements; therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements are disclosed in Notes 31 and 53.5.

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Bank Audi sal and its subsidiaries as at 31 December 2021. Details of the principal subsidiaries are given in Note 46.

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

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

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

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

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

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

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

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

2.3. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time, certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The nature and 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 Group. The Group intends to use the practical expedients in future periods if they become applicable.

2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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 the IFRS standards process, the IASB issued an 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.

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.

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.

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.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

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

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

INVESTMENTS IN ASSOCIATES

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

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

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor separately tested for impairment.

The income statement reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated income statement.
If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

FOREIGN CURRENCIES

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

(i) Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction (as disclosed in Note 1).

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange (as disclosed in Note 1) at the date of the statement of financial position. All differences are taken to "net trading (loss) gain" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

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

(ii) Group Companies

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

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

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

(i) Date of Recognition

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

(ii) Initial Measurement of Financial Instruments

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

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

(iii) Day 1 Profit or Loss

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

FINANCIAL ASSETS – CLASSIFICATION AND MEASUREMENT

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

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

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

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

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

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

Business Model

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

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

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

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

The SPPI Test

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment 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 Amortised Cost

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

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

Financial Assets at Fair Value through Other Comprehensive Income

Debt Instruments at Fair Value through Other Comprehensive Income

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

Equity Instruments at Fair Value through Other Comprehensive Income

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

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

Dividends on these investments are recognised under "non-interest 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.

Financial Assets at Fair Value through Profit or Loss

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

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

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

FINANCIAL LIABILITIES (OTHER THAN FINANCIAL GUARANTEES, LETTERS OF CREDIT AND LOAN COMMITMENTS) – CLASSIFICATION AND MEASUREMENT

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

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for:
- Financial liabilities at fair value through profit or loss (including derivatives).
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

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

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

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

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

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

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

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

DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit derivatives, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in "net trading (loss) gain" in the consolidated income statement, unless hedge accounting is applied, which is discussed in under "hedge accounting policy" below.

EMBEDDED DERIVATIVES

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

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

FINANCIAL GUARANTEES, LETTERS OF CREDIT AND UNDRAWN LOAN COMMITMENTS

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

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

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

RECLASSIFICATION OF FINANCIAL ASSETS

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

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

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

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial Assets

(i) Derecognition Due to Substantial Modification of Terms and Conditions

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

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

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

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

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

(ii) Derecognition Other than for Substantial Modification

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

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

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

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

A transfer only qualifies for derecognition if:

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

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

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

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

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

Financial Liabilities

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

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

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

(i) Overview of the ECL Principles

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

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

(ii) Measurement of ECLs

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

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

They key inputs into the measurements of ECL are:

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

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

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

(iii) Forborne and Modified Loans

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

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

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

(iv) Credit-impaired Financial Assets

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

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

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

(vii) Collateral Repossessed

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

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

FAIR VALUE MEASUREMENT

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• In the principal market for the asset or liability; or
• In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
• Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
• Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
• Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

HEDGE ACCOUNTING

As part of its risk management, the Group has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in Note 19.

When a hedging relationship meets the specified hedge accounting criteria set out in IFRS 9, the Group applies one of the three types of hedge accounting: fair value hedges, cash flow hedges, or hedges of net investments in a foreign operation.

At the inception, the Group formally documents how the hedging relationship meets the hedge accounting criteria. It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness.

A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and (c) the hedging relationship meets all of the following hedge effectiveness requirements:
- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and semi-annually on an ongoing basis. Hedge ineffectiveness is recognised in the consolidated income statement in "net trading (loss) gain".

The Group applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (RFR). The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). A hedging relationship is affected if interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform. IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend the hedge designations and hedge documentation.

(i) Fair Value Hedges

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "net trading (loss) gain". Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "net trading (loss) gain". If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts remain in other comprehensive income.

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

(ii) Cash Flow Hedges

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

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

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

a) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.

b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

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

(iii) Hedge of Net Investments

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

LEASES

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

Group as a Lessee

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

(i) Right-of-use Assets

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

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

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

(ii) Lease Liabilities

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

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

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

(iii) Short-term Leases and Leases of Low-value Assets

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

Group as a Lessor

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

REVENUE RECOGNITION

The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and Similar Income and Expense

The Effective Interest Rate

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

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

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

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

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

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the net amortised 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 amortised cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

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

Interest expense presented in the consolidated income statement includes:
- Financial liabilities measured at amortised cost.
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under "net trading (loss) gain" 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.

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

Fee Income from Providing Transaction Services
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 recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

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

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

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

"Property and equipment", except for land and 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 recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

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

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

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

• Buildings	40-50 years
• Freehold improvements	5-10 years
• Leasehold improvements	5-10 years
• Motor vehicles	5-7 years
• Office equipment and computer hardware	5-10 years
• Office machinery and furniture	10 years

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

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

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

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

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

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

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

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

• Computer software	5 years
• Key money	70 years

ASSETS OBTAINED IN SETTLEMENT OF DEBT, ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

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

PROVISIONS FOR RISKS AND CHARGES

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

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

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of

outflow is considered to be remote or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

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

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

Past service costs are recognised in profit or loss on the earlier of:
- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "personnel expenses" in consolidated statement of income:
- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

TAXES

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

(i) Current Tax

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

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

(ii) Deferred Tax

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

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

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

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

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

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

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

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

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

DIVIDENDS ON COMMON SHARES

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

TREASURY SHARES

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

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

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

ASSETS UNDER MANAGEMENT AND ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

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

CUSTOMERS' ACCEPTANCES

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

2.6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

JUDGMENTS

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

Going Concern

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

Impairment of Goodwill

Management's judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects.

Business Model

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

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

Contractual Cash Flows of Financial Assets

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

Deferred Tax Assets

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

Hedge Accounting

The Group's hedge accounting policies include an element of judgment and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Group's hedge accounting policies and the sensitivities most relevant to risks are disclosed in these Notes.

The Group applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform. As at 31 December 2021, the Group discontinued its hedge relationships.

Determining the Lease Term of Contracts with Renewal and Termination Options

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

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

The Group included the renewal period as part of the lease term for leases of head offices and branches due to the significance of these assets to its operations. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

ESTIMATES AND ASSUMPTIONS

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

Fair Value of Financial Instruments

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

Impairment Losses on Financial Instruments

The measurement of impairment losses across all categories of financial assets requires judgment, 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 models with a number of underlying assumptions regarding the choice of variable inputs. Components of the ECL models that are considered accounting judgments and estimates include:

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

As per internal policy, the Group regularly reviews its models in the context of actual loss experience and adjusts when necessary.

Impairment of Non-financial Assets

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

Revaluation of Property and Equipment

The Group carries its land and buildings and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. These are valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The Group engaged an independent valuation specialist to assess fair values as at 31 December 2020 for property and equipment. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 26.

Pensions Obligation

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

Leases – Estimating the Incremental Borrowing Rate

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

3.0. | SEGMENT REPORTING

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

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

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

BUSINESS SEGMENTS

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

Corporate and Commercial Banking

Provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, as well as all regular Corporate and Commercial Banking activities.

Retail and Personal Banking

Provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular Retail and Private Banking activities.

Treasury and Capital Markets

Provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers Investment Banking and brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

Group Functions and Head Office

Consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

The following tables present net operating income information and financial position information.

NET OPERATING INCOME INFORMATION

	2021				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	**Total LBP Million**
Net interest income	328,669	547,301	757,702	19,917	1,653,589
Non-interest income					
Net fee and commission income	86,420	113,823	(144,919)	11,116	66,440
Financial operations	(1,402)	31,910	(1,203,274)	(22,954)	(1,195,720)
Share of profit of associates	-	-	-	(1,243)	(1,243)
Other operating income	1,689	7,266	20	49,097	58,072
Total non-interest expense	86,707	152,999	(1,348,173)	36,016	(1,072,451)
Total operating income	415,376	700,300	(590,471)	55,933	581,138
Net impairment loss on financial assets	37,994	(16,958)	(184,818)	-	(163,782)
Net operating income	453,370	683,342	(775,289)	55,933	417,356

	2020				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Net interest income	281,101	436,184	562,887	48,141	1,328,313
Non-interest income					
Net fee and commission expense	58,541	91,772	(937,103)	2,892	(783,898)
Financial operations	6,487	48,673	131,823	9,817	196,800
Share of profit of associates	-	-	-	330	330
Other operating income	3,728	7,086	34	16,501	27,349
Total non-interest expense	68,756	147,531	(805,246)	29,540	(559,419)
Total operating income	349,857	583,715	(242,359)	77,681	768,894
Net impairment loss on financial assets	(178,067)	(89,052)	4,431	-	(262,688)
Net operating income	171,790	494,663	(237,928)	77,681	506,206

FINANCIAL POSITION INFORMATION

	2021				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	**Total LBP Million**
Investments in associates	-	-	-	14,581	14,581
Total assets	5,447,834	4,132,252	29,773,961	1,132,400	40,486,447
Total liabilities	4,504,543	25,845,954	5,470,929	908,828	36,730,254

	2020				
	Corporate and Commercial Banking LBP Million	Retail and Personal Banking LBP Million	Treasury and Capital Markets LBP Million	Group Functions and Head Office LBP Million	Total LBP Million
Investments in associates	-	-	-	113,923	113,923
Total assets	6,730,128	5,008,444	31,373,086	807,527	43,919,185
Total liabilities	4,464,844	27,975,192	7,065,197	956,078	40,461,311

Capital expenditures amounting to LBP 47,755 million for the year 2021 (2020: LBP 31,839 million) are allocated to the Group Functions and Head Office business segment.

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to LBP 1,640,294 million for the year 2021 (2020: LBP 2,058,425 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	2021 LBP Million	2020 LBP Million
Interest and similar income		
Central Bank of Lebanon	1,448,781	1,865,221
Lebanese sovereign	191,513	193,204
	1,640,294	2,058,425

GEOGRAPHICAL SEGMENTS

The Group operates in three geographical segments: Lebanon, Middle East and North Africa, and Turkey (MENAT) and Europe. As such, it is subject to different risks and returns. The following tables show the distribution of the Group's net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

NET OPERATING INCOME INFORMATION

	2021			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Net interest income	**1,452,160**	**176,085**	**25,344**	1,653,589
Non-interest income				
Net fee and commission income	(37,270)	34,410	69,300	66,440
Financial operations	(1,210,202)	(9,008)	23,490	(1,195,720)
Share of profit of associates	(1,243)	-	-	(1,243)
Other operating income	33,932	15,743	8,397	58,072
Total non-interest expense	**(1,214,783)**	**41,145**	**101,187**	(1,072,451)
Total external operating income	**237,377**	**217,230**	**126,531**	581,138
Net impairment loss on financial assets	(128,820)	5,992	(40,954)	(163,782)
Net external operating income	**108,557**	**223,222**	**85,577**	417,356

	2020			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Net interest income	1,096,137	192,266	39,910	1,328,313
Non-interest income				
Net fee and commission expense	(877,262)	34,060	59,304	(783,898)
Financial operations	158,367	860	37,573	196,800
Share of profit or loss of associates	330	-	-	330
Other operating income	7,091	13,251	7,007	27,349
Total non-interest expense	(711,474)	48,171	103,884	(559,419)
Total external operating income	384,663	240,437	143,794	768,894
Net impairment loss on financial assets	(201,735)	(51,230)	(9,723)	(262,688)
Net external operating income	182,928	189,207	134,071	506,206

FINANCIAL POSITION INFORMATION

	2021			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	**Total LBP Million**
Capital expenditures	14,373	22,393	10,989	47,755
Investments in associates	14,581	-	-	14,581
Total assets	29,352,980	6,294,713	4,838,754	40,486,447
Total liabilities	26,709,871	5,790,816	4,229,567	36,730,254

FINANCIAL POSITION INFORMATION

	2020			
	Lebanon LBP Million	MENAT LBP Million	Europe LBP Million	Total LBP Million
Capital expenditures	11,224	19,365	1,250	31,839
Investments in associates	113,923	-	-	113,923
Total assets	30,815,595	8,220,621	4,882,969	43,919,185
Total liabilities	28,983,403	7,289,644	4,188,264	40,461,311

Segment reporting assets and liabilities as at 31 December 2020 do not include those related to held for sale and amounting to LBP 9,493,147 million and LBP 8,502,601 million respectively.

4.0. | INTEREST AND SIMILAR INCOME

	2021 LBP Million	2020 LBP Million
Balances with central banks	1,216,416	1,542,763
Due from banks and financial institutions	4,924	16,149
Loans to banks and financial institutions and reverse repurchase agreements	32,927	15,118
Loans and advances to customers at amortised cost	662,410	775,987
Loans and advances to related parties at amortised cost	1,264	1,747
Financial assets classified at amortised cost	436,406	534,597
Debt instruments classified at fair value through other comprehensive income	194,129	108,723
	2,548,476	2,995,084

Withholding taxes amounting to LBP 225,543 million were deducted from interest and similar income (2020: LBP 270,864 million).

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	2021 LBP Million	2020 LBP Million
Corporate and SME	545,775	613,637
Retail and Personal Banking	116,635	162,350
	662,410	775,987

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	2021 LBP Million	2020 LBP Million
Lebanese sovereign and Central Bank of Lebanon	420,651	508,099
Other sovereign	9,713	17,426
Private sector and other securities	6,042	9,072
	436,406	534,597

The components of interest and similar income from financial assets classified at fair value through other comprehensive income are detailed as follows:

	2021 LBP Million	2020 LBP Million
Other sovereign	133,766	75,600
Private sector and other securities	60,363	33,123
	194,129	108,723

5.0. | INTEREST AND SIMILAR EXPENSE

	2021 LBP Million	2020 LBP Million
Due to central banks	159,514	464,221
Due to banks and financial institutions	30,815	34,653
Due to banks under repurchase agreement	2,281	16,812
Customers' deposits	589,354	1,019,837
Deposits from related parties	4,355	4,479
Debt issued and other borrowed funds	103,986	117,250
Lease liabilities	4,582	9,519
	894,887	1,666,771

The components of interest and similar expense from customers' deposits are detailed as follows:

	2021 LBP Million	2020 LBP Million
Corporate and SME	72,816	141,865
Retail and Personal Banking	516,535	877,881
Public sector	3	91
	589,354	1,019,837

6.0. | FEE AND COMMISSION INCOME

	2021 LBP Million	2020 LBP Million
Credit-related fees and commissions	16,142	24,920
Brokerage and custody income	83,084	69,995
Commercial Banking income	104,892	59,977
Electronic Banking	19,066	17,688
Trade finance income	25,101	26,724
Corporate finance fees	333	703
Trust and fiduciary activities	2,261	7,012
Insurance brokerage income	2,258	3,782
Other fees and commissions	1,479	847
	254,616	211,648

7.0. | FEE AND COMMISSION EXPENSE

	2021 LBP Million	2020 LBP Million
Mark-up commission(*)	132,009	951,831
Commission for LBP bank notes(**)	23,836	-
Electronic banking	15,645	18,793
Brokerage and custody fees	9,280	13,673
Commercial banking expenses	4,709	5,638
Other fees and commissions	2,697	5,611
	188,176	995,546

(*) In order to build up offshore liquidity, the Group introduced the "multiplier factor" which entails inciting depositors of foreign currency international liquidity, cash deposited or incoming border transfers to convert these funds into local foreign currency deposits after the application of multiplier factors during 2020. Book losses from these transactions amounted to LBP 132,009 million during 2021 (2020: LBP 951,831 million) and were recorded under commission expense.

(**) In order to service customer needs in LBP-denominated bank notes during periods of shortage, during 2021, the Bank paid a premium for the supply of LBP-denominated bank notes amounting to LBP 23,836 million recorded under commission expense.

8.0. | NET TRADING (LOSS) GAIN

	2021 LBP Million	2020 LBP Million
Gain on financial instruments at fair value through profit or loss	16,459	11,456
Foreign exchange	36,204	47,559
Derivatives	(40,026)	(18,506)
Other (loss) income (Note 29)	(59,891)	295,556
Loss resulting from exchange of foreign currencies(*)	(1,134,457)	-
Dividends	325	224
	(1,181,386)	336,289

Foreign exchange includes gains and losses from spot and forward contracts and other currency derivatives, as well as the result of the revaluation of the daily open foreign currency positions.

Interest income from debt instruments at fair value through profit or loss amounted to LBP 3,779 million during 2021 (2020: LBP 3,521 million).

(*) During 2021, and in order to manage its USD/LBP FX position, the Group engaged in the following transactions:

- On 11 November 2021, the Group obtained the approval of the Central Bank of Lebanon to discontinue selling the latter local foreign currencies purchased through the application of Basic Circular 151. These transactions resulted in a loss of LBP 1,112,535 million.

- During 2021, the Group purchased from its customers local foreign currencies at rates below the rate specified in Basic Circular 151, which resulted in a loss of LBP 132,346 million.

- During 2021, the Group sold the Central Bank of Lebanon USD 10 million in US Dollars denominated banknotes at a rate of 12,550 which resulted in a gain of LBP 110,424 million.

9.0. | NET LOSS ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

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

- Liquidity gap and yield management.
- Currency risk management as a result of change in the currency base of deposits.

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

	2021 LBP Million	2020 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	(1,157)	(19,642)
Time deposits	-	(119,878)
Eurobonds	(13,620)	-
	(14,777)	(139,520)
Other sovereign		
Eurobonds	-	(1)
	-	(1)
	(14,777)	(139,521)

10.0. | OTHER OPERATING INCOME

	2021 LBP Million	2020 LBP Million
Safe rental	2,050	1,403
Release of provision for risks and charges (Note 37)	4,631	2,537
Income from disposal of assets acquired against debts (Note 28)	15,676	86
Gain on derecognition of an associate (Note 25)	13,807	-
Other income	21,908	23,323
	58,072	27,349

11.0. | NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2021 LBP Million	2020 LBP Million
Re-measurements:		
Cash and balances with central banks	561	44,814
Due from banks and financial institutions	-	(207)
Loans to banks and financial institutions and reverse repurchase agreements	-	1,071
Loans and advances to customers at amortised cost	114,928	473,927
Loans and advances to related parties at amortised cost	(139)	95
Financial assets at amortised cost	45,664	(54,277)
Financial guarantees and other commitments	(6,717)	7,131
	154,297	472,554
Recoveries:		
Loans and advances to customers at amortised cost	(136,770)	(196,895)
Financial guarantees and other commitments	-	(4,776)
	(136,770)	(201,671)
Net direct recoveries	(4,238)	(8,195)
Write off of accumulated amount of fair value hedge adjustments (Note 19)	150,493	-
	163,782	262,688

12.0. | PERSONNEL EXPENSES

	2021 LBP Million	2020 LBP Million
Salaries and related benefits	347,222	321,680
Social security contributions	35,951	35,548
End-of-service benefits (Note 37)	10,196	12,122
Transportation	10,818	7,317
Schooling	14,315	11,364
Medical expenses	7,794	6,501
Food and beverage	1,295	2,137
Training and seminars	1,390	989
Others	9,072	9,715
	438,053	407,373

13.0. | OTHER OPERATING EXPENSES

	2021 LBP Million	2020 LBP Million
Rental charges under operating leases	8,238	8,356
Professional fees	20,587	23,704
Board of Directors' fees	1,464	744
Advertising fees	16,058	14,362
Taxes and similar disbursements	9,437	17,275
Outsourcing services	14,867	16,069
Premium for guarantee of deposits	18,981	22,627
Information technology	23,794	25,986
Donations and social aids	12,210	14,369
Provisions for risks and charges (Note 37)	30,144	3,873
Travel and related expenses	2,546	1,952
Telephone and mail	5,711	5,899
Electricity, water and fuel	22,508	7,383
Maintenance	9,860	7,527
Insurance premiums	6,160	6,436
Facilities services	8,371	8,513
Subscription to communication services	6,688	7,536
Office supplies	2,471	2,259
Receptions and gifts	470	463
Electronic cards expenses	3,056	2,939
Regulatory charges	6,308	7,000
Documentation and miscellaneous subscriptions	2,200	1,932
Impairment of an associate (Note 25)	-	7,387
Others	16,793	15,994
	248,922	230,585

14.0. | INCOME TAX

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

	2021 LBP Million	2020 LBP Million
Current tax		
Current income tax	13,465	14,403
Adjustment in respect of current income tax of prior years	6,060	1,520
Other taxes treated as income tax	37	77,898
	19,562	93,821
Deferred tax		
Relating to origination and reversal of temporary differences	(4,090)	6,754
	15,472	100,575

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

	2021 LBP Million	2020 LBP Million
Operating loss before tax from continuing operations	(341,516)	(217,940)
At applicable tax rate	(21,945)	(33,194)
Non-deductible expenses:		
Non-deductible expenses and losses for carry forward	14,609	169,093
Non-deductible provisions	94,801	86,216
Unrealised losses on financial instruments	77,357	6,847
Other non-deductibles	50,375	18,811
	237,142	280,967
Income not subject to tax:		
Revenues previously subject to tax	73,693	146,600
Provision recoveries previously subject to tax	120	16,145
Exempted revenues	66,666	28,134
Unrealised gains on financial instruments	46,779	19,639
Other deductibles	14,474	22,852
	201,732	233,370
Income tax	13,465	14,403
Effective income tax rate	(3.94%)	(6.61%)

The tax rates applicable to the parent and subsidiaries vary from 10% to 25% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

During 2020, other taxes treated as income tax include an amount of LBP 69,668 million representing 2% on 2019 turnover as per Article No. 20 of the Budget Law 6/2020.

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

	2021 LBP Million	2020 LBP Million
Balance at 1 January	78,748	28,325
Charges for the year	19,562	93,821
Charges related to discontinued operations	-	80,814
Transfer to tax regularisation accounts	(5,150)	(9,792)
Other transfers	(7,154)	(1,953)
	7,258	162,890
Less taxes paid:		
Current year tax liability	(378)	(8,187)
Prior year tax liabilities	(74,910)	(7,670)
Taxes paid related to discontinued operations	-	(61,038)
	(75,288)	(76,895)
Transfer to assets as held for sale	-	(35,746)
Foreign exchange difference	(4,104)	174
Balance at 31 December	6,614	78,748

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

	2021			
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement from Continuing Operations LBP Million	Other Comprehensive Income from Continuing Operations LBP Million
Provisions	7,829	-	8,570	-
Impairment allowance on financial assets	36,833	-	16,891	-
Financial instruments at FVTOCI	4,940	-	-	4,553
Difference in depreciation rates	995	1,783	(585)	-
Defined benefit obligation	14,403	(4,433)	-	13,579
Revaluation of real estate	-	4,992	-	-
Cash flow hedge reserve	721	-	-	(727)
Other temporary differences	(17,169)	14	(20,786)	-
	48,552	**2,356**	**4,090**	**17,405**

	2020					
	Deferred Tax Assets LBP Million	Deferred Tax Liabilities LBP Million	Income Statement from Continuing Operations LBP Million	Income Statement from Discontinued Operations LBP Million	Other Comprehensive Income from Continuing Operations LBP Million	Other Comprehensive Income from Discontinued Operations LBP Million
Provisions	4,189	-	9,962	3,172	-	-
Impairment allowance on financial assets	47,604	-	(7,736)	-	-	-
Financial instruments at FVTOCI	(2,663)	-	-	-	(492)	(1,177)
Difference in depreciation rates	(662)	725	(4,316)	(183)	-	-
Defined benefit obligation	5,187	89	-	-	735	-
Revaluation of real estate	-	5,204	-	-	-	-
Cash flow hedge reserve	2,189	-	-	-	(417)	-
Other temporary differences	(2,188)	-	(4,664)	-	-	-
	53,656	6,018	(6,754)	2,989	(174)	(1,177)

15.0. | LOSS PER SHARE

Basic loss per share are calculated by dividing the loss for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares outstanding during the year. The Bank does not have arrangements that might result in dilutive shares.

As such, diluted earnings per share was not separately calculated. The following table shows the income and share data used to calculate loss per share:

	2021 LBP Million	2020 LBP Million
Loss attributable to equity holders of the Bank from continuing and discontinued operations	(285,751)	(225,147)
Loss attributable to equity holders of the Bank from continuing operations	(365,376)	(325,402)
Profit attributable to equity holders of the Bank from discontinued operations	79,625	100,255
Weighted average number of shares outstanding	587,365,833	546,241,223
	LBP	LBP
Basic and diluted loss per share	(486)	(413)
Basic and diluted loss per share from continuing operations	(622)	(596)
Basic and diluted earnings per share from discontinued operations	136	183

The Bank increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of authorisation of these consolidated financial statements.

16.0. | CASH AND BALANCES WITH CENTRAL BANKS

	2021 LBP Million	2020 LBP Million
Cash on hand	773,840	472,250
Central Bank of Lebanon		
Current accounts	1,450,272	541,675
Time deposits	13,791,173	15,829,409
Accrued interest	327,722	323,841
	15,569,167	16,694,925
Other central banks		
Current accounts	2,194,747	1,971,864
Time deposits	599,123	566,486
	2,793,870	2,538,350
	19,136,877	19,705,525
Less: allowance for expected credit losses (Note 53)	(219,295)	(219,315)
	18,917,582	19,486,210

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. As at 31 December 2021, time deposits with the Central Bank of Lebanon amounting to LBP 6,173,104 million (2020: LBP 6,487,490 million) and term borrowings from the Central Bank of Lebanon are reported on a net basis on the statement of financial position (Note 31).

As at 31 December 2021, financial assets and financial liabilities that were settled on a net basis amounted to LBP 3,081,785 million (2020: LBP 2,767,399 million) (Note 31).

Obligatory Reserves

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.
- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

The following table summarises the Group's placements in central banks available against the obligatory reserves as of 31 December:

	2021			2020		
	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	**Total LBP Million**	Lebanese Pounds LBP Million	Foreign Currencies LBP Million	Total LBP Million
Central Bank of Lebanon						
Current accounts	619,886	-	619,886	469,054	-	469,054
Time deposits	-	2,367,530	2,367,530	-	2,784,220	2,784,220
	619,886	**2,367,530**	**2,987,416**	469,054	2,784,220	3,253,274
Other central banks						
Current accounts	-	15,324	15,324	-	14,848	14,848
Time deposits	-	530,678	530,678	-	491,645	491,645
	-	**546,002**	**546,002**	-	506,493	506,493
	619,886	**2,913,532**	**3,533,418**	469,054	3,290,713	3,759,767

17.0. | DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2021 LBP Million	2020 LBP Million
Current accounts	1,636,659	1,649,200
Time deposits	1,035,516	501,248
Checks for collection	1,055	4,627
Other amounts due	7,311	12,618
Accrued interest	837	704
	2,681,378	2,168,397
Less: allowance for expected credit losses (Note 53)	(704)	(438)
	2,680,674	2,167,959

As of 31 December 2021, current accounts include collaterals given to foreign banks for derivative transactions amounting to LBP 174,282 million (2020: LBP 384,699 million).

18.0. | LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2021 LBP Million	2020 LBP Million
Loans and advances	124,241	204,118
Reverse repurchase agreements	-	63,640
Accrued interest	7,236	88
	131,477	267,846
Less: allowance for expected credit losses (Note 53)	(3,600)	(3,600)
	127,877	264,246

The Group purchased Turkish Treasury bills under a commitment to resell them (reverse repurchase agreements). The securities were not included in the statement of financial position as the Group does not acquire the risks and rewards of ownership. Consideration paid (or cash collateral provided) is accounted for as a loan and amounted to LBP 63,640 million at 31 December 2020, including accrued interest. The loan matured during 2021.

19.0. | DERIVATIVE FINANCIAL INSTRUMENTS

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

FORWARDS AND FUTURES

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

OPTIONS

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pay a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The Group has positions in the following type of derivatives:

31 December 2021	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
Derivatives held for trading			
Forward foreign exchange contracts	15,108	31,757	769,734
Forward precious metals contracts	12	-	1,041
Currency swaps	173,355	100,801	3,724,259
Precious metals swaps	348	1,212	111,966
Currency options	53,446	24,611	1,217,560
Interest rate swaps	9,926	166,784	2,352,256
Interest rate options	18,883	-	1,507,500
Credit derivatives	-	-	101,683
Equity options	5,659	5,659	37,786
	276,737	330,824	9,823,785
Derivatives held as cash flow hedge			
Interest rate swaps	10,330	-	125,718
	10,330	-	125,718
Total	287,067	330,824	9,949,503

31 December 2020	Positive Fair Value LBP Million	Negative Fair Value LBP Million	Notional Amount LBP Million
Derivatives held for trading			
Forward foreign exchange contracts	14,364	7,406	824,919
Forward precious metals contracts	-	79	2,276
Currency swaps	134,698	138,870	4,197,319
Precious metals swaps	8	3,022	87,628
Currency options	15,395	18,280	1,035,522
Interest rate swaps	12,674	-	1,813,566
Interest rate options	38,682	-	1,585,032
Credit derivatives	-	-	230,443
Equity options	2,999	2,999	1,352
	218,820	170,656	9,778,057
Derivatives held as fair value hedge			
Interest rate swaps	-	276,137	1,582,875
	-	276,137	1,582,875
Total	218,820	446,793	11,360,932

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR HEDGING PURPOSES

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit risk and market risks. This is achieved by hedging specific financial instruments, portfolio of fixed rate financial instruments and forecast transaction, as well as strategic hedging against overall financial position exposures.

HEDGES OF INTEREST RATE RISK

In 2018, the Group entered into "pay fixed receive floating" interest rate swaps to economically hedge time deposits with the Central Bank of Lebanon with a notional amount of LBP 1,582,875 million.

During December 2021, the criteria for hedge accounting were no longer met and hedge accounting was discontinued. The movement of accumulated fair value hedge adjustments included in the carrying amount of the hedged item (time deposits with the Central Bank of Lebanon) was as follows:

	2021 LBP Million	2020 LBP Million
At 1 January	264,430	143,047
Change in fair value	(113,937)	121,383
Amount impaired upon discontinuation of hedged accounting (Note 11)	(150,493)	-
At 31 December	-	264,430

Cash Flow Hedges of Interest Rate Risk

As of 31 December 2021, interest rate swaps were held as hedging instrument against borrowing from banks and financial institutions for a notional amount of USD 83 million (equivalent to LBP 125,718 million), having maturities ranging between August 2022 and March 2026 and paying an average fixed interests rate of 15.28%. For calculating hedge ineffectiveness, change in fair value of the hedging instruments and the hedged items were a gain of LBP 8,220 million and LBP 8,220 million respectively (2020: loss of LBP 8,165 million and LBP 8,165 million respectively). Currency translation losses amounted to LBP 2,175 million (2020: LBP 5,256 million). No ineffectiveness from these hedges was recognised in profit or loss as the hedging instrument and the hedge item are closely aligned.

Cash flow hedge reserves related to continued and discontinued hedges are LBP 2,044 million and nil respectively (2020: nil and LBP 19,944 million respectively). Loss on cash flow hedges reclassified to the income statement amounted to LBP 13,345 million (2020: LBP 2,227 million).

20.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 LBP Million	2020 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Treasury bills	-	691
Eurobonds	1,267	143
	1,267	834
Other sovereign		
Treasury bills and bonds	201	4,295
Private sector and other securities		
Banks and financial institutions	113,968	325,426
Loans and advances to customers	-	7,124
Mutual funds	43,454	52,156
Equity instruments	2,148	2,232
	159,570	386,938
	161,038	392,067

21.0. | LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2021 LBP Million	2020 LBP Million
Corporate and SME	5,783,462	7,441,872
Retail and Personal Banking	2,537,135	3,195,612
Public sector	53,781	68,464
	8,374,378	10,705,948
Less: allowance for expected credit losses (Note 53)	(1,295,251)	(1,563,596)
	7,079,127	9,142,352

22.0. | LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST

	2021 LBP Million	2020 LBP Million
Corporate and SME	169	15,579
Retail and Personal Banking	70,338	92,784
	70,507	108,363
Less: allowance for expected credit losses (Note 53)	(22)	(163)
	70,485	108,200

23.0. | FINANCIAL ASSETS AT AMORTISED COST

	2021 LBP Million	2020 LBP Million
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	3,935,925	4,052,447
Treasury bills	2,907,580	3,330,377
Eurobonds	140,615	87,744
	6,984,120	7,470,568
Other sovereign		
Treasury bills	22,138	40,305
Eurobonds	183,597	247,345
Other governmental securities	3,752	-
	209,487	287,650
Private sector and other securities		
Banks and financial institutions debt instruments	214,016	100,928
Corporate debt instruments	72,046	76,686
	286,062	177,614
	7,479,669	7,935,832
Less: allowance for expected credit losses (Note 53)	(194,760)	(148,339)
	7,284,909	7,787,493

During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2021, certificates of deposit amounting to LBP 2,638,000 million (2020: the same) and term borrowings from the Central Bank of Lebanon are reported on a net basis on the statement of financial position. At 31 December 2021, Lebanese Treasury bills of LBP 1,979,141 million were pledged against term borrowings from the Central Bank of Lebanon (2020: the same) (Note 31). In addition, as at 31 December 2021, the Group, in agreement with credit-linked depositors, settled deposits amounting to LBP 439,402 million in certificates of deposit with the Central Bank of Lebanon denominated in US Dollars having the same nominal amount (2020: LBP 371,261 million) (Notes 29 and 33).

24.0. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 LBP Million	2020 LBP Million
Debt instruments		
Other sovereign		
Treasury bills and bonds	917,198	1,158,840
Private sector and other securities		
Banks and financial institutions debt instruments	204,108	293,819
	1,121,306	1,452,659
Equity instruments		
Quoted	176	176
Unquoted	43,398	65,538
	43,574	65,714
	1,164,880	1,518,373

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

	2021		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	**176**	**-**	**-**
Unquoted:	**43,398**	**(2,652)**	**443**
Banque de l'Habitat sal	15,527	7,491	-
Other equity instruments	27,871	(10,143)	443
	43,574	**(2,652)**	**443**

	2020		
	Fair Value LBP Million	Cumulative Changes in Fair Value LBP Million	Dividends LBP Million
Quoted	176	-	-
Unquoted:	65,538	9,438	32
Banque de l'Habitat sal	15,762	7,491	-
Other equity instruments	49,776	1,947	32
	65,714	9,438	32

During 2021, the Group sold equity instruments at fair value through comprehensive income with a fair value of LBP 15,075 million. In relation to this, the Group transferred LBP 6,304 million unrealised gains from other comprehensive income to retained earnings.

25.0. | INVESTMENTS IN ASSOCIATES

	Country of Incorporation	Activity	**2021 Ownership %**	2020 Ownership %	**2021 LBP Million**	2020 LBP Million
GlobalCom Holding sal	Lebanon	Communication	-	23.25%	-	31,254
M1 Financial Technologies Holding sal	Lebanon	Services	-	30.00%	-	69,117
CBS Holding sal	Lebanon	Services	45,54%	45.54%	14,581	13,552
					14,581	113,923

INDIVIDUALLY MATERIAL ASSOCIATES

The following table illustrates the summarised financial information of the all material associates as at 31 December 2021 and 2020. The information disclosed reflects the amounts presented in the financial statements of the associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policies.

	2021	2020	
	CBS Holding sal LBP Million	GlobalCom Holding sal LBP Million	CBS Holding sal LBP Million
Current assets	31,439	66,923	26,896
Non-current assets	5,072	67,594	6,502
Current liabilities	(21,124)	(62,431)	(19,964)
Non-current liabilities	(1,250)	(31,516)	(1,577)
Equity	14,137	40,570	11,857
Group's share of equity	6,438	9,433	5,409
Goodwill	8,143	21,821	8,143
	14,581	31,254	13,552
Revenues	43,888	136,118	43,521
Expenses	(41,628)	(138,947)	(41,352)
Profit (loss) for the year	2,260	(2,829)	2,169
	1,029	(658)	988

GlobalCom Holding sal and M1 Financial Technologies Holding sal had no contingent liabilities or capital commitments as at 31 December 2020.

GLOBALCOM HOLDING SAL

During 2021, the Group sold its investment in GlobalCom Holding sal, an associate, to a third party for a total consideration of LBP 28,643 million. The disposal resulted in a loss amounting to LBP 2,272 million. During 2020, the Group received dividends in the amount of LBP 1,168 million from GlobalCom Holding sal and wrote off an amount of LBP 7,387 million (Note 13).

M1 FINANCIAL TECHNOLOGIES HOLDING SAL

As a result of the expiry and non-renewal of the option to buy back 30% of the voting rights in M1 Financial Technologies Holding sal, the Group no longer holds exercisable potential voting rights and accordingly, lost significant influence and derecognised the investment in this associate against recognition of a loan to M1 Financial Technologies Holding sal. Gain resulting from this transaction amounted to LBP 13,807 million and was reflected under other operating income (Note 10).

26.0. | PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Right-of-use LBP Million	Other LBP Million	**Total LBP Million**
Cost or revaluation:									
At 1 January 2021	158,282	383,952	110,840	967	182,683	87,097	66,495	9,846	1,000,162
Additions	-	10,843	976	-	5,934	626	12,533	-	30,912
Disposals	-	-	(26,275)	(129)	(2,124)	(383)	(8,583)	-	(38,194)
Foreign exchange difference	-	(4,240)	(10,797)	(220)	(16,008)	(4,080)	(16,860)	(458)	(52,663)
At 31 December 2021	**158,282**	**390,555**	**74,044**	**618**	**170,485**	**83,260**	**53,585**	**9,388**	**940,217**
Depreciation:									
At 1 January 2021	-	11,414	90,516	916	152,794	74,111	26,663	7,820	364,234
Depreciation during the year	-	18,121	5,980	11	13,253	1,767	12,546	-	51,678
Disposals	-	-	(22,875)	(129)	(1,901)	(216)	(7,795)	-	(32,916)
Foreign exchange difference	-	(569)	(7,932)	(219)	(12,411)	(3,483)	(7,069)	(307)	(31,990)
At 31 December 2021	**-**	**28,966**	**65,689**	**579**	**151,735**	**72,179**	**24,345**	**7,513**	**351,006**
Net book value:									
At 31 December 2021	**158,282**	**361,589**	**8,355**	**39**	**18,750**	**11,081**	**29,240**	**1,875**	**589,211**

	Land LBP Million	Buildings and Freehold Improvements LBP Million	Leasehold Improvements LBP Million	Motor Vehicles LBP Million	Office Equipment and Computer Hardware LBP Million	Office Machinery and Furniture LBP Million	Right-of-use LBP Million	Other LBP Million	Total LBP Million
Cost or revaluation:									
At 1 January 2020	163,507	581,524	164,536	3,438	225,108	100,694	152,934	8,615	1,400,356
Additions	-	2,659	1,287	-	7,279	934	57	532	12,748
Movements related to discontinued operations, net	666	2,738	5,095	105	2,140	(116)	(380)	-	10,248
Disposals	-	(6,146)	(1,388)	-	(1,574)	(548)	(46,752)	-	(56,408)
Transfer to assets held for sale	(5,891)	(203,275)	(53,494)	(2,597)	(44,691)	(12,625)	(31,249)	-	(353,822)
Foreign exchange difference	-	6,452	(5,196)	21	(5,579)	(1,242)	(8,115)	699	(12,960)
At 31 December 2020	158,282	383,952	110,840	967	182,683	87,097	66,495	9,846	1,000,162
Depreciation:									
At 1 January 2020	-	-	114,647	2,264	170,603	81,362	27,605	6,689	403,170
Depreciation during the year	-	19,082	7,665	21	14,059	2,738	20,993	-	64,558
Depreciation related to discontinued operations	-	3,901	3,364	356	4,612	1,010	3,333	-	16,576
Disposals	-	(2,794)	(1,860)	-	(249)	(510)	(14,952)	-	(20,365)
Movements related to discontinued operations, net	-	-	(618)	(425)	-	(238)	-	-	(1,281)
Transfers	-	(1,968)	1,968	-	(94)	94	-	-	-
Transfer to assets held for sale	-	(6,578)	(31,181)	(1,324)	(31,136)	(9,255)	(8,164)	-	(87,638)
Foreign exchange difference	-	(229)	(3,469)	24	(5,001)	(1,090)	(2,152)	1,131	(10,786)
At 31 December 2020	-	11,414	90,516	916	152,794	74,111	26,663	7,820	364,234
Net book value:									
At 31 December 2020	158,282	372,538	20,324	51	29,889	12,986	39,832	2,026	635,928

The Group has lease contracts for various items primarily comprising head offices and branches used in its operations. Leases of head offices and branches generally have lease terms between 1 and 30 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments.

REVALUATION OF LAND AND BUILDINGS

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that each constitutes a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under Level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of land and buildings:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average(*)	**Fair Value LBP Million**
Land:				
Lebanon	Market comparable method	Price per sqm	LBP 5 million	153,331
Buildings and freehold improvements:				
Lebanon	Market comparable method	Price per sqm	LBP 3 million	316,101
Switzerland	Market comparable method	Price per sqm	LBP 27 million	68,755

(*) The above prices are based on the official exchange rate of 1,507.5 USD/LBP.

Significant increase (decrease) in the estimated price per square meter in isolation would result in significantly higher (lower) fair value on a linear basis.

If land, buildings, and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2021	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	64,666	437,198
Accumulated depreciation	-	(221,545)
Net book value	**64,666**	**215,653**

	2020	
	Land LBP Million	Buildings and Freehold Improvements LBP Million
Cost	64,666	430,561
Accumulated depreciation	-	(208,459)
Net book value	64,666	222,102

27.0. | INTANGIBLE ASSETS

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2021	213,700	73	213,773
Additions	16,843	-	16,843
Foreign exchange difference	(34,083)	(33)	(34,116)
At 31 December 2021	**196,460**	**40**	**196,500**
Amortisation:			
At 1 January 2021	132,619	73	132,692
Amortisation during the year	19,819	-	19,819
Foreign exchange difference	(21,854)	(33)	(21,887)
At 31 December 2021	**130,584**	**40**	**130,624**
Net book value:			
At 31 December 2021	**65,876**	**-**	**65,876**

	Computer Software LBP Million	Other LBP Million	Total LBP Million
Cost:			
At 1 January 2020	250,524	93	250,617
Additions	19,091	-	19,091
Movements related to discontinued operations, net	4,364	-	4,364
Transfer to assets held for sale	(49,365)	-	(49,365)
Foreign exchange difference	(10,914)	(20)	(10,934)
At 31 December 2020	213,700	73	213,773
Amortisation:			
At 1 January 2020	135,380	93	135,473
Amortisation during the year	21,640	-	21,640
Amortisation related to discontinued operations	7,030	-	7,030
Transfer to assets held for sale	(24,190)	-	(24,190)
Foreign exchange difference	(7,241)	(20)	(7,261)
At 31 December 2020	132,619	73	132,692
Net book value:			
At 31 December 2020	81,081	-	81,081

28.0. | ASSETS OBTAINED IN SETTLEMENT OF DEBT

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

	2021			2020		
	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million	Financial Instruments LBP Million	Properties LBP Million	Total LBP Million
Cost:						
At 1 January	-	209,545	209,545	40,390	267,401	307,791
Additions	1,813	122,546	124,359	-	69,229	69,229
Disposals	-	(155,900)	(155,900)	(40,390)	(96,939)	(137,329)
Transfer to assets held for sale	-	-	-	-	(780)	(780)
Foreign exchange difference	-	(39,957)	(39,957)	-	(29,366)	(29,366)
At 31 December	**1,813**	**136,234**	**138,047**	-	209,545	209,545
Impairment:						
At 1 January	-	6,385	6,385	-	17,802	17,802
Related to disposals	-	-	-	-	(10,910)	(10,910)
Disposals	-	-	-	-	(517)	(517)
Foreign exchange difference	-	-	-	-	10	10
At 31 December	**-**	**6,385**	**6,385**	-	6,385	6,385
Net book value:						
At 31 December	**1,813**	**129,849**	**131,662**	-	203,160	203,160

During 2021, the Group sold assets obtained in settlement of debt resulting in a gain amounting to LBP 15,676 million reflected under other operating income (2020: LBP 86 million) (Note 10).

SIGNIFICANT UNOBSERVABLE VALUATION INPUT

Description of valuation techniques used and key inputs to valuation of properties:

	Valuation Technique	Significant Unobservable Inputs	Weighted Average
Lebanon:			
Land	Market comparable method	Price per sqm	LBP 0.3 million
Buildings	Market comparable method	Price per sqm	LBP 2 million

The above prices are based on the official exchange rate of 1,507.5 USD/LBP.

Significant increase (decrease) in the estimated price per square meter in isolation would result in significantly higher (lower) fair values on a linear basis.

29.0. | OTHER ASSETS

	2021 LBP Million	2020 LBP Million
Advances on acquisition of property and equipment	3,924	4,558
Advances on acquisition of intangible assets	2,434	2,878
Prepaid charges	35,718	36,945
Electronic cards and regularisation accounts	24,603	25,342
Receivables related to non-banking operations	38,287	19,534
Advances to staff	22,809	37,461
Hospitalisation and medical care under collection	41,372	43,764
Interest and commissions receivable	858	1,115
Funds management fees	70	51
Fiscal stamps, bullions and commemorative coins	1,046	1,119
Management and advisory fees receivable	1,330	353
Tax regularisation account	14,757	14,394
Foreign exchange position	135,245	13,558
Other debtor accounts	162,380	149,766
Receivables from Central Bank of Lebanon under leverage arrangements	1,279,783	1,334,603
	1,764,616	1,685,441

As at 31 December 2021, other debtors' accounts include an amount of LBP 25,315 million representing collateral under process of being repossessed against settlement of loans by a subsidiary (2020: LBP 76,362 million).

Receivables from the Central Bank of Lebanon under Leverage Arrangements

On 27 September 2021, a debtor exercised a right granted in prior years, to set-off the outstanding loan balance against revenues deposited or to be deposited in its account consisting of an assigned share of cash flows from leverage arrangements entered into by the Group with the Central Bank of Lebanon. At the date of the exercise, the loan facility amounted to LBP 131,974 million and was offset against the transfer of the underlying present value of the debtor's share of the expected future cash flows from leverage arrangements, which was recorded as "receivables from the Central Bank of Lebanon under leverage arrangements" under other assets. Remaining balance related to this transaction amounted to LBP 118,678 million as at 31 December 2021.

During 2018, the Group entered into leverage arrangements with the Central Bank of Lebanon against simultaneous time deposits with the latter denominated in US Dollars. During 2020, time deposits were derecognised for the acquisition of certificates of deposit. In agreement with the credit-linked depositors, the Group settled deposits at 31 December 2021 amounting to LBP 439,402 million in such certificates of deposit having the same nominal amount as at 31 December 2021 (2020: LBP 371,261 million) (Notes 23 and 33). As a result, the Group recognised the present value of future cash flows from the corresponding leverage arrangements as "receivables from the Central Bank of Lebanon under leverage arrangements" against net trading (loss) gain (Note 8). Remaining balance related to this transaction amounted to LBP 209,666 million as at 31 December 2021 (2020: LBP 298,005 million).

During 2018, the Group entered into leverage arrangements with the Central Bank of Lebanon against a simultaneous purchase of Lebanese government Eurobonds that were recorded at amortised cost. During 2019, the amortised cost was adjusted by an amount equivalent to the present value of expected future cash flows from leverage arrangements and recorded as "receivables from the Central Bank of Lebanon under leverage arrangements". These financial instruments were mostly liquidated during 2020 at a price approximating their adjusted carrying amount net of the allowances for expected credit losses at 31 December 2019. Remaining balance related to this transaction amounted to LBP 951,439 million as at 31 December 2021 (31 December 2020: LBP 1,036,598 million).

Foreign exchange position

Foreign exchange position as at 31 December 2021 consists of accounts receivable from the Central Bank of Lebanon, mainly as a result of application of Basic Circulars 159 and 151, and Intermediary Circular 556 (2020: Basic Circular 151 and Intermediary Circular 556).

30.0. | GOODWILL

	2021 LBP Million	2020 LBP Million
Cost:		
At 1 January	199,951	199,989
Foreign exchange difference	235	(38)
At 31 December	200,186	199,951
Impairment:		
At 1 January	157,767	157,567
At 31 December	157,767	157,567
Net book value:		
At 31 December	42,419	42,384

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGUs and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition. The allocation is reviewed following business reorganisations. Cash flow projections necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity, and the impacts of regulatory change. The Group performed its annual impairment test in December 2021 and 2020.

As at 31 December, the carrying amount of goodwill was allocated to the following CGUs:

	2021 LBP Million	2020 LBP Million
Private Banking – Switzerland	42,419	42,384

These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill.

RECOVERABLE AMOUNT

The Private Banking CGU in Switzerland is a separate legal entity offering Private Banking activities to its customers and is reported mainly under the Retail and Personal Banking business segment and the Europe geographical segment. The recoverable amount of this CGU was determined based on a value in use calculation using cash flow projections from financial budgets approved by Senior Management covering a five-year period, with a terminal growth rate of 2.00% (2020: 2.00%). The forecast cash flows were discounted at a pre-tax rate of 10.00% (2020: 10.00%). Based on these assumptions, the recoverable amount exceeds the carrying amount including goodwill by LBP 53,992 million (2020: LBP 41,184 million).

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS AND SENSITIVITY TO CHANGES IN ASSUMPTIONS

The calculation of value in use for the Private Banking – Switzerland CGU is most sensitive to interest rate margins, cost of equity and the projected growth rates used to extrapolate cash flows beyond the budget period.

The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned, and a premium to reflect the inherent risk of the business being evaluated. Projected terminal growth rates used are in line with, and do not exceed, the projected growth rates in GDP and inflation rate forecasts for the jurisdictional area where the operations reside.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the units to exceed their recoverable amount. These are summarised in the table below which shows the details of the sensitivity of the above measures on the Group's CGU's value in use (VIU):

	Private Banking – Switzerland	
Interest margins	Interest margins are based on current fixed interest yields.	A decrease of 0.10% causes a decrease in the value in use by 0.42% (LBP 1,630 million) (2020: 0.30% (LBP 1,222 million)).
Cost of equity	The cost of equity is the return required for an investment to meet capital return requirements; it is often used as a capital budgeting threshold for required rate of return.	A decrease of 0.25% causes an increase in the value in use by 1.72% (LBP 6,725 million) (2020: 1.75% (LBP 7,223 million)).
Growth rate	Growth rate is the percentage change of the compounded annualised rate of growth of revenues, earnings, dividends and even including macro concepts such as GDP and the economy as a whole.	A decrease of 0.5% causes a decrease in the value in use by 2.25% (LBP 8,802 million) (2020: 2.25% (LBP 9,318 million)).

The following table presents the sensitivity of each input by showing the change required to individual current assumptions to reduce headroom to nil (breakeven) for the Private Banking CGU in Switzerland:

	2021	2020
Interest margin	(4.85%)	(2.71%)
Cost of equity	12.75%	11.81%
Growth rate	(2.52%)	(0.79%)

31.0. | DUE TO CENTRAL BANKS

	2021 LBP Million	2020 LBP Million
Central Bank of Lebanon		
Subsidised loans	586,913	691,990
Term borrowings under leverage arrangements	1,979,141	1,979,141
Other borrowings	721,112	720,731
Accrued interest	13,148	13,760
Other central banks		
Other borrowings	34,129	34,668
Repurchase agreements	210,020	584,018
	3,544,463	4,024,308

SUBSIDISED LOANS

As at 31 December 2021, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with Decision No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers (2020: the same).

TERM BORROWINGS UNDER LEVERAGE ARRANGEMENTS

Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate 2% per annum and having maturities ranging between 2027 and 2028, fully invested in Lebanese Treasury bills, certificates of deposit with the Central Bank of Lebanon in LBP, and blocked term placements with the Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously the Bank has either deposited term placements with the Central Bank of Lebanon in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies to the Central Bank of Lebanon) carrying the same maturities; or purchased Lebanese government Eurobonds from the Central Bank of Lebanon. During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement and pledged certificates of deposit with the Central Bank of Lebanon in LBP. This agreement qualifies for netting under the requirements of IAS 32.

During 2021, in order to reduce the local foreign currency mismatch and increase liquidity in Lebanese Pound bank notes, the Group settled blocked term placements with the Central Bank of Lebanon amounting to LBP 2,187,865 million with maturities ranging between 2024 and 2028, earning coupon rates between 8.8% and 10.5% and simultaneously deposited term placements with the Central Bank of Lebanon of the same amount with similar maturities and earning coupon rates between 4.5% and 10.5%.

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

	2021 LBP Million	2020 LBP Million
Leverage arrangements		
Gross amounts	10,790,245	11,104,631
Amounts offset against[(1)]		
Placement with the Central Bank of Lebanon (Note 16)	6,173,104	6,487,490
Certificates of deposit with the Central Bank of Lebanon (Note 23)	2,638,000	2,638,000
Net amounts reported on the statement of financial position	1,979,141	1,979,141
Financial collateral		
Lebanese Treasury bills (Note 23)	1,979,141	1,979,141
	1,979,141	1,979,141

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

As at December 2021, financial assets and financial liabilities that were settled on a net basis amounted to LBP 3,081,785 million (2020: LBP 2,767,399 million) (Note 16).

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on statement of financial position under:

	2021 LBP Million	2020 LBP Million
Financial assets at amortised cost – Non-Lebanese governmental bonds	19,225	31,409
Financial assets at fair value through comprehensive income – Non-Lebanese governmental bonds	206,061	552,641

32.0. | DUE TO BANKS AND FINANCIAL INSTITUTIONS AND REPURCHASE AGREEMENTS

	2021 LBP Million	2020 LBP Million
Current accounts	169,811	282,730
Term loans	379,186	632,170
Time deposits	23,924	455,785
Accrued interest	2,078	4,600
	574,999	1,375,285
Repurchase agreements	38,610	143,888
	613,609	1,519,173

Included in term loans above an amount of LBP 272,974 million (2020: LBP 429,671 million) representing loans granted from various supranational entities for the purpose of financing small and medium-size enterprises in the private sector, with annual interest rates ranging from 0.84% to 5.35% (2020: 0.84% to 7.00%).

During 2021, in light of the social, economic and banking sector conditions in Lebanon and the impending government reform program, certain lenders have agreed on a voluntary basis and at the request of the Bank, to amend certain terms of their loan agreements, amongst others, the repayment schedule and the maturity date. Remaining balance of these loans amounted to LBP 148,249 million as at 31 December 2021 (2020: LBP 197,648 million). The Bank is still in discussion with other lenders for the same reasons, for their consent to defer principal debt payments. For the purpose of disclosing interest rate contractual repricing and remaining undiscounted contractual maturities in market and liquidity risk notes as of 31 December 2021 and 31 December 2020, the Bank referred to the contractual maturities and terms under the initial agreements with respect to the loans still under discussion.

REPURCHASE AGREEMENTS

The Group sells government bonds subject to a commitment to repurchase them (repurchase agreement). The consideration received (or cash collateral provided) is accounted for as a financial liability reflecting the transaction's economic substance as a borrowing to the Group. As the Group retains substantially all the risks and rewards of ownership, the securities transferred are retained on statement of financial position under:

	2021 LBP Million	2020 LBP Million
Financial assets at amortised cost – Non-Lebanese governmental bonds	52,847	84,141
Financial assets at fair value through comprehensive income – Non-Lebanese governmental bonds	1,545	134,143

33.0. | CUSTOMERS' DEPOSITS

	2021			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	**Total LBP Million**
Sight deposits	2,667,813	12,857,043	25,066	15,549,922
Time deposits	1,619,262	11,577,136	5,074	13,201,472
Saving accounts	48,830	838,873	-	887,703
Margins on LC's and LG's	74,880	10,271	85	85,236
Other margins	585	-	-	585
Other deposits	6,104	54,542	-	60,646
Banker's draft	-	370,829	-	370,829
	4,417,474	**25,708,694**	**30,225**	**30,156,393**
Deposits pledged as collateral				3,117,897

	2020			
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Public Sector LBP Million	Total LBP Million
Sight deposits	2,345,740	10,724,138	37,549	13,107,427
Time deposits	1,681,111	13,418,584	5,644	15,105,339
Saving accounts	234,362	3,428,073	-	3,662,435
Margins on LC's and LG's	88,133	18,947	85	107,165
Other margins	587	146	-	733
Other deposits	2,447	91,157	-	93,604
Banker's draft	-	165,750	-	165,750
	4,352,380	27,846,795	43,278	32,242,453
Deposits pledged as collateral				3,462,811

Sight deposits include balances of bullion amounting to LBP 172,812 million (2020: LBP 302,707 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LBP 101,683 million as at 31 December 2021 (2020: LBP 230,443 million), whereby the principal is settled at maturity according to the full discretion of the Group either in cash or in Lebanese government Eurobonds. As at 31 December 2021, in agreement with such depositors, the Bank settled deposits amounting to LBP 439,402 million in certificates of deposits with the Central Bank of Lebanon denominated in US Dollars and having the same nominal amount (2020: LBP 371,261 million) (Notes 23 and 29).

Bankers' drafts as at 31 December 2021 and 2020 consist of checks paid to depositors that have not yet been withdrawn from the Central Bank of Lebanon or other Lebanese banks.

34.0. | DEPOSITS FROM RELATED PARTIES

	2021		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	**Total LBP Million**
Sight deposits	9,453	34,778	44,231
Time deposits	7,350	91,757	99,107
Other deposits and margin accounts	1,713	443	2,156
	18,516	**126,978**	145,494
Deposits pledged as collateral			61,126

	2020		
	Corporate and SME LBP Million	Retail and Personal Banking LBP Million	Total LBP Million
Sight deposits	18,424	40,978	59,402
Time deposits	8,119	140,971	149,090
Other deposits and margin accounts	2,255	514	2,769
	28,798	182,463	211,261
Deposits pledged as collateral			102,261

35.0. | DEBT ISSUED AND OTHER BORROWED FUNDS

	2021 LBP Million	2020 LBP Million
USD 346,730,000 due 16 October 2023 – 6.75%	522,695	522,695
USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m	169,594	169,594
USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m	56,531	56,531
USD 276,000,000 due 1 August 2027 – 7.625%	414,747	419,673
Turkish bills	-	115,588
Interests payable	68,704	33,732
	1,232,271	1,317,813

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

USD 346,730,000 Due 16 October 2023 – 6.75%
In September 2013, the Group issued USD 350 million of subordinated unsecured bonds. The repayment date for the bonds was 16 October 2023, subject to early redemption or acceleration. The bonds carried an annual interest rate of 6.75% payable on a quarterly basis. During 2019, the Group acquired notes with a notional amount of USD 3.3 million for a total consideration of USD 2.6 million, leaving an outstanding sub debt amount of approximately USD 347 million.

In its meeting held on 12 February 2021, the Ordinary General Assembly, pursuant to a recommendation of the Board of Directors, resolved to proceed with the issuance of new unsecured subordinated notes under Lebanese law, the 2022 subordinated notes, to be subscribed to, through the voluntary exchange of the existing subordinated notes.

On 21 October 2021, the Bank announced an invitation to holders of subordinated notes to exchange all of their existing notes for (i) an equivalent principal amount of new notes; and (ii) a cash amount (as defined below) upon the terms and subject to the conditions set forth in the exchange offer memorandum. Existing holders who do not submit an exchange instruction prior to the settlement deadline will have their existing notes cancelled in exchange for the issue of new notes. The noteholder meeting, set to be held on 2 December 2021, was not quorate and was hence adjourned to 20 January 2022. The latter meeting was also not quorate and was further adjourned to 28 February 2022, date at which the necessary quorum was reached (with 68.08% of the aggregate principal amount of the outstanding existing notes then outstanding being represented) and the resolution was duly passed (with 92.98% of the votes being cast in favour of the resolution).

On 15 July 2021, the Bank received Banque du Liban's approval for the exchange offer. On 28 March 2022, the Bank received a letter from Banque du Liban with the amended approval, passed by a decision of the Central Council of Banque du Liban on 23 March 2022, to include certain items, including the inclusion of the put option, in the terms and conditions of the new notes.

On 30 March 2022, the Bank and the Trustee entered into the Supplemental Trust Deed in order to give effect to the resolution.

Subsequently, on 19 April 2022, the Bank proceeded with the exchange of all of the existing notes, with the new issued notes and the settlement of the exchange offer. The terms and conditions of the new notes are summarised below:

- Maturity date: 19 April 2027.
- Upfront interest payment of 10% payable on 19 April 2022, subject to 10% withholding tax.
- Interest payment of 5% p.a., subject to 10% withholding tax, which will start to accrue on 19 April 2022 and will be payable quarterly in arrears.
- Put option at the discretion of the noteholder who may choose to redeem the note at 90.5% of principal amount. The settlement date of the put option is 19 May 2022.
- In connection to the Exchange, a cash amount of 118.6875 per 1,000 in principal amount is payable, grossed up, on 19 April 2022.
- These notes are not eligible for integration in Tier 2 in the calculation of the capital adequacy ratio.

On 11 May 2022, the General Assembly resolved to approve: (i) granting of a Put Option in favour of the holders of the 2022 subordinated notes issued on 19 April 2022 pursuant to the resolution of the Ordinary General Assembly meeting held on 12 February 2021, and (ii) all other terms of the 2022 subordinated notes, as per the Board of Directors' proposal and recommendations.

As at 19 May 2022, holders of notes representing approximately USD 230 million had exercised the put option out of USD 347 million outstanding (66% of the total).

USD 112,500,000 due 11 April 2024 – 6.55% + Libor 6m and
USD 37,500,000 due 11 April 2024 – 6.55% + Libor 6m
The principal amount of the loan (and any interest accrued but unpaid) will rank (i) junior in right of payment to the claims of the holders of unsecured and unsubordinated payment obligations of the Bank; (ii) paripassu with the claims of holders of all other subordinated indebtedness of the Bank and (iii) in priority to the claims of shareholders of the Bank, including in respect of cash contributions to capital. Following satisfaction of unsubordinated claims as aforesaid, the lender shall be entitled to receive and to retain any payment or distribution in respect of the loan and all other amounts outstanding on a paripassu basis with other subordinated indebtedness.
If on a particular interest payment date, the Group does not have free profits available to pay the full amount of accrued and unpaid interest then due in respect of the loan, the Group's obligation to pay such interest shall be deferred and become due and payable on the next interest payment date, to the extent of free profits then available, and if not then available, such deferral shall continue until the interest payment date when all interests have been paid in full on final maturity date.

The Group determined that the matters disclosed in Note 1 will have an impact on the retained earnings and reserves leading to a need for recapitalization, the amount of which has not been determined yet due to the high level of uncertainty of resulting from these matters. This matter is under objection by the lender. However, the Group believes it is in a strong position. As at 31 December 2021, deferred interest payable amounted to LBP 34,300 million and was recorded under "Other liabilities" (2020: LBP 18,739 million) (Note 36).

The Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:
- In the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or
- Subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of the date on which the loan is disbursed.

USD 276,000,000 Due 1 August 2027 – 7.625%
On 1 August 2017, Odea Bank A.Ş. issued subordinated unsecured notes in the amount of USD 300 million to third parties. These notes mature on 1 August 2027 and pay semi-annual interest of 7.625%. The notes are listed on the Main Securities Market of the Irish Stock Exchange. Odea Bank A.Ş. shall repay the notes at maturity and may repay the notes in whole, but not in part (1) starting from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation. As of 31 December 2021, the total amount bought back amounted to USD 24 million. Odea Bank A.Ş. has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amounts at any time is completely at Management's discretion.

Turkish bills
During 2020, Odea Bank A.Ş. issued bonds in TRY at discount with an effective interest rate of 13%. These bills matured during 2021.

Cash and Non-cash Changes in Debt Issued and Other Borrowed Funds
All changes in debt issued and other borrowed funds arise mainly from cash flows. Non-cash changes such as foreign exchange gains and losses were not significant during 2021 (2020: the same).

36.0. | OTHER LIABILITIES

	2021 LBP Million	2020 LBP Million
Lease liabilities	28,488	42,416
Accrued expenses	55,756	58,953
Miscellaneous suppliers and other payables	15,412	31,928
Operational taxes	84,110	134,345
Employee accrued benefits	3,326	4,037
Electronic cards and regularisation accounts	32,029	31,360
Social security dues	5,078	3,898
Deferred interest payable (Note 35)	34,300	18,739
Other credit balances	100,283	120,577
	358,782	446,253

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

	2021 LBP Million	2020 LBP Million
Balance at 1 January	**42,416**	149,853
Additions	24,147	1,197
Termination	(9,010)	(38,886)
Interest expense	4,582	9,519
Paid during the year	(21,486)	(37,261)
Transfer to assets held for sale	-	(35,386)
Foreign exchange	(12,161)	(6,620)
Balance at 31 December	**28,488**	42,416

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

37.0. | PROVISIONS FOR RISKS AND CHARGES

	2021 LBP Million	2020 LBP Million
Provisions for risks and charges (a)	115,526	46,618
Provisions for ECL on financial guarantees and commitments (Note 53)	11,421	23,853
End-of-service benefits (b)	156,610	80,128
	283,557	150,599

A -PROVISIONS FOR RISKS AND CHARGES

	2021 LBP Million	2020 LBP Million
Provision for legal claims	11,638	8,447
Other provisions	103,888	38,171
	115,526	46,618

	2021 LBP Million	2020 LBP Million
Balance at 1 January	**46,618**	52,127
Add:		
Charge reflected under operating expenses (Note 13)	30,144	3,873
Charge reflected under other expenses	9,074	1,403
Transfer from current tax liability	7,154	6,619
Other transfers	52,332	-
Charge reflected under discontinued operations	-	1,208
Less:		
Paid during the year	(7,197)	(17)
Paid related to discontinued operations	-	(2,117)
Net provisions recoveries (Note 10)	(4,631)	(2,537)
Transfer to assets held for sale	-	(10,853)
Foreign exchange difference	(17,968)	(3,088)
Balance at 31 December	**115,526**	46,618

B- END-OF-SERVICE BENEFITS

Entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, as well as on the employees' salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end-of-service lump sum amount should be paid for long service employees. The entitlement to and level of these end-of-service benefits provided depend on the employees' length of service, salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligations is as follows:

	2021		
	Lebanon LBP Million	Foreign Countries LBP Million	**Total LBP Million**
Balance at 1 January	**50,458**	**29,670**	**80,128**
Charge for the year (Note 12)	5,643	4,553	10,196
Paid during the year	(6,237)	(3,666)	(9,903)
Actuarial gain on obligation – experience	(5,784)	(8,329)	(14,113)
Actuarial loss on obligation – economic assumptions	86,263	4,015	90,278
Actuarial loss on obligation – demographic assumptions	-	1,863	1,863
Foreign exchange difference	-	(1,839)	(1,839)
Balance at 31 December	**130,343**	**26,267**	**156,610**

	2020		
	Lebanon LBP Million	Foreign Countries LBP Million	Total LBP Million
Balance at 1 January	58,591	28,027	86,618
Charge for the year (Note 12)	8,105	4,017	12,122
Paid during the year	(23,750)	(2,950)	(26,700)
Actuarial gain on obligation – experience	(19,643)	(2,162)	(21,805)
Actuarial loss on obligation – economic assumptions	25,606	1,256	26,862
Net provisions recoveries	(9)	(351)	(360)
Advance received	1,558	-	1,558
Foreign exchange difference	-	1,833	1,833
Balance at 31 December	50,458	29,670	80,128

The charge for the year is broken down as follows:

	2021 LBP Million	2020 LBP Million
Current service cost	6,736	7,609
Interest on obligation	3,460	4,513
	10,196	12,122

The key assumptions used in the calculation of retirement benefit obligation are as follows:

	Lebanon		Switzerland	
	2021	2020	2021	2020
Economic assumptions				
Discount rate (p.a.)	6.50%	6.50%	0.35%	0.05%
Inflation rate (p.a.)	None	None	1.00%	1.00%
Salary increase (p.a.)				
Coming years:				
Employees	150.00%	25.00%	1.25%	1.25%
Senior managers	150.00%	25.00%	1.25%	1.25%
Thereafter:				
Employees	4.00%	4.00%	1.25%	1.25%
Senior managers	4.00%	4.00%	1.25%	1.25%
Expected annual rate of return on NSSF contributions	3.00%	3.00%	None	None
Expected future pension increases	None	None	1.25%	1.25%
Interest crediting rate	None	None	None	1.00%
Treatment of bonus	None	None	None	None
Demographic assumptions				
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years	Age 65 for men and 64 for women	Age 65 for men and 64 for women
Pre-termination mortality	None	None	BVG 2020 + 1.2%	BVG 2015 + 1.5%
Pre-termination turnover rates (age related with average of)	3.50% – 7.50%	3.50% – 7.50%	4.20% – 25.20%	4.40% – 28.50%

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

	Discount Rate		Future Salary Increase		Cost of Living Adjustment(*)	
	% Increase LBP Million	% Decrease LBP Million	% Decrease LBP Million	% Decrease LBP Million	50% Increase LBP Million	100% Increase LBP Million
Impact on net defined benefit obligation – 2021	(2,520)	2,528	414	(413)	73,519	147,038
Impact on net defined benefit obligation – 2020	(1,061)	1,104	2,014	(1,933)	18,780	N/A

(*) For Lebanon only.

Except for cost of living adjustments, the sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 25 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

38.0. | SHARE CAPITAL AND ISSUE PREMIUM

SHARE CAPITAL

The share capital of Bank Audi sal as at 31 December is as follows:

	2021			2020		
	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million	Number of Shares	Share Capital LBP Million	Issue Premium LBP Million
Common shares	588,538,215	982,859	902,290	588,538,215	982,859	902,290
Preferred shares series "H"	750,000	1,252	111,811	750,000	1,252	111,811
Preferred shares series "I"	2,500,000	4,175	372,700	2,500,000	4,175	372,700
Preferred shares series "J"	2,750,000	4,593	409,969	2,750,000	4,593	409,969
	6,000,000	10,020	894,480	6,000,000	10,020	894,480
	594,538,215	992,879	1,796,770	594,538,215	992,879	1,796,770

To meet the requirements of the Central Bank of Lebanon towards increasing its regulatory capital by 20%, the Bank increased its capital by LBP 315,278 million effective 20 February 2020 through the issuance of 188,789,011 common shares at a nominal value of LBP 1,670.

LISTING OF SHARES

	2021		2020	
	Stock Exchange	Number of Shares	Stock Exchange	Number of Shares
Ordinary shares	Beirut	468,898,454	Beirut	468,898,454
Global depository receipts	Beirut	119,639,761	Beirut	119,639,761
Preferred shares	Beirut	6,000,000	Beirut	6,000,000
		594,538,215		594,538,215

The Board of Directors has approved the delisting of the global depository receipts from the London SEAQ on 29 July 2020. The delisting became effective on 6 November 2020.

PREFERRED SHARES

1. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued series "H" preferred shares under the following terms:

Preferred shares series "H"

- Number of shares:	750,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,299 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4.5 per share for the year 2013, and USD 6.5 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 7 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 21 June 2013 validated and ratified the capital increases according to the aforementioned terms for preferred shares series "H".

2. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 29 November 2016, the Bank issued preferred shares series "I" under the following terms:

Preferred shares series"I"

- Number of shares:	2,500,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,656 (later became LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 3 per share for the year 2016, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 21 December 2016 validated and ratified the capital increase according to the aforementioned terms.

3. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 21 July 2017, the Bank issued preferred shares series "J" under the following terms:

Preferred shares series "J"

- Number of shares:	2,750,000.
- Share's issue price:	USD 100.
- Share's nominal value:	LBP 1,663 (later become LBP 1,670 upon increasing the nominal value).
- Issue premium:	Calculated in USD as the difference between USD 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits:	Annual non-cumulative dividends of USD 4 per share for the year 2017, and USD 7 for each subsequent year.
- Repurchase right:	The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date
- Conversion:	Mandatorily convertible into 15 common shares in case: 1) common equity Tier 1 to risk-weighted assets falls below 66.25% of minimum required by the Central Bank of Lebanon; or 2) the Bank is deemed non-viable by the Central Bank of Lebanon without such a conversion.

The Extraordinary General Assembly of shareholders held on 27 October 2017 validated and ratified the capital increase according to the aforementioned terms.

PAID DIVIDENDS

In accordance with Central Bank of Lebanon Intermediate Circular 567, no dividends were distributed from 2019 and 2020 profits.

39.0. | CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to USD 48,150,000 (equivalent to LBP 72,586 million) subject to the following conditions:

- These contributions will remain as long as the Bank performs banking activities.
- If the Bank incurs losses and has to reconstitute its capital, these contributions may be used to cover the losses if needed.
- The shareholders have the right to use these contributions to settle their share in any increase of capital.
- No interest is due on the above contributions.
- The above cash contributions are considered as part of Tier 1 capital for the purpose of determining the Bank's capital adequacy ratio.
- The right to these cash contributions is for the present and future shareholders of the Bank.

40.0. | NON-DISTRIBUTABLE RESERVES

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	**Total LBP Million**
Balance at 1 January 2021	709,916	120,655	6,640	135,222	14,835	38,945	1,183,448	2,209,661
Appropriation of 2020 profits	9,247	145	-	-	-	-	-	9,392
Entities deconsolidated	(100,188)	(108,824)	-	(116,895)	-	(244)	-	(326,151)
Transfers between reserves	-	27,979	-	-	-	(27,295)	(23,869)	(23,185)
Balance at 31 December 2021	618,975	39,955	6,640	18,327	14,835	11,406	1,159,579	1,869,717

	Legal Reserve LBP Million	Reserves Appropriated for Capital Increase LBP Million	Gain on Sale of Treasury Shares LBP Million	Reserve for General Banking Risks LBP Million	Unrealised Gain on Fair Value through Profit or Loss LBP Million	Reserve for Foreclosed Assets LBP Million	Other Reserves LBP Million	Total LBP Million
Balance at 1 January 2020	746,897	161,715	6,640	108,263	64,651	28,901	908,134	2,025,201
Appropriation of 2019 profits	12,552	1,923	-	14,854	(48,943)	10,435	-	(9,179)
Capital increase	-	-	-	-	-	-	315,278	315,278
Related to the merger (Note 46)	(49,526)	(42,983)	-	12,105	(873)	(391)	(40,602)	(122,270)
Transfers between reserves	(7)	-	-	-	-	-	-	(7)
Others	-	-	-	-	-	-	638	638
Balance at 31 December 2020	709,916	120,655	6,640	135,222	14,835	38,945	1,183,448	2,209,661

LEGAL RESERVE

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

The Group transferred to legal reserve an amount of LBP 9,247 million (2020: LBP 12,552 million) as required by the laws applicable in the countries in which they operate.

RESERVES APPROPRIATED FOR CAPITAL INCREASE

The Group transferred LBP 145 million (2020: LBP 1,923 million) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

GAIN ON SALE OF TREASURY SHARES

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

OTHER RESERVES

According to the Central Bank of Lebanon's Main Circular 143, banks in Lebanon are required to transfer to other reserves the balance of reserves for general banking risks and general reserves for loans and advances (totalling LBP 889,720 million) previously appropriated in line with the requirements of Decision 7129 and Decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution. During 2020, the Bank transferred from distributable reserves an amount of LBP 315,278 million equivalent to the capital increase.

RESERVE FOR UNREALISED REVALUATION GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As per the Banking Control Commission's Circular 296 dated 4 June 2018, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealised profits on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realised and released to general reserves.

RESERVE FOR FORECLOSED ASSETS

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

41.0. | DISTRIBUTABLE RESERVES

	General Reserves LBP Million	Cost of Capital Issued LBP Million	**Total LBP Million**
Balance at 1 January 2021	28,366	(11,096)	17,270
Transfer between reserves	479,263	-	479,263
Balance at 31 December 2021	507,629	(11,096)	496,533

	General Reserves LBP Million	Cost of Capital Issued LBP Million	Total LBP Million
Balance at 1 January 2020	445,519	(12,462)	433,057
Appropriation of 2019 profits	(115,129)	5,004	(110,125)
Capital increase	(315,278)	-	(315,278)
Cost of capital	-	(3,638)	(3,638)
Related to the merger (Note 46)	49,005	-	49,005
Transfer between reserves	(35,724)	-	(35,724)
Other movements	(27)	-	(27)
Balance at 31 December 2020	28,366	(11,096)	17,270

42.0. | PROPOSED DIVIDENDS

In accordance with Central Bank of Lebanon Intermediate Circular 567 and 616, the Board of Directors does not propose the payment of dividends for 2021 and 2020.

43.0. | TREASURY SHARES

	2021		2020	
	Number of Shares	Cost LBP Million	Number of Shares	Cost LBP Million
Balance at 31 December	1,172,382	9,190	1,172,382	9,190

44.0. | OTHER COMPONENTS OF EQUITY

	2021					
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Cash Flow Hedge Reserve LBP Million	**Total LBP Million**
Balance at 1 January 2021	337,059	20,534	(1,078,654)	(12,451)	(19,944)	(753,456)
Other comprehensive loss from continuing operations	-	(19,845)	(280,373)	(64,182)	17,900	(346,500)
Entities deconsolidated	(75,568)	31	-	-	-	(75,537)
Sale of FVTOVI	-	(6,304)	-	-	-	(6,304)
Transfer between reserves	510	-	-	-	-	510
Balance at 31 December 2021	262,001	(5,584)	(1,359,027)	(76,633)	(2,044)	(1,181,287)

	2020					
	Real Estate Revaluation Reserve LBP Million	Cumulative Changes in Fair Value LBP Million	Foreign Currency Translation Reserve LBP Million	Actuarial Loss on Defined Benefit Obligation LBP Million	Cash Flow Hedge Reserve LBP Million	Total LBP Million
Balance at 1 January 2020	338,024	25,317	(1,588,710)	(8,368)	(18,845)	(1,252,582)
Other comprehensive loss from continuing operations	-	3,804	(87,981)	(4,083)	(1,099)	(89,359)
Other comprehensive income from discontinued operations	-	4,452	(1,235)	-	-	3,217
Transfer between reserves	(965)	(1,644)	-	-	-	(2,609)
Transfer related to assets held for sale	-	(11,395)	599,272	-	-	587,877
Balance at 31 December 2020	337,059	20,534	(1,078,654)	(12,451)	(19,944)	(753,456)

REAL ESTATE REVALUATION RESERVE

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and Building Improvements from cost to revaluation model.

CUMULATIVE CHANGES IN FAIR VALUE

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value through other comprehensive income. The movement during the year can be summarised as follows:

	Change in Fair Value LBP Million	Deferred Tax LBP Million	**Net LBP Million**
Balance at 1 January 2021	23,197	(2,663)	20,534
Other comprehensive income from continuing operations	(24,398)	4,553	(19,845)
Entities deconsolidated	31	-	31
Sale of financial assets at FVOCI	(6,304)	-	(6,304)
Adjustments	(3,050)	3,050	-
Balance at 31 December 2021	(10,524)	4,940	(5,584)

Balance at 1 January 2020	29,004	(3,687)	25,317
Other comprehensive income from continuing operations	4,296	(492)	3,804
Other comprehensive income from discontinued operations	5,629	(1,177)	4,452
Sale of financial assets at FVOCI	(1,644)	-	(1,644)
Adjustments	(14,088)	2,693	(11,395)
Balance at 31 December 2020	23,197	(2,663)	20,534

45.0. | ASSETS AND LIABILITIES HELD FOR SALE

Bank Audi sae

On 20 January 2021, the Bank signed a shares purchase agreement for the sale of 34,700,000 shares in Bank Audi sae, comprising the entire issued share capital of the latter. On 15 April 2021, the conditions precedent to completion have been satisfied with the execution of the transfer of shares completed on 28 April 2021. The parties agreed on a purchase price for the shares less reductions (if any) made pursuant to the contract. No impairment for Bank Audi sae has been recognised under IFRS 5 as at 31 December 2020. No impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration cash collateral and potential reductions to be made pursuant to the contract. The fair value less disposal costs and the expected contribution exceeds the net asset value as at 31 December 2020.

Banking Operations in Jordan and Iraq

On 29 December 2020, the Bank signed business transfer agreements to sell and transfer the assets of its banking business and operations carried on in Jordan and Iraq (together with the assumed liabilities), excluding certain matters, to a third party and to assume obligations imposed on the Bank under the agreements. The sale and transfer confirmation deed was executed on 11 March 2021. Impairment for the Group's banking operations in Jordan and Iraq has been recognised under IFRS 5 as at 31 December 2020. Impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration cash collateral and reductions made pursuant to the contract.

The carrying value of the disposal group is stated after the elimination of internal balances between Bank Audi Egypt sae, Bank Audi Jordan and Bank Audi Iraq branches, 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.

Assets and liabilities included in disposal groups classified as held for sale:

	2021	2020		
	Total LBP Million	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Cash and balances with central banks	-	1,511,215	201,192	1,712,407
Due from banks and financial institutions	-	298,138	57,262	355,400
Loans to banks and financial institutions and reverse repurchase agreements	-	35,367	-	35,367
Derivative financial instruments	-	105	-	105
Financial assets at fair value through profit or loss	-	3,083	-	3,083
Loans and advances to customers at amortised cost	-	2,883,386	517,021	3,400,407
Loans and advances to related parties at amortised cost	-	-	325	325
Debtors by acceptances	-	18,180	6,388	24,568
Financial assets at amortised cost	-	636,837	366,771	1,003,608
Financial assets at fair value through other comprehensive income	-	2,645,689	3,613	2,649,302
Property and equipment and right-of-use assets	-	219,015	47,169	266,184
Intangible assets	-	23,818	1,357	25,175
Assets obtained in settlement of debt	-	780	-	780
Other assets	-	29,441	9,283	38,724
Deferred tax assets	-	-	12,560	12,560
Total	-	8,305,054	1,222,941	9,527,995
Balance of impairment unallocated under IFRS 5	-		(34,848)	(34,848)
	-			
Total assets classified as held for sale	-	8,305,054	1,188,093	9,493,147
	-			
Due to central banks	-	1,935	51,602	53,537
Due to banks and financial institutions	-	296,355	17,330	313,685
Derivative financial instruments	-	75	17	92
Customers' deposits	-	6,955,912	969,157	7,925,069
Deposits from related parties	-	-	1,629	1,629
Engagements by acceptances	-	18,180	6,388	24,568
Other liabilities	-	54,713	33,829	88,542
Current tax liabilities	-	28,893	6,853	35,746
Deferred tax liabilities	-	29,925	957	30,882
Provisions for risks and charges	-	17,416	11,435	28,851
	-			
Total liabilities classified held for sale	-	7,403,404	1,099,197	8,502,601
	-			
Net assets classified as held for sale	-	901,650	88,896	990,546
	-			
Reserves related to assets held for sale.	-			
Cumulative changes in fair value	-	11,395	-	11,395
Foreign currency translation reserve	-	(583,222)	(16,050)	(599,272)
	-	(571,827)	(16,050)	(587,877)

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 analysed in the income statement below.

The income statement and statement of comprehensive income below represent three months of results as discontinued operations until 31 March 2021 compared to full year ended 31 December 2020.

	2021		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Interest and similar income	213,999	9,786	223,785
Interest and similar expense	(132,785)	(5,007)	(137,792)
Net interest income	**81,214**	**4,779**	**85,993**
Fee and commission income	14,438	2,558	16,996
Fee and commission expense	(1,450)	(356)	(1,806)
Net fee and commission income	**12,988**	**2,202**	**15,190**
Net trading income	1,322	426	1,748
Non-interest revenues from financial assets at fair value through other comprehensive income	332	-	332
Other operating income	59	1	60
Total operating income	**95,915**	**7,408**	**103,323**
Net impairment loss on financial assets	(16,577)	(480)	(17,057)
Net operating income	**79,338**	**6,928**	**86,266**
Personnel expenses	(16,561)	(2,631)	(19,192)
Other operating expenses	(14,021)	(1,965)	(15,986)
Depreciation of property and equipment and right-of-use assets	(2,886)	(682)	(3,568)
Amortisation of intangible assets	(1,224)	(284)	(1,508)
Total operating expenses	**(34,692)**	**(5,562)**	**(40,254)**
Operating profit	**44,646**	**1,366**	**46,012**
Net loss on revaluation and disposal of fixed assets	(123)	-	(123)
Profit before tax	**44,523**	**1,366**	**45,889**
Income tax	(21,052)	(523)	(21,575)
Profit for the period	23,471	843	24,314
Gain (loss) on sale for the year from discontinued operations	58,513	(3,202)	55,311
Profit for the period from discontinued operations	81,984	(2,359)	79,625

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Interest and similar income	787,594	76,412	864,006
Interest and similar expense	(491,447)	(35,897)	(527,344)
Net interest income	296,147	40,515	336,662
Fee and commission income	49,237	22,357	71,594
Fee and commission expense	(4,306)	(1,780)	(6,086)
Net fee and commission income	44,931	20,577	65,508
Net trading income	6,345	12,459	18,804
Non-interest revenues from financial assets at fair value through other comprehensive income	631	-	631
Other operating income	568	102	670
Total operating income	348,622	73,653	422,275
Net impairment loss on financial assets	(31,730)	(2,241)	(33,971)
Net operating income	316,892	71,412	388,304
Personnel expenses	(62,440)	(21,332)	(83,772)
Other operating expenses	(47,330)	(20,863)	(68,193)
Depreciation of property and equipment and right-of-use assets	(11,730)	(4,846)	(16,576)
Amortisation of intangible assets	(4,815)	(2,215)	(7,030)
Total operating expenses	(126,315)	(49,256)	(175,571)
Operating profit	190,577	22,156	212,733
Net gain on revaluation and disposal of fixed assets	195	-	195
Profit before tax	190,772	22,156	212,928
Income tax	(69,090)	(8,735)	(77,825)
Profit for the year	121,682	13,421	135,103
Impairment unallocated under IFRS 5	-	(34,848)	(34,848)
Profit for the year from discontinued operations	121,682	(21,427)	100,255

Other comprehensive income relating to discontinued operations is as follows:

	2021		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Profit for the period	81,984	(2,359)	79,625
Other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods			
Foreign currency translation			
Exchange differences on translation of foreign operations	1,529	-	1,529
Net foreign currency translation	1,529	-	1,529
Debt instruments at fair value through other comprehensive income			
Change in fair value during the period	(11,626)	-	(11,626)
Gain reclassified to income statement	332	-	332
Tax effects	794	-	794
Net loss on debt instruments at fair value through other comprehensive income	(10,500)	-	(10,500)
Total other comprehensive loss that will be reclassified to the income statement in subsequent periods	(8,971)	-	(8,971)
Other comprehensive loss for the period, net of tax	(8,971)	-	(8,971)
Total comprehensive income for the period, net of tax	73,013	(2,359)	70,654

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Profit for the year	121,682	(21,427)	100,255
Other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods			
Foreign currency translation			
Exchange differences on translation of foreign operations	14,178	(15,413)	(1,235)
Net foreign currency translation	14,178	(15,413)	(1,235)
Debt instruments at fair value through other comprehensive income			
Change in fair value during the year	9,943	-	9,943
Gain reclassified to income statement	(4,712)	-	(4,712)
Tax effects	(1,177)	-	(1,177)
Net gain on debt instruments at fair value through other comprehensive income	4,054	-	4,054
Total other comprehensive income (loss) that will be reclassified to the income statement in subsequent periods	18,232	(15,413)	2,819
Other comprehensive income (loss) that will not be reclassified to the income statement in subsequent periods			
Equity instruments at fair value through other comprehensive income			
Net unrealised gains	-	398	398
Total other comprehensive income that will not be reclassified to the income statement in subsequent periods	-	398	398
Other comprehensive income (loss) for the year, net of tax	18,232	(15,015)	3,217
Total comprehensive income (loss) for the year, net of tax	139,914	(36,442)	103,472

The cash flows attributed to the discontinued operations are as follows:

	2020		
	Bank Audi sae LBP Million	Jordan and Iraq Operations LBP Million	Total LBP Million
Net cash flows from operating activities	360,511	228,552	589,063
Net cash flows from investing activities	(337,227)	(96,241)	(433,468)
Net cash flows from financing activities	(84,890)	8,404	(76,486)
Net (decrease)/increase in cash and cash equivalents	(61,606)	140,715	79,109

46.0. | GROUP SUBSIDIARIES

A. LIST OF SIGNIFICANT SUBSIDIARIES

The following table shows information related to the significant subsidiaries of the Bank.

	Percentage of Ownership		Country of Incorporation	Principal Activity	Functional Currency
	2021	2020			
Bank Audi France sa	100.00	100.00	France	Banking (Commercial)	EUR
Banque Audi (Suisse) SA	100.00	100.00	Switzerland	Banking (Private)	CHF
Bank Audi sae	-	100.00	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99	99.99	Saudi Arabia	Financial services	SAR
Bank Audi LLC (Qatar)	100.00	100.00	Qatar	Banking services	QAR
Société Libanaise de Factoring sal	100.00	100.00	Lebanon	Factoring	LBP
Odea Bank A.Ş.	76.42	76.42	Turkey	Banking (Commercial)	TRY
Audi Investments Holding sal	100.00	100.00	Lebanon	Investment	USD

On 15 December 2020, Bank Audi sal obtained the final approval of the Central Council of the Central Bank of Lebanon to:

a) Purchase the assets, liabilities, rights and obligations of Audi Private Bank sal (APB) and Audi Investment Bank sal (AIB) in accordance with Article 10 of the Merger Law No.192/93 and related amendments.

b) Cancel the license of APB and AIB from the list of banks.

c) Grant the merging bank a one-year grace period starting 15 December 2020 to resolve the excess in its foreign currency position as a result of the merger.

The purchase of the assets, liabilities, rights and obligations of APB and AIB were accomplished on 24 December 2020.

B. SIGNIFICANT RESTRICTIONS

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group, and comply with other ratios.

C. NON-CONTROLLING INTERESTS

Odea Bank A.Ş is the only subsidiary of the Group that has a material non-controlling interest with 23.58% equity interests held by non-controlling interests as at 31 December 2021 (2020: the same).

MATERIAL PARTIALLY OWNED SUBSIDIARIES

	Odea Bank A.Ş.	
	2021 %	2020 %
Proportion of equity interests held by non-controlling interests	23.58%	23.58%

Financial information relating to Odea Bank A.Ş. is provided below:

SUMMARISED STATEMENT OF PROFIT OR LOSS

	Odea Bank A.Ş.	
	2021 LBP Million	2020 LBP Million
Net interest income	172,077	188,727
Net fee and commission income	21,652	24,787
Net trading income	7,686	10,574
Other operating income	15,695	13,219
Total operating income	**217,110**	237,307
Net credit losses	(13,076)	(50,868)
Total operating expenses	(162,796)	(149,920)
Profit before tax	**41,238**	36,519
Income tax	(5,686)	(7,333)
Profit for the year	**35,552**	29,186
Attributable to non-controlling interests	8,383	6,882
Dividends paid to non-controlling interests	-	-

SUMMARISED STATEMENT OF FINANCIAL POSITION

	Odea Bank A.Ş.	
	2021 LBP Million	2020 LBP Million
ASSETS		
Cash and balances with central banks	1,054,873	1,000,691
Due from banks and financial institutions	452,892	578,114
Loans to banks and financial institutions and reverse repurchase agreements	127,449	259,789
Due from related financial institutions	-	39,255
Derivative financial instruments	413,778	461,796
Financial assets at fair value through profit or loss	11,371	40,691
Loans and advances to customers at amortised cost	2,687,806	3,778,573
Debtors by acceptances	556	2,003
Financial assets at amortised cost	148,501	216,253
Financial assets at fair value through other comprehensive income	1,121,894	1,453,707
Property and equipment	20,315	38,807
Intangible assets	16,441	19,989
Assets obtained in settlement of debt	33,171	138,059
Other assets	106,910	185,058
TOTAL ASSETS	6,195,957	8,212,785
LIABILITIES		
Due to central banks	244,045	618,736
Due to banks and financial institutions	227,552	334,399
Due to banks under repurchase agreement	38,610	143,888
Due to related financial institutions	154,289	131,713
Derivative financial instruments	304,934	448,911
Customers' deposits	4,262,572	5,116,214
Debt issued and other borrowed funds	428,433	548,560
Engagements by acceptances	556	2,003
Other liabilities	98,171	125,111
Provisions for risks and charges	38,193	33,802
TOTAL LIABILITIES	5,797,355	7,503,337
TOTAL SHAREHOLDERS' EQUITY	398,602	709,448
Of which: non-controlling interests	*93,990*	*167,288*
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,195,957	8,212,785

SUMMARISED CASH FLOW INFORMATION

	2021 LBP Million	2020 LBP Million
Operating activities	109,806	105,471
Investing activities	(31,222)	(793,115)
Financing activities	(87,835)	(861)
	(9,251)	(688,505)

47.0. | CASH AND CASH EQUIVALENTS

	2021 LBP Million	2020 LBP Million
Cash and balances with central banks	6,402,643	5,905,963
Due from banks and financial institutions	2,639,672	2,151,012
Loans to banks and financial institutions and reverse repurchase agreements	42,907	95,791
Due to central banks	(244,202)	(618,643)
Due to banks and financial institutions	(195,926)	(1,050,485)
Due to banks under repurchase agreement	(38,610)	(143,888)
	8,606,484	6,339,750

Cash and balances with central banks include amounts of LBP 2,263,872 million at 31 December 2021 (2020: LBP 2,051,126 million) representing mandatory reserve deposits and balances.

Cash and cash equivalents include balances 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 LBP Million	2020 LBP Million
Cash and balances with central banks	1,381,982	1,146,190
Due from banks and financial institutions	19,445	97,091
	1,401,427	1,243,281

48.0. | FAIR VALUE OF FINANCIAL INSTRUMENTS

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

QUOTED MARKET PRICES – LEVEL 1

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

VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

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

VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

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

EFFECTS OF EXCHANGE RATES ON THE FAIR VALUE MEASUREMENTS:

The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Pound in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Pounds at the official published exchange rate as discussed in Note 1.3. However, in light of the high deviation between the parallel market rate, the Sayrafa rates and the official published exchange rates, Management estimates that the amounts reported in this note in LBP do not reflect a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated from the realisation of such assets or the payment of such liabilities at the date of the financial statements, and Management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2.

FAIR VALUE MEASUREMENT HIERARCHY OF THE FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE

	2021			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	248	14,860	-	15,108
Forward precious metals contracts	12	-	-	12
Currency swaps	6,404	166,951	-	173,355
Precious metals swaps	348	-	-	348
Currency options	6,085	47,361	-	53,446
Interest rate swaps	-	9,926	-	9,926
Interest rate options	-	18,883	-	18,883
Equity options	5,659	-	-	5,659
Derivatives held for cashflow hedge				
Interest rate swaps	-	10,330	-	10,330
	18,756	**268,311**	-	**287,067**
Financial assets at fair value through profit or loss				
Lebanese sovereign and Central Bank of Lebanon				
Eurobonds	1,267	-	-	1,267
Other sovereign				
Treasury bills and bonds	201	-	-	201
Private sector and other securities				
Banks and financial institutions	113,968	-	-	113,968
Mutual funds	-	3,963	39,491	43,454
Equity instruments	28	2,120	-	2,148
	115,464	**6,083**	**39,491**	**161,038**
Financial assets at fair value through other comprehensive income				
Debt instruments				
Other sovereign				
Treasury bills and bonds	917,198	-	-	917,198
Private sector and other securities				
Banks and financial institutions	204,108	-	-	204,108
Equity instruments				
Quoted	176	-	-	176
Unquoted	-	266	43,132	43,398
	1,121,482	**266**	**43,132**	**1,164,880**
	1,255,702	**274,660**	**82,623**	**1,612,985**

	2020			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	485	13,879	-	14,364
Currency swaps	4,779	129,919	-	134,698
Precious metals swaps	8	-	-	8
Currency options	10,825	4,570	-	15,395
Interest rate swaps	378	12,296	-	12,674
Interest rate options	-	38,682	-	38,682
Equity options	2,999	-	-	2,999
	19,474	199,346	-	218,820
Financial assets at fair value through profit or loss				
Lebanese sovereign and Central Bank of Lebanon				
Treasury bills	-	691	-	691
Eurobonds	143	-	-	143
Other sovereign				
Treasury bills and bonds	4,253	42	-	4,295
Private sector and other securities				
Banks and financial institutions	325,426	-	-	325,426
Loans and advances to customers	-	7,124	-	7,124
Mutual funds	-	6,051	46,105	52,156
Equity instruments	14	2,218	-	2,232
	329,836	16,126	46,105	392,067
Financial assets at fair value through other comprehensive income				
Debt instruments				
Other sovereign				
Treasury bills and bonds	1,158,840	-	-	1,158,840
Private sector and other securities				
Banks and financial institutions	293,819	-	-	293,819
Equity instruments				
Quoted	176	-	-	176
Unquoted	-	266	65,272	65,538
	1,452,835	266	65,272	1,518,373
	1,802,145	215,738	111,377	2,129,260

	2021			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL LIABILITIES				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	412	31,345	-	31,757
Currency swaps	12,652	88,149	-	100,801
Precious metals swaps	1,212	-	-	1,212
Currency options	6,085	18,526	-	24,611
Interest rate swaps	-	166,784	-	166,784
Equity options	5,659	-	-	5,659
	26,020	**304,804**	-	**330,824**
Customers' deposits – sight	172,812	-	-	172,812
	198,832	**304,804**	-	**503,636**

	2020			
	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL LIABILITIES				
Derivative financial instruments				
Derivatives held for trading				
Forward foreign exchange contracts	324	7,082	-	7,406
Forward precious metals contracts	79	-	-	79
Currency swaps	8,091	130,779	-	138,870
Precious metals swaps	3,022	-	-	3,022
Currency options	10,825	7,455	-	18,280
Equity options	2,999	-	-	2,999
Derivatives held for fair value hedge				
Interest rate swaps	-	276,137	-	276,137
	25,340	421,453	-	446,793
Customers' deposits – sight	302,707	-	-	302,707
	328,047	421,453	-	749,500

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Interest Rate Derivatives

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

Foreign Exchange Derivatives

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

Loans and Advances to Customers at Fair Value through Profit or Loss

The fair value of loans and advances to customers that fall in this category is estimated using discounted cash flows by applying current market rates for new loans with similar remaining maturities and to counterparties with similar credit risk. The Group does not have Level 3 loans and advances to customers at fair value through profit or loss.

Funds and Equity Shares of Non-listed Entities

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

Equity shares of non-listed entities comprise mainly the Group's strategic investments, are generally classified at fair value through other comprehensive income, and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between Level 2 and Level 3 is based on 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).

The movement of items recurrently measured at fair value categorised within Level 3 during the year is as follows:

	2021		2020	
	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million	Financial Instruments at Fair Value through Profit or Loss LBP Million	Financial Instruments at Fair Value through Other Comprehensive Income LBP Million
FINANCIAL ASSETS				
Balance at 1 January	46,105	65,272	54,177	66,452
Re-measurement recognised in other comprehensive income	-	(7,518)	-	(1,994)
Purchases	-	311	-	1,103
Sales	(6,614)	(13,879)	(8,072)	-
Foreign exchange difference	-	(1,054)	-	(289)
Balance at 31 December	39,491	43,132	46,105	65,272

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

COMPARISON OF CARRYING AND FAIR VALUES FOR FINANCIAL ASSETS AND LIABILITIES NOT HELD AT FAIR VALUE

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

	Carrying Value	Fair Value			
31 December 2021	LBP Million	Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS					
Cash and balances with central banks	2,914,491	130,015	2,784,495	-	2,914,510
Due from banks and financial institutions	1,489,282	-	1,489,414	-	1,489,414
Loans to banks and financial institutions and reverse repurchase agreements	127,596	-	109,941	-	109,941
Net loans & advances to customers	4,107,087	-	-	3,721,648	3,721,648
Corporate and SME	*3,052,953*	-	-	*2,669,952*	2,669,952
Retail and Personal Banking	*1,054,134*	-	-	*1,051,696*	1,051,696
Net loans & advances to related parties	59,391	-	-	59,391	59,391
Corporate and SME	*41*	-	-	*41*	41
Retail and Personal Banking	*59,350*	-	-	*59,350*	59,350
Financial assets classified at amortised cost	494,863	472,294	19,166	-	491,460
Other sovereign	*208,800*	*186,229*	*19,166*	-	205,395
Private sector and other securities	*286,063*	*286,065*	-	-	286,065
	9,192,710	602,309	4,403,016	3,781,039	8,786,364
FINANCIAL LIABILITIES					
Due to central banks	244,188	-	244,188	-	244,188
Due to banks and financial institutions	242,928	-	242,928	-	242,928
Due to banks under repurchase agreements	38,610	-	38,610	-	38,610
Customers' deposits	8,223,994	-	8,226,201	-	8,226,201
Deposits from related parties	78,559	-	78,568	-	78,568
Debt issued and other borrowed funds	428,433	350,237	-	-	350,237
	9,256,712	350,237	8,830,495	-	9,180,732

31 December 2020	Carrying Value LBP Million	Fair Value Level 1 LBP Million	Level 2 LBP Million	Level 3 LBP Million	Total LBP Million
FINANCIAL ASSETS					
Cash and balances with central banks	2,599,605	61,579	2,538,026	-	2,599,605
Due from banks and financial institutions	1,764,905	-	1,764,905	-	1,764,905
Loans to banks and financial institutions and reverse repurchase agreements	257,139	-	259,789	-	259,789
Net loans & advances to customers	5,338,104	-	-	5,302,685	5,302,685
Corporate and SME	*4,114,715*	-	-	*4,087,332*	*4,087,332*
Retail and Personal Banking	*1,223,389*	-		*1,215,353*	*1,215,353*
Net loans & advances to related parties	67,638	-	-	67,638	67,638
Retail and Personal Banking	*67,638*	-	-	*67,638*	*67,638*
Financial assets classified at amortised cost	464,144	452,834	19,939	-	472,773
Other sovereign	*286,530*	*274,302*	*19,939*	-	*294,241*
Private sector and other securities	*177,614*	*178,532*	-	-	*178,532*
	10,491,353	514,413	4,582,659	5,370,323	10,467,395
FINANCIAL LIABILITIES					
Due to central banks	618,736	-	618,736	-	618,736
Due to banks and financial institutions	460,141	-	460,141	-	460,141
Due to banks under repurchase agreements	143,888	-	143,888	-	143,888
Customers' deposits	9,154,613	-	9,157,078	-	9,157,078
Deposits from related parties	95,688	-	95,696	-	95,696
Debt issued and other borrowed funds	548,560	285,495	114,702	-	400,197
	11,021,626	285,495	10,590,241	-	10,875,736

VALUATION TECHNIQUES USED FOR MATERIAL CLASSES OF FINANCIAL ASSETS AND LIABILITIES CATEGORISED WITHIN LEVEL 2 AND LEVEL 3

Short-term Financial Assets and Liabilities
For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and from banks; demand deposits; and savings accounts without a specific maturity.

Deposits with Banks and Loans and Advances to Banks
For the purpose of this disclosure, for financial assets that are short-term in nature or have interest rates that re-price frequently, there is minimal difference between fair value and carrying amount. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality. Where market data or credit information on the underlying borrower is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Reverse Repurchase and Repurchase Agreements
The fair value of reverse repurchase agreements approximates carrying amount as these balances are generally short-dated and fully collateralised.

Government Bonds, Certificates of Deposit and Other Debt Securities
The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

Loans and Advances to Customers
For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers that do not fall in this category is estimated using discounted cash flows by applying current rates to new loans with similar remaining maturities and to counterparties with similar credit quality.

Deposits from Banks and Customers
In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, is estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities. Where market data is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rate.

Debt Issued and Other Borrowed Funds
Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

49.0. | CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

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

2021	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	18,881	287,633	306,514
Other guarantees	39,333	670,427	709,760
	58,214	958,060	1,016,274
Commitments			
Documentary credits	-	254,229	254,229
Loan commitments	-	2,765,219	2,765,219
Of which: revocable	-	*2,227,104*	*2,227,104*
Of which: irrevocable	-	*538,115*	*538,115*
	-	3,019,448	3,019,448

2020	Banks LBP Million	Customers LBP Million	Total LBP Million
Guarantees and contingent liabilities			
Financial guarantees	12,905	320,821	333,726
Other guarantees	11,846	747,109	758,955
	24,751	1,067,930	1,092,681
Commitments			
Documentary credits	-	201,855	201,855
Loan commitments	-	3,839,391	3,839,391
Of which: revocable	-	2,983,539	2,983,539
Of which: irrevocable	-	855,852	855,852
	-	4,041,246	4,041,246

GUARANTEES (INCLUDING STANDBY LETTERS OF CREDIT)

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:
- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These mainly include performance and tender guarantees.

DOCUMENTARY CREDITS

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

LOAN COMMITMENTS

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

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

INVESTMENT COMMITMENTS

The Group invested in funds pursuant to the provisions of Decision No. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 9,865 million as of 31 December 2021 (2020: LBP 9,865 million).

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims in Lebanon and abroad, mainly those relating to the restrictive measures in place with respect to the withdrawal of funds and transfers abroad and a civil action filed in US federal courts in the US District Court in the Eastern District of New York (EDNY) against eleven Lebanese banks including Bank Audi sal asserting primary and secondary liability claims under the Anti-Terrorism Act (“ATA”). The extent of the impact of these matters cannot always be predicted but may materially impact the Group’s operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 37. However, they may have an impact on the offshore liquidity of the Group, its foreign assets, and its foreign currency exposure.

CAPITAL EXPENDITURE COMMITMENTS

	2021 LBP Million	2020 LBP Million
Capital expenditure commitments	2,089	3,541

COMMITMENTS RESULTING FROM CREDIT FACILITIES RECEIVED

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

OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank’s books in Lebanon for the years 2015 to 2017 (inclusive) are currently under review by the tax authorities. The outcome of this review cannot be determined yet. The Bank’s books in Lebanon remain subject to the review of the tax authorities for the years 2018 to 2021 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2021. In addition, the subsidiaries’ books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

50.0. | ASSETS UNDER MANAGEMENT

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	2021 LBP Million	2020 LBP Million
Assets under management	11,195,957	11,464,773
Fiduciary assets	1,414,461	1,728,409
	12,610,418	13,193,182

51.0. | RELATED-PARTY TRANSACTIONS

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

SUBSIDIARIES

Transactions between the Bank and its subsidiaries meet the definition of related-party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group’s financial statements.

ASSOCIATES AND OTHER ENTITIES

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits, and current accounts are provided to these entities, as well as other services. These transactions are conducted on the same terms as third-party transactions. Summarised financial information for the Group’s associates is set out in Note 25 to these financial statements.

Amounts included in the Group’s financial statements are as follows:

	2021 LBP Million	2020 LBP Million
Loans and advances	70,485	108,200
Of which: granted to Key Management Personnel	*7,504*	*21,234*
Of which: cash collateral received against loans	*63,045*	*74,969*
Indirect facilities	1,752	1,720
Deposits	145,494	211,261
Interest income on loans	1,264	1,747
Interest expense on deposits	4,355	4,479

KEY MANAGEMENT PERSONNEL

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

	2021 LBP Million	2020 LBP Million
Short-term benefits	15,448	16,898
Post-employment benefits - income statement	276	235
Post-employment benefits - other comprehensive income	2,933	450

Short-term benefits comprise of salaries, bonuses, attendance fees and other benefits.

Provision for end-of-service benefits of Key Management Personnel amounted to LBP 4,740 million as of 31 December 2021 (2020: LBP 1,531 million). During 2020, foreign currency international liquidity provided by related parties of USD 31 million was converted into local foreign currency deposits after the application of the “multiplier factor” and resulted in commission expenses of LBP 28,720 million.

52.0. | RISK MANAGEMENT

The Group is exposed to various risk types, 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 a reasonable cost.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, litigation risk, compliance risk, political risk, business/strategic risk, and cybersecurity risk.

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

BOARD OF DIRECTORS

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

BOARD GROUP RISK COMMITTEE

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

EXECUTIVE COMMITTEE

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

ASSET LIABILITY COMMITTEE

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

INTERNAL AUDIT

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

RISK MANAGEMENT

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

RISK APPETITE

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

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

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

53.0. | CREDIT RISK

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

CREDIT RISK MANAGEMENT

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

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

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

The Group has also established an approval limit structure for granting and renewing credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to their own assigned limits. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

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

EXPECTED CREDIT LOSSES

GOVERNANCE AND OVERSIGHT OF EXPECTED CREDIT LOSSES

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

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

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

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

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

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

DEFINITION OF DEFAULT AND CURE

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

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

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

In response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail customers under system-wide programs. In Lebanon, the Central Bank of Lebanon issued Intermediary Circular 567 dated 26 August 2020 (which was later extended till end of 2021 as per Intermediary Circular 594 dated 2 September 2021), by which it required banks operating in Lebanon to keep the regulatory classification unchanged for obligors that were negatively impacted by this pandemic and not to consider their past-dues, when existing, as evidence of SICR. However, under exceptional circumstances and in case an obligor ceases to be operating under a going concern basis, banks should immediately downgrade the borrower's classification to Stage 3. In Turkey, the regulatory authority moved the Stage 2 and Stage 3 classifications backstop levels from 30 days and 90 days to 90 days and 180 days respectively. This relief measure, which was initially set to expire at the end of 2020, was later extended till end of September 2021 in view of the prolonged nature of the pandemic

THE GROUP'S INTERNAL RATING AND PD ESTIMATION PROCESS

Central Banks, Sovereigns and Financial Institutions

For central banks, sovereigns and financial institutions' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. With respect to exposures to the Central Bank of Lebanon and Lebanese sovereign, Intermediate Circular 567 modified the regulatory ECLs levels, previously set in its Intermediate Circular 543 issued on 3 February 2020. Regulatory ECL on exposures to Lebanese sovereign bonds in foreign currency was increased from 9.45% to 45%, while regulatory ECLs on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currency and exposures to the Central Bank of Lebanon in local currency remained unchanged (0%, 1.89% and 0% respectively). This circular however changed the requirement for the recognition of ECL in the banks' financial statements from a "maximum" level to a "minimum" one. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Lebanese government's reform plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Group was unable to estimate in a reasonable manner ECL on this exposure and accordingly, as applicable, the loss rate mentioned in Intermediate Circular 567 was adopted. To note that the Group disposed of the majority of its holding of Lebanese Sovereign bonds in foreign currency during 2020 and allocated full provision coverage on the implied loss for the remaining balance based on prevailing market values.

Non-retail Loans

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

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

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

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

Retail Loans and Private Banking

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

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

LOSS GIVEN DEFAULT (LGD)

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

EXPOSURE AT DEFAULT (EAD)

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

SIGNIFICANT INCREASE IN CREDIT RISK

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

Non-retail Portfolio

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

Retail Portfolio

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

Backstop

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

As noted in section "53.2.2. Definition of Default and Cure" and in response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non-retail borrowers under market-wide programs. Specifically in Turkey, the regulatory authority moved the SICR backstop level from 30 days to 90 days. This relief measure, which was initially set to expire at end of 2020, was extended till end of September 2021 in view of the prolonged nature of the pandemic.

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

EXPECTED LIFE

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

FORWARD-LOOKING INFORMATION

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

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

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

The Group has identified real GDP growth, among others, as the key driver of ECL for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes in forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. For the Group's various countries of operations, excluding Lebanon, the impact on ECL is not material.

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

MODIFIED AND FORBORNE LOANS

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

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

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

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

The table below includes Stage 1 and 2 assets that were modified and, therefore, treated as forborne during the year.

	2021 LBP Million	2020 LBP Million
Amortised costs of financial assets modified during the period	414,584	490,189

FINANCIAL ASSETS AND ECLS BY STAGE

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

	Gross Exposure				Impairment Allowance				
31 December 2021	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**	**Net Exposure LBP Million**
Central banks	2,793,870	15,569,167	-	18,363,037	304	218,991	-	219,295	18,143,742
Due from banks and financial institutions	2,661,340	19,511	527	2,681,378	514	-	190	704	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	127,449	4,028	-	131,477	-	3,600	-	3,600	127,877
Loans and advances to customers at amortised cost	5,714,060	1,534,600	1,125,718	8,374,378	290,360	253,968	750,923	1,295,251	7,079,127
Corporate and SME	*3,600,512*	*1,404,675*	*778,275*	*5,783,462*	*152,766*	*236,037*	*475,781*	*864,584*	*4,918,878*
Retail and Personal Banking	*2,113,548*	*122,366*	*301,221*	*2,537,135*	*137,594*	*17,862*	*248,000*	*403,456*	*2,133,679*
Public sector	-	*7,559*	*46,222*	*53,781*	-	*69*	*27,142*	*27,211*	*26,570*
Loans and advances to related parties at amortised cost	70,507	-	-	70,507	22	-	-	22	70,485
Financial assets at amortised cost	495,549	3,935,925	3,048,195	7,479,669	688	73,121	120,951	194,760	7,284,909
Financial guarantees and other commitments	1,780,851	74,635	9,023	1,864,509	7,016	2,216	2,189	11,421	1,853,088
Total	13,643,626	21,137,866	4,183,463	38,964,955	298,904	551,896	874,253	1,725,053	37,239,202

	Gross Exposure				Impairment Allowance				
31 December 2020	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million	Net Exposure LBP Million
Central banks	2,538,350	16,694,925	-	19,233,275	324	218,991	-	219,315	19,013,960
Due from banks and financial institutions	2,131,050	36,825	522	2,168,397	255	-	183	438	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	259,790	8,056	-	267,846	-	3,600	-	3,600	264,246
Loans and advances to customers at amortised cost	6,927,112	2,123,341	1,655,495	10,705,948	314,840	334,034	914,722	1,563,596	9,142,352
Corporate and SME	*4,282,288*	*1,925,970*	*1,233,614*	*7,441,872*	*224,128*	*295,522*	*628,590*	*1,148,240*	*6,293,632*
Retail and Personal Banking	*2,644,824*	*191,804*	*358,984*	*3,195,612*	*90,712*	*38,450*	*257,527*	*386,689*	*2,808,923*
Public sector	-	*5,567*	*62,897*	*68,464*	-	*62*	*28,605*	*28,667*	*39,797*
Loans and advances to related parties at amortised cost	108,363	-	-	108,363	163	-	-	163	108,200
Financial assets at amortised cost	465,264	4,052,447	3,418,121	7,935,832	1,121	73,121	74,097	148,339	7,787,493
Financial guarantees and other commitments	2,072,076	82,758	13,446	2,168,280	13,464	7,204	3,185	23,853	2,144,427
Total	14,502,005	22,998,352	5,087,584	42,587,941	330,167	636,950	992,187	1,959,304	40,628,637

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

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**
At 1 January 2021	**314,840**	**334,034**	**914,722**	**1,563,596**
Net re-measurements and reallocations	(12,950)	(28,653)	156,531	114,928
Recoveries	-	-	(136,770)	(136,770)
Write-offs	-	-	(145,600)	(145,600)
Other movements	-	-	49,747	49,747
Foreign exchange difference	(11,530)	(51,413)	(87,707)	(150,650)
Balance at 31 December 2021	**290,360**	**253,968**	**750,923**	**1,295,251**

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2020	99,757	455,034	1,410,561	1,965,352
Net re-measurements and reallocations	237,157	(84,296)	321,066	473,927
Recoveries	-	-	(196,895)	(196,895)
Related to discontinued operation	5,860	17,277	22,931	46,068
Write-offs	-	-	(437,128)	(437,128)
Other movements	(2,462)	29,793	46,722	74,053
Transfer to assets held for sale	(22,874)	(48,703)	(192,787)	(264,364)
Foreign exchange difference	(2,598)	(35,071)	(59,748)	(97,417)
Balance at 31 December 2020	314,840	334,034	914,722	1,563,596

The contractual amount outstanding on loans that have been written off, but were still subject to enforcement activity, was LBP 1,381,541 million at 31 December 2021 (2020: LBP 1,377,944 million).

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

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2021	**1,121**	**73,121**	**74,097**	**148,339**
Net re-measurements and reallocations	121	-	45,543	45,664
Other movements	-	-	1,800	1,800
Foreign exchange difference	(554)	-	(489)	(1,043)
Balance at 31 December 2021	**688**	**73,121**	**120,951**	**194,760**

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2020	1,393	105,072	1,055,526	1,161,991
Net re-measurements and reallocations	13	(28,940)	(25,350)	(54,277)
Related to discontinued operations	-	(2,949)	-	(2,949)
Other movements	-	-	36,224	36,224
Related to financial assets sold	-	-	(984,785)	(984,785)
Transfer to assets held for sale	(3)	(62)	(5,825)	(5,890)
Foreign exchange difference	(282)	-	(1,693)	(1,975)
Balance at 31 December 2020	1,121	73,121	74,097	148,339

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

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	**Total LBP Million**
At 1 January 2021	**324**	**218,991**	**-**	**219,315**
Net re-measurements and reallocations	561	-	-	561
Foreign exchange difference	(581)	-	-	(581)
Balance at 31 December 2021	**304**	**218,991**	**-**	**219,295**

	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
At 1 January 2020	2,283	174,282	-	176,565
Net re-measurements and reallocations	105	44,709	-	44,814
Related to discontinued operations	(14)	-	-	(14)
Transfer to assets held for sale	(1,992)	-	-	(1,992)
Foreign exchange difference	(58)	-	-	(58)
Balance at 31 December 2020	324	218,991	-	219,315

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

ANALYSIS OF RISK CONCENTRATIONS

GEOGRAPHICAL LOCATION ANALYSIS

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

	2021									
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	**Total LBP Million**
Balances with central banks	15,350,176	927,627	9,091	1,856,848	-	-	-	-	-	18,143,742
Due from banks and financial institutions	20,450	31,373	65,133	2,091,486	471,954	277	1	-	-	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	428	127,449	-	-	-	-	-	-	-	127,877
Derivative financial instruments	472	152,169	126	133,757	-	38	505	-	-	287,067
Financial assets at fair value through profit or loss	1,267	104	-	104,822	-	9,146	-	97	-	115,436
Loans and advances to customers at amortised cost	3,023,581	2,690,110	622,686	256,125	11,578	95,294	336,434	24,974	18,345	7,079,127
Loans and advances to related parties at amortised cost	11,768	-	58,472	245	-	-	-	-	-	70,485
Debtors by acceptances	21,987	556	1,423	2,199	-	-	29,726	-	-	55,891
Financial assets at amortised cost	6,790,048	140,455	132,031	60,879	100,985	38,043	-	-	22,468	7,284,909
Financial assets at fair value through other comprehensive income	-	817,653	18,308	43,045	171,539	65,341	5,420	-	-	1,121,306
Other assets	1,624,504	73,342	3,441	13,368	-	-	-	-	-	1,714,655
	26,844,681	**4,960,838**	**910,711**	**4,562,774**	**756,056**	**208,139**	**372,086**	**25,071**	**40,813**	**38,681,169**

	2020									
	Lebanon LBP Million	Turkey LBP Million	MENA LBP Million	Europe LBP Million	North America LBP Million	Asia LBP Million	Rest of Africa LBP Million	Central and South America LBP Million	Rest of the World LBP Million	Total LBP Million
Balances with central banks	16,475,934	942,343	9,092	1,586,591	-	-	-	-	-	19,013,960
Due from banks and financial institutions	36,825	72,651	104,921	1,483,781	469,578	170	33	-	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	4,456	258,518	-	1,272	-	-	-	-	-	264,246
Derivative financial instruments	3,493	32,374	343	182,453	-	-	151	6	-	218,820
Financial assets at fair value through profit or loss	834	4,295	-	318,873	-	12,268	1,409	-	-	337,679
Loans and advances to customers at amortised cost	3,857,665	3,751,432	725,173	298,159	8,220	111,269	295,897	45,590	48,947	9,142,352
Loans and advances to related parties at amortised cost	40,348	-	67,144	708	-	-	-	-	-	108,200
Debtors by acceptances	6,681	2,003	6,486	643	-	-	2,079	-	-	17,892
Financial assets at amortised cost	7,323,350	216,252	85,750	61,589	65,150	27,636	-	-	7,766	7,787,493
Financial assets at fair value through other comprehensive income	-	1,060,504	-	23,699	165,751	154,855	47,850	-	-	1,452,659
Other assets	1,477,965	125,521	2,382	20,798	-	-	-	-	-	1,626,666
	29,227,551	6,465,893	1,001,291	3,978,566	708,699	306,198	347,419	45,596	56,713	42,137,926

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 LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	**Total LBP Million**
Balances with central banks	-	18,143,742	-	-	-	-	-	-	-	18,143,742
Due from banks and financial institutions	2,680,674	-	-	-	-	-	-	-	-	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	127,877	-	-	-	-	-	-	-	-	127,877
Derivative financial instruments	208,661	-	74,409	3,997	-	-	-	-	-	287,067
Financial assets at fair value through profit or loss	113,968	1,468	-	-	-	-	-	-	-	115,436
Loans and advances to customers at amortised cost	590,329	37,397	2,119,222	841,466	1,000,890	901,927	354,395	1,187,759	45,742	7,079,127
Loans and advances to related parties at amortised cost	58,469	-	11,876	-	-	-	-	140	-	70,485
Debtors by acceptances	269	-	1,876	29,867	219	23,358	-	302	-	55,891
Financial assets at amortised cost	227,785	6,998,847	14,645	-	-	38,742	-	4,890	-	7,284,909
Financial assets at fair value through other comprehensive income	204,108	917,198	-	-	-	-	-	-	-	1,121,306
Other assets	266,946	1,415,028	32,681	-	-	-	-	-	-	1,714,655
	4,479,086	**27,513,680**	**2,254,709**	**875,330**	**1,001,109**	**964,027**	**354,395**	**1,193,091**	**45,742**	**38,681,169**

	2020									
	Financial Services and Brokerage LBP Million	Government LBP Million	Consumers LBP Million	Retail and Wholesale LBP Million	Construction and Materials LBP Million	Manufacturing LBP Million	Energy and Petroleum LBP Million	Services and Utilities LBP Million	Agriculture LBP Million	Total LBP Million
Balances with central banks	-	19,013,960	-	-	-	-	-	-	-	19,013,960
Due from banks and financial institutions	2,167,959	-	-	-	-	-	-	-	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	264,246	-	-	-	-	-	-	-	-	264,246
Derivative financial instruments	191,186	-	24,512	3,122	-	-	-	-	-	218,820
Financial assets at fair value through profit or loss	332,550	5,129	-	-	-	-	-	-	-	337,679
Loans and advances to customers at amortised cost	575,752	66,133	2,884,591	1,007,714	1,265,355	955,455	400,304	1,846,109	140,939	9,142,352
Loans and advances to related parties at amortised cost	67,564	-	27,577	-	-	-	-	13,059	-	108,200
Debtors by acceptances	2,231	-	-	3,231	1,021	7,746	-	3,453	210	17,892
Financial assets at amortised cost	116,734	7,609,879	23,655	-	-	32,634	-	4,591	-	7,787,493
Financial assets at fair value through other comprehensive income	293,819	1,158,840	-	-	-	-	-	-	-	1,452,659
Other assets	241,044	1,348,161	37,461	-	-	-	-	-	-	1,626,666
	4,253,085	29,202,102	2,997,796	1,014,067	1,266,376	995,835	400,304	1,867,212	141,149	42,137,926

CREDIT QUALITY

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

(i) External ratings from approved credit rating agencies for fixed income instruments and financial institutions exposures.

(ii) Internal rating models that take into account both financial and non-financial information such as management quality, operating environment and company standing. The Group has designed specific internal rating models for Corporate, SME models, Project Finance and Individual borrowers.

(iii) Empirical and expert-based scorecards that assess the creditworthiness of retail borrowers in an objective manner.

(iv) Supervisory classifications, comprising six main categories: (a) Regular includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These borrowers display regular and timely payment of their dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. (b) Follow-up represents a lack of updated documentation related to the borrower's activity, an inconsistency between facilities' type and related conditions. (c) Follow-up and regularisation includes creditworthy borrowers requiring close monitoring without being impaired. These borrowers usually demonstrate signs of weaknesses (such as insufficient or inadequate cash flows, high leverage ratio, excess utilisation, multiple loan rescheduling since initiation), or operating under deteriorating economic or geographic conditions. (d) Substandard loans include borrowers showing clear signs of inability to repay their facilities on due time, as well as financial difficulties (e.g. hard core accounts, weakened cash generation capacity). (e) Doubtful loans where full repayment is questioned even after liquidation of collateral, when applicable. It also includes loans with past-dues for over 6 months and debtors who are unable to repay their restructured facilities. Finally, (f) bad loans which relate to obligors with no or little expected repayment from business activities or assets liquidation. This category also includes borrowers with significant delays and deemed insolvent.

SOVEREIGN AND BANKS AND FINANCIAL INSTITUTIONS

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

NON-RETAIL LOANS

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

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

RETAIL

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

The credit quality descriptions can be summarised as follows:

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

The table below shows the credit quality of the Group's financial instruments and balances due from banks and financial institutions as per external ratings.

	2021											
	Sovereign and Central Banks						Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	**Total LBP Million**	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	**Total LBP Million**	**Grand Total LBP Million**
Balances with central banks	1,856,848	-	936,718	-	15,350,176	18,143,742	-	-	-	-	-	18,143,742
Due from banks and financial institutions	-	-	-	-	-	-	1,069,135	1,482,211	31,828	97,500	2,680,674	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	-	-	127,877	127,877	127,877
Financial assets at fair value through profit or loss	-	-	104	1,364	-	1,468	9,146	104,822	-	-	113,968	115,436
Financial assets at amortised cost	32,897	31,696	144,208	2,927,242	3,862,804	6,998,847	74,619	211,443	-	-	286,062	7,284,909
Financial assets at fair value through other comprehensive income	99,545	-	817,653	-	-	917,198	134,177	69,931	-	-	204,108	1,121,306
	1,989,290	**31,696**	**1,898,683**	**2,928,606**	**19,212,980**	**26,061,255**	**1,287,077**	**1,868,407**	**31,828**	**225,377**	**3,412,689**	**29,473,944**

	2020											
	Sovereign and Central Banks						Non-sovereign					
	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Below B- LBP Million	Unrated LBP Million	Total LBP Million	AAA to AA- LBP Million	A+ to BBB- LBP Million	BB+ to B- LBP Million	Unrated LBP Million	Total LBP Million	Grand Total LBP Million
Balances with central banks	1,586,591	-	951,435	-	16,475,934	19,013,960	-	-	-	-	-	19,013,960
Due from banks and financial institutions	-	-	-	-	-	-	600,046	1,264,302	82,138	221,473	2,167,959	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	-	-	-	-	82,111	182,135	264,246	264,246
Financial assets at fair value through profit or loss	-	-	4,295	834	-	5,129	34,178	291,248	-	7,124	332,550	337,679
Financial assets at amortised cost	58,148	12,129	216,252	3,344,024	3,979,326	7,609,879	46,414	131,200	-	-	177,614	7,787,493
Financial assets at fair value through other comprehensive income	98,306	-	1,060,534	-	-	1,158,840	259,881	33,938	-	-	293,819	1,452,659
	1,743,045	12,129	2,232,516	3,344,858	20,455,260	27,787,808	940,519	1,720,688	164,249	410,732	3,236,188	31,023,996

The table below shows the credit quality of the Group's loans and advances to customers based on credit quality segment and stage classification.

	2021			
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
Loans and advances to customers at amortised cost	5,714,060	1,534,600	1,125,718	8,374,378
Corporate and SMEs	**3,600,512**	**1,404,675**	**778,275**	**5,783,462**
Performing				
High	*222,118*	-	-	*222,118*
Standard	*2,900,604*	*104,590*	-	*3,005,194*
Weak	*477,790*	*1,300,085*	-	*1,777,875*
Non-performing				
Credit-impaired	-	-	*778,275*	*778,275*
Retail and Private Banking	**2,113,548**	**122,366**	**301,221**	**2,537,135**
Performing				
High	*850,677*	-	-	*850,677*
Standard	*1,262,354*	*101,932*	-	*1,364,286*
Weak	*517*	*20,434*	-	*20,951*
Non-performing				
Credit-impaired	-	-	*301,221*	*301,221*
Public sector	-	**7,559**	**46,222**	**53,781**
Performing				
Weak	-	*7,559*	-	*7,559*
Non-performing				
Credit-impaired	-	-	*46,222*	*46,222*
Loans and advances to related parties at amortised cost	70,507	-	-	70,507
Performing				
High	*70,507*	-	-	*70,507*
Off-balance sheet loan commitments and financial guarantee contracts	1,780,851	74,635	9,023	1,864,509
Performing				
High	*298,714*	*43*	-	*298,757*
Standard	*1,432,937*	*11,367*	-	*1,444,304*
Weak	*49,200*	*63,225*	-	*112,425*
Non-performing				
Credit-impaired	-	-	*9,023*	*9,023*
Total	7,565,418	1,609,235	1,134,741	10,309,394

	2020			
	Stage 1 LBP Million	Stage 2 LBP Million	Stage 3 LBP Million	Total LBP Million
Loans and advances to customers at amortised cost	6,927,112	2,123,341	1,655,495	10,705,948
Corporate and SMEs	4,282,288	1,925,970	1,233,614	7,441,872
Performing				
High	*315,200*	*3,286*	-	*318,486*
Standard	*3,325,645*	*373,353*	-	*3,698,998*
Weak	*641,443*	*1,549,331*	-	*2,190,774*
Non-performing				
Credit-impaired	-	-	*1,233,614*	*1,233,614*
Retail and Private Banking	2,644,824	191,804	358,984	3,195,612
Performing				
High	*924,956*	-	-	*924,956*
Standard	*1,555,273*	*127,395*	-	*1,682,668*
Weak	*164,595*	*64,409*	-	*229,004*
Non-performing				
Credit-impaired	-	-	*358,984*	*358,984*
Public sector	-	5,567	62,897	68,464
Performing				
Weak	-	*5,567*	-	*5,567*
Non-performing				
Credit-impaired	-	-	*62,897*	*62,897*
Loans and advances to related parties at amortised cost	108,363	-	-	108,363
Performing				
High	*108,363*	-	-	*108,363*
Off-balance sheet loan commitments and financial guarantee contracts	2,072,076	82,758	13,446	2,168,280
Performing				
High	*151,372*	*3,354*	-	*154,726*
Standard	*1,840,991*	*15,631*	-	*1,856,622*
Weak	*79,713*	*63,773*	-	*143,486*
Non-performing				
Credit-impaired	-	-	*13,446*	*13,446*
Total	9,107,551	2,206,099	1,668,941	12,982,591

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 LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
Balances with central banks	18,143,742	-	-	-	-	-	-	-	**18,143,742**
Due from banks and financial institutions	2,680,674	-	-	-	-	-	-	-	**2,680,674**
Loans to banks and financial institutions and reverse repurchase agreements	127,877	-	-	-	-	-	-	-	**127,877**
Derivative financial instruments	287,067	-	-	-	-	-	-	-	**287,067**
Financial assets at fair value through profit or loss	115,436	-	-	-	-	-	-	-	**115,436**
Loans and advances to customers at amortised cost	7,079,127	440,721	749,388	41,800	2,348,158	108,151	145,823	-	**3,245,086**
Corporate and SME	*4,918,878*	*148,697*	*133,254*	*41,631*	*1,477,580*	*92,907*	*134,965*	-	***2,889,844***
Retail and Personal Banking	*2,133,679*	*292,024*	*616,134*	*169*	*870,578*	*15,244*	*10,858*	-	***328,672***
Public sector	*26,570*	-	-	-	-	-	-	-	***26,570***
Loans and advances to related parties at amortised cost	70,485	63,045	-	-	2,584	23	784	-	**4,049**
Debtors by acceptances	55,891	8,566	-	-	-	-	-	-	**47,325**
Financial assets at amortised cost	7,284,909	-	-	-	-	-	-	101,683	**7,183,226**
Financial assets at fair value through other comprehensive income	1,121,306	-	-	-	-	-	-	-	**1,121,306**
Other assets	1,714,655	-	-	-	-	-	-	-	**1,714,655**
Contingent liabilities	560,743	56,292	8,588	6,499	8,163	126	15,187	-	**465,888**
Letters of credit	*254,229*	*10,703*	-	*317*	*3,267*	-	-	-	***239,942***
Financial guarantee given to banks and financial institutions	*18,881*	-	-	-	-	-	-	-	***18,881***
Financial guarantee given to customers	287,633	*45,589*	*8,588*	*6,182*	*4,896*	*126*	*15,187*	-	***207,065***
Total	39,241,912	568,624	757,976	48,299	2,358,905	108,300	161,794	101,683	35,136,331
Guarantees received from banks, financial institutions and customers									
Utilised collateral		568,624	757,976	48,299	2,358,905	108,300	161,794		**4,003,898**
Surplus of collateral before undrawn credit lines		2,610,400	2,383,406	11,542	8,775,539	169,551	867,016		**14,817,454**
		3,179,024	3,141,382	59,841	11,134,444	277,851	1,028,810		18,821,352

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,765,219 million as at 31 December 2021.

	2020								
	Maximum Exposure LBP Million	Cash Collateral and Margins LBP Million	Securities LBP Million	Guarantees Received from Banks and Financial Institutions LBP Million	Real Estate LBP Million	Vehicles LBP Million	Other Guarantees LBP Million	Risk Transfer LBP Million	Net Credit Exposure LBP Million
Balances with central banks	19,013,960	-	-	-	-	-	-	-	19,013,960
Due from banks and financial institutions	2,167,959	-	-	-	-	-	-	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	264,246	-	-	63,640	-	-	-	-	200,606
Derivative financial instruments	218,820	-	-	-	-	-	-	-	218,820
Financial assets at fair value through profit or loss	337,679	-	-	-	-	-	-	-	337,679
Loans and advances to customers at amortised cost	9,142,352	585,488	1,181,883	32,515	3,726,138	145,045	127,274	-	3,344,009
Corporate and SME	*6,293,632*	*297,115*	*442,399*	*31,349*	*2,587,771*	*107,166*	*114,823*	-	*2,713,009*
Retail and Personal Banking	*2,808,923*	*288,373*	*739,484*	*1,166*	*1,138,367*	*37,879*	*12,451*	-	*591,203*
Public sector	*39,797*	-	-	-	-	-	-	-	*39,797*
Loans and advances to related parties at amortised cost	108,200	74,969	-	-	15,485	56	784	-	16,906
Debtors by acceptances	17,892	1,897	-	-	-	-	-	-	15,995
Financial assets at amortised cost	7,787,493	-	-	-	-	-	-	230,443	7,557,050
Financial assets at fair value through other comprehensive income	1,452,659	-	-	-	-	-	-	-	1,452,659
Other assets	1,626,666	-	-	-	-	-	-	-	1,626,666
Contingent liabilities	535,581	64,605	7,297	16,972	8,555	239	14,175	-	423,738
Letters of credit	*201,855*	*11,160*	-	-	*2,576*	-	-	-	188,119
Financial guarantee given to banks and financial institutions	*12,905*		-	-	-	-	-	-	12,905
Financial guarantee given to customers	320,821	*53,445*	*7,297*	*16,972*	*5,979*	*239*	*14,175*	-	222,714
Total	42,673,507	726,959	1,189,180	113,127	3,750,178	145,340	142,233	230,443	36,376,047
Guarantees received from banks, financial institutions and customers									
Utilised collateral		726,959	1,189,180	113,127	3,750,178	145,340	142,233		6,067,017
Surplus of collateral before undrawn credit lines		2,838,113	3,207,150	10,154	10,704,038	256,524	1,207,227		18,223,206
		3,565,072	4,396,330	123,281	14,454,216	401,864	1,349,460		24,290,223

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 3,839,391 million as at 31 December 2020.

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

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

The main types of collateral obtained are as follows:
- Securities: the balances shown represent the fair value of the securities.

- Letters of credit/guarantees: the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.

- Real estate (commercial and residential): the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

- Netting agreements: the Group makes use of netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation, with its counterparties. Such arrangements provide for net settlement of all financial instruments covered by the agreements in the event of default. Although these netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk outstanding amounts of such contracts.

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

54.0. | MARKET RISK

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

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

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

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, Euros, and Turkish Liras.

As disclosed in Note 1.3, the Group's assets and liabilities in foreign currencies are valued at the official published exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency markets, this does not always represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. Management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognised in the financial statements once the change in the official exchange rate and/or a legal exchange mechanism is implemented by the Lebanese government.

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

	2021						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	3,637,212	12,101,538	1,442,960	77,997	-	1,657,875	18,917,582
Due from banks and financial institutions	1,011	2,200,291	241,083	22,207	2,833	213,249	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	428	-	-	127,449	-	-	127,877
Derivative financial instruments	-	31,138	4,821	235,132	-	15,976	287,067
Financial assets at fair value through profit or loss	-	46,769	15	9,227	-	105,027	161,038
Loans and advances to customers at amortised cost	1,965,029	2,253,303	1,397,877	1,213,219	6	249,693	7,079,127
Loans and advances to related parties at amortised cost	6,381	63,102	1,000	-	-	2	70,485
Debtors by acceptances	-	33,722	21,950	-	-	219	55,891
Financial assets at amortised cost	3,049,135	4,180,938	24,743	30,093	-	-	7,284,909
Financial assets at fair value through other comprehensive income	19,523	379,096	87,917	672,208	-	6,136	1,164,880
Investments in associates	-	14,581	-	-	-	-	14,581
Property and equipment and right-of-use assets	491,670	634	12,064	20,315	-	64,528	589,211
Intangible assets	48,000	-	627	16,441	-	808	65,876
Assets obtained in settlement of debt	2,709	95,782	-	33,171	-	-	131,662
Other assets	1,590,897	82,191	9,791	57,838	2	23,897	1,764,616
Deferred tax assets	13,970	-	13	28,645	-	5,924	48,552
Goodwill	-	42,419	-	-	-	-	42,419
Total assets	**10,825,965**	**21,525,504**	**3,244,861**	**2,543,942**	**2,841**	**2,343,334**	**40,486,447**
Liabilities and shareholders' equity							
Due to central banks	2,531,583	768,448	387	244,045	-	-	3,544,463
Due to banks and financial institutions	31,661	354,968	169,492	5,021	-	13,857	574,999
Due to banks under repurchase agreements	-	38,610	-	-	-	-	38,610
Derivative financial instruments	-	175,028	4,944	129,164	156	21,532	330,824
Customers' deposits	4,355,880	20,842,977	2,745,962	1,217,834	2,652	991,088	30,156,393
Deposits from related parties	5,820	118,609	19,735	55	-	1,275	145,494
Debt issued and other borrowed funds	-	1,232,271	-	-	-	-	1,232,271
Engagements by acceptances	-	33,722	21,950	-	-	219	55,891
Other liabilities	105,550	133,020	20,123	73,720	-	26,369	358,782
Deferred tax liabilities	2,141	-	-	-	-	215	2,356
Current tax liability	3,345	20	3,041	-	-	208	6,614
Provisions for risks and charges	182,090	40,180	4,210	31,217	-	25,860	283,557
Shareholders' equity	1,849,347	2,727,690	44,591	(1,181,664)	23,471	292,758	3,756,193
Total liabilities and shareholders' equity	**9,067,417**	**26,465,543**	**3,034,435**	**519,392**	**26,279**	**1,373,381**	**40,486,447**

	2020						
	LBP LBP Million	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets							
Cash and balances with central banks	4,208,001	12,238,017	1,528,497	57,209	-	1,454,486	19,486,210
Due from banks and financial institutions	5,758	1,136,307	412,160	69,638	-	544,096	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	4,456	-	19,970	239,820	-	-	264,246
Derivative financial instruments	-	17,893	14,977	170,557	-	15,393	218,820
Financial assets at fair value through profit or loss	691	52,639	13,028	34,318	-	291,391	392,067
Loans and advances to customers at amortised cost	1,873,459	3,244,320	1,691,777	1,963,256	10	369,530	9,142,352
Loans and advances to related parties at amortised cost	18,152	89,243	805	-	-	-	108,200
Debtors by acceptances	-	11,447	2,331	-	-	4,114	17,892
Financial assets at amortised cost	3,445,673	4,228,158	74,477	39,185	-	-	7,787,493
Financial assets at fair value through other comprehensive income	20,245	477,366	78,551	942,211	-	-	1,518,373
Investments in associates	-	113,923	-	-	-	-	113,923
Property and equipment and right-of-use assets	522,417	667	4,141	38,807	-	69,896	635,928
Intangible assets	59,324	-	585	19,989	-	1,183	81,081
Assets obtained in settlement of debt	(4,590)	69,691	-	138,059	-	-	203,160
Other assets	1,451,806	82,212	17,280	117,471	1	16,671	1,685,441
Deferred tax assets	545	(30)	12	46,675	-	6,454	53,656
Goodwill	-	42,384	-	-	-	-	42,384
Assets held for sale	(34,791)	1,145,162	90,073	-	7,296,077	996,626	9,493,147
Total assets	11,571,146	22,949,399	3,948,664	3,877,195	7,296,088	3,769,840	53,412,332
Liabilities and shareholders' equity							
Due to central banks	2,619,260	786,312	-	618,736	-	-	4,024,308
Due to banks and financial institutions	6,434	948,703	294,287	3,221	-	122,640	1,375,285
Due to banks under repurchase agreements	-	139,171	-	4,717	-	-	143,888
Derivative financial instruments	-	248,391	20,001	157,271	117	21,013	446,793
Customers' deposits	4,214,172	22,366,862	3,090,062	1,609,183	44	962,130	32,242,453
Deposits from related parties	4,798	176,922	27,275	-	-	2,266	211,261
Debt issued and other borrowed funds	-	1,202,225	-	115,588	-	-	1,317,813
Engagements by acceptances	-	11,447	2,331	-	-	4,114	17,892
Other liabilities	147,420	156,563	13,829	93,027	-	35,414	446,253
Deferred tax liabilities	1,279	(100)	-	-	-	4,839	6,018
Current tax liability	76,901	(379)	-	3,664	-	(1,438)	78,748
Provisions for risks and charges	76,708	16,423	3,526	26,911	-	27,031	150,599
Liabilities held for sale	-	1,108,198	87,818	-	6,555,393	751,192	8,502,601
Shareholders' equity	2,345,558	2,210,624	34,871	(863,676)	336,243	384,800	4,448,420
Total liabilities and shareholders' equity	9,492,530	29,371,362	3,574,000	1,768,642	6,891,797	2,314,001	53,412,332

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

	2021					
	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets						
Cash and balances with central banks	11,388,656	759,452	-	-	4,768	12,152,876
Due from banks and financial institutions	19,440	4	-	-	-	19,444
Financial assets at fair value through profit or loss	33,154	-	-	-	-	33,154
Loans and advances to customers at amortised cost	912,875	67,925	-	-	2,060	982,860
Loans and advances to related parties at amortised cost	4,632	33	-	-	2	4,667
Debtors by acceptances	302	-	-	-	-	302
Financial assets at amortised cost	3,721,247	-	-	-	-	3,721,247
Financial assets at fair value through other comprehensive income	4,621	97	-	-	-	4,718
Investment in associates	14,581	-	-	-	-	14,581
Property and equipment and right-of-use assets	634	-	-	-	52	686
Assets obtained in settlement of debt	95,782	-	-	-	-	95,782
Other assets	54,991	295	-	-	612	55,898
Total assets	**16,250,915**	**827,806**	-	-	**7,494**	**17,086,215**
Liabilities						
Due to central banks	768,348	344	-	-	-	768,692
Due to banks and financial institutions	42,517	253	-	-	38	42,808
Customers' deposits	15,951,004	755,139	-	43	128,788	16,834,974
Deposits from related parties	64,177	12,286	-	-	607	77,070
Engagements by acceptances	302	-	-	-	-	302
Other liabilities	72,675	138	-	-	8	72,821
Provisions for risks and charges	34,944	-	-	-	-	34,944
Total liabilities	**16,933,967**	**768,160**	-	**43**	**129,441**	**17,831,611**

	2020					
	USD LBP Million	EUR LBP Million	TRY LBP Million	EGP LBP Million	Other LBP Million	Total LBP Million
Assets						
Cash and balances with central banks	11,652,691	933,915	-	-	2,695	12,589,301
Due from banks and financial institutions	31,063	70,351	-	-	8	101,422
Derivative financial instruments	17,265	-	-	-	-	17,265
Financial assets at fair value through profit or loss	36,927	1,534	-	-	-	38,461
Loans and advances to customers at amortised cost	1,837,105	125,623	-	-	3,299	1,966,027
Loans and advances to related parties at amortised cost	22,118	292	-	-	-	22,410
Financial assets at amortised cost	3,868,291	-	-	-	-	3,868,291
Financial assets at fair value through other comprehensive income	17,020	188	-	-	-	17,208
Investment in associates	113,923	-	-	-	-	113,923
Property and equipment and right-of-use assets	667	-	-	-	84	751
Assets obtained in settlement of debt	69,691	-	-	-	-	69,691
Other assets	50,961	4,350	-	1	2,122	57,434
Deferred tax assets	(30)	(2)	-	-	-	(32)
Total assets	17,717,692	1,136,251	-	1	8,208	18,862,152
Liabilities						
Due to central banks	786,312	-	-	-	-	786,312
Due to banks and financial institutions	522,544	79,414	1	-	526	602,485
Customers' deposits	17,416,641	972,216	-	43	144,906	18,533,806
Deposits from related parties	94,947	13,825	-	-	735	109,507
Other liabilities	99,464	3,856	-	-	109	103,429
Deferred tax liabilities	(100)	-	-	-	-	(100)
Provisions for risks and charges	9,633	2	-	-	-	9,635
Total liabilities	18,929,441	1,069,313	1	43	146,276	20,145,074

INTEREST RATE RISK

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

The table below shows the sensitivity of interest income to 1% parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2021 and 2020. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Group expects the low interest rates environment for the local currency (or equivalent) to continue prevailing in Lebanon during 2022. The Group is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates used by the Lebanese banking sector through its various intermediate circulars.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 37 to these financial statements.

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

		2021	2020
	Decrease in Basis Points	LBP Million Decrease	LBP Million Decrease
LBP	- 100	1,968	4,052
USD	- 100	97,388	131,592
EUR	- 100	12,158	10,155
TRY	- 100	8,273	12,200

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

2021	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	**Total LBP Million**
Assets									
Cash and balances with central banks	6,182,098	407,953	1,692,902	8,282,953	2,438,732	6,981,942	9,420,674	1,213,955	18,917,582
Due from banks and financial institutions	2,652,931	15,471	3,057	2,671,459	13	-	13	9,202	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	6,108	33,548	68,985	108,641	11,643	-	11,643	7,593	127,877
Derivative financial instruments	105,734	56,635	92,897	255,266	17,252	14,376	31,628	173	287,067
Financial assets at fair value through profit or loss	111,447	2,633	3	114,083	41	978	1,019	45,936	161,038
Loans and advances to customers at amortised cost	2,508,525	1,238,953	1,252,336	4,999,814	1,292,591	645,912	1,938,503	140,810	7,079,127
Loans and advances to related parties at amortised cost	3,883	93	4,175	8,151	59,509	2,653	62,162	172	70,485
Financial assets at amortised cost	820,730	52,768	96,709	970,207	3,226,877	2,962,468	6,189,345	125,357	7,284,909
Financial assets at fair value through other comprehensive income	20,349	60,942	214,346	295,637	634,176	191,493	825,669	43,574	1,164,880
Total assets	**12,411,805**	**1,868,996**	**3,425,410**	**17,706,211**	**7,680,834**	**10,799,822**	**18,480,656**	**1,586,772**	**37,773,639**
Liabilities									
Due to central banks	256,894	23,258	54,786	334,938	1,019,823	2,176,553	3,196,376	13,149	3,544,463
Due to banks and financial institutions	158,747	46,604	68,601	273,952	191,253	72,028	263,281	37,766	574,999
Due to banks under repurchase agreements	38,286	-	-	38,286	-	-	-	324	38,610
Derivative financial instruments	50,611	33,549	34,047	118,207	52,148	146,693	198,841	13,776	330,824
Customers' deposits	24,460,790	1,990,640	2,095,288	28,546,718	620,466	27,216	647,682	961,993	30,156,393
Deposits from related parties	69,146	1,733	15,453	86,332	59,142	-	59,142	20	145,494
Debt issued & other borrowed funds	-	-	226,125	226,125	522,695	414,727	937,422	68,724	1,232,271
Lease liabilities	634	36	866	1,536	11,265	15,687	26,952	-	28,488
Total liabilities	**25,035,108**	**2,095,820**	**2,495,166**	**29,626,094**	**2,476,792**	**2,852,904**	**5,329,696**	**1,095,752**	**36,051,542**
Interest rate sensitivity gap	**(12,623,303)**	**(226,824)**	**930,244**		**5,204,042**	**7,946,918**			
Cumulative gap	**(12,623,303)**	**(12,850,127)**	**(11,919,883)**		**(6,715,841)**	**1,231,077**			

2020	Up to 1 Month LBP Million	1 to 3 Months LBP Million	3 Months to 1 Year LBP Million	Total Less than 1 Year LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total More than 1 Year LBP Million	Non-interest Bearing LBP Million	Total LBP Million
Assets									
Cash and balances with central banks	5,825,472	593,865	566,470	6,985,807	3,925,986	7,646,599	11,572,585	927,818	19,486,210
Due from banks and financial institutions	2,090,399	48,867	4,063	2,143,329	-	-	-	24,630	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	82,290	14,904	107,184	204,378	57,901	1,879	59,780	88	264,246
Derivative financial instruments	50,514	64,497	33,737	148,748	62,403	7,669	70,072	-	218,820
Financial assets at fair value through profit or loss	299,878	23,620	1,549	325,047	9,478	1,933	11,411	55,609	392,067
Loans and advances to customers at amortised cost	2,481,055	1,678,936	2,141,679	6,301,670	1,901,867	728,387	2,630,254	210,428	9,142,352
Loans and advances to related parties at amortised cost	23,131	23	4,725	27,879	76,422	3,685	80,107	214	108,200
Financial assets at amortised cost	-	51,328	677,029	728,357	3,481,149	3,448,930	6,930,079	129,057	7,787,493
Financial assets at fair value through other comprehensive income	41,140	120,417	231,649	393,206	887,036	172,417	1,059,453	65,714	1,518,373
Total assets	10,893,879	2,596,457	3,768,085	17,258,421	10,402,242	12,011,499	22,413,741	1,413,558	41,085,720
Liabilities									
Due to central banks	606,077	7,929	34,833	648,839	878,633	2,447,528	3,326,161	49,308	4,024,308
Due to banks and financial institutions	823,749	-	278,664	1,102,413	188,815	64,502	253,317	19,555	1,375,285
Due to banks under repurchase agreements	142,514	-	-	142,514	-	-	-	1,374	143,888
Derivative financial instruments	71,182	30,990	40,682	142,854	62,560	241,379	303,939	-	446,793
Customers' deposits	24,069,471	3,106,748	2,311,288	29,487,507	1,775,846	31,069	1,806,915	948,031	32,242,453
Deposits from related parties	90,723	2,773	3,568	97,064	114,008	15	114,023	174	211,261
Debt issued & other borrowed funds	86,089	16,341	239,231	341,661	555,861	386,504	942,365	33,787	1,317,813
Lease liabilities	809	145	1,091	2,045	15,874	24,497	40,371	-	42,416
Total liabilities	25,890,614	3,164,926	2,909,357	31,964,897	3,591,597	3,195,494	6,787,091	1,052,229	39,804,217
Interest rate sensitivity gap	(14,996,735)	(568,469)	858,728		6,810,645	8,816,005			
Cumulative gap	(14,996,735)	(15,565,204)	(14,706,476)		(7,895,831)	920,174			

PREPAYMENT RISK

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

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

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

EQUITY PRICE RISK

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

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

55.0. | LIQUIDITY RISK

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

The Group manages liquidity at the entity level independently while keeping oversight of intra-group dependencies, when existing. The Group recognises that its ability to meet its liquidity requirements, including international commitments, may come under increasing pressure under a deteriorating operating environment.

Following October 2019 events, the Bank's international liquidity in Lebanon came under an unprecedented pressure, which led Management to implement a series of remedial measures to mitigate this risk.

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

MONITORING PROCESS

DAILY

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

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

WEEKLY

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

MONTHLY

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

QUARTERLY

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

PERIODIC

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

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

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

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

LIQUIDITY RATIOS

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Group. In Lebanon and since October 2019 events, the Group monitors on a regular basis the ratio of available international foreign currency liquidity to international commitments over various time horizons.

The Central Bank of Lebanon, through its Basic Circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the 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.

SOURCES OF FUNDING

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

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

	LBP		Foreign Currencies	
	2021 %	2020 %	**2021 %**	2020 %
Year-end	45	48	20	26
Maximum	49	49	25	35
Minimum	43	28	20	26
Average	46	39	23	32

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

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

	2021					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	**Total LBP Million**
Financial liabilities						
Due to central banks	265,069	36,837	115,354	1,229,886	2,238,975	3,886,121
Due to banks and financial institutions	210,252	20,753	70,617	202,509	71,608	575,739
Due to banks under repurchase agreements	38,610	-	-	-	-	38,610
Derivative financial instruments	50,752	47,184	34,047	52,148	146,693	330,824
Customers' deposits	25,320,128	2,012,413	2,256,152	759,229	47,860	30,395,782
Deposits from related parties	69,614	1,733	15,940	59,143	-	146,430
Debt issued and other borrowed funds	53,995	-	47,445	819,538	427,895	1,348,873
Engagements by acceptances	15,248	31,542	8,839	-	262	55,891
Lease liabilities	634	36	866	11,265	15,687	28,488
Total financial liabilities	**26,024,302**	**2,150,498**	**2,549,260**	**3,133,718**	**2,948,980**	**36,805,758**

	2020					
	Less than 1 Month LBP Million	1 to 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	Over 5 Years LBP Million	Total LBP Million
Financial liabilities						
Due to central banks	641,002	13,734	106,336	1,140,688	2,549,766	4,451,526
Due to banks and financial institutions	849,819	622	100,460	432,571	24,476	1,407,948
Due to banks under repurchase agreements	143,888	-	-	-	-	143,888
Derivative financial instruments	33,771	30,990	40,682	62,560	278,790	446,793
Customers' deposits	24,993,199	3,122,541	2,351,086	2,130,409	74,911	32,672,146
Deposits from related parties	91,939	2,738	2,552	114,128	15	211,372
Debt issued and other borrowed funds	104,858	16,338	61,003	931,026	381,424	1,494,649
Engagements by acceptances	5,777	8,652	3,210	-	253	17,892
Lease liabilities	809	145	1,091	15,874	24,497	42,416
Total financial liabilities	26,865,062	3,195,760	2,666,420	4,827,256	3,334,132	40,888,630

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

	2021				
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	**Total LBP Million**
Financial guarantees	264,585	21,758	15,163	5,008	306,514
Other guarantees	391,022	269,657	33,236	15,845	709,760
Documentary credits	169,472	83,645	1,112	-	254,229
Loan commitments	2,740,948	3,022	16,456	4,793	2,765,219
	3,566,027	**378,082**	**65,967**	**25,646**	**4,035,722**

	2020				
	Less than 3 Months LBP Million	3 to 12 Months LBP Million	1 to 5 Years LBP Million	More than 5 Years LBP Million	Total LBP Million
Financial guarantees	316,193	3,435	10,823	3,275	333,726
Other guarantees	639,542	84,492	16,008	18,913	758,955
Documentary credits	70,240	131,496	119	-	201,855
Loan commitments	2,119,186	-	7,611	-	2,126,797
	3,145,161	219,423	34,561	22,188	3,421,333

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

	Less than 1 Year LBP Million	More than 1 Year LBP Million	**Total LBP Million**
Assets			
Cash and balances with central banks	9,406,414	9,511,168	18,917,582
Due from banks and financial institutions	2,680,674	-	2,680,674
Loans to banks and financial institutions and reverse repurchase agreements	116,078	11,799	127,877
Derivative financial instruments	216,843	70,224	287,067
Financial assets at fair value through profit or loss	114,415	46,623	161,038
Loans and advances to customers at amortised cost	3,555,984	3,523,143	7,079,127
Loans and advances to related parties at amortised cost	2,563	67,922	70,485
Debtors by acceptances	55,629	262	55,891
Financial assets at amortised cost	993,093	6,291,816	7,284,909
Financial assets at fair value through other comprehensive income	296,226	868,654	1,164,880
Investments in associates	-	14,581	14,581
Property and equipment and right-of-use assets	-	589,211	589,211
Intangible assets	-	65,876	65,876
Assets obtained in settlement of debt	-	131,662	131,662
Other assets	553,085	1,211,531	1,764,616
Deferred tax assets	-	48,552	48,552
Goodwill	-	42,419	42,419
Total assets	**17,991,004**	**22,495,443**	**40,486,447**
Liabilities and shareholders' equity			
Due to central banks	348,071	3,196,392	3,544,463
Due to banks and financial institutions	300,899	274,100	574,999
Due to banks under repurchase agreements	38,610	-	38,610
Derivative financial instruments	131,984	198,840	330,824
Customers' deposits	29,504,124	652,269	30,156,393
Deposits from related parties	86,352	59,142	145,494
Debt issued and other borrowed funds	55,556	1,176,715	1,232,271
Engagements by acceptances	55,629	262	55,891
Other liabilities	206,218	152,564	358,782
Current tax liability	6,614	-	6,614
Deferred tax liabilities	-	2,356	2,356
Provision for risks and charges	-	283,557	283,557
Shareholders' equity	-	3,756,193	3,756,193
Total liabilities and shareholders' equity	**30,734,057**	**9,752,390**	**40,486,447**

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

	Less than 1 Year LBP Million	More than 1 Year LBP Million	Total LBP Million
Assets			
Cash and balances with central banks	6,850,770	12,635,440	19,486,210
Due from banks and financial institutions	2,167,959	-	2,167,959
Loans to banks and financial institutions and reverse repurchase agreements	200,047	64,199	264,246
Derivative financial instruments	148,748	70,072	218,820
Financial assets at fair value through profit or loss	326,268	65,799	392,067
Loans and advances to customers at amortised cost	4,930,841	4,211,511	9,142,352
Loans and advances to related parties at amortised cost	22,906	85,294	108,200
Debtors by acceptances	17,639	253	17,892
Financial assets at amortised cost	846,865	6,940,628	7,787,493
Financial assets at fair value through other comprehensive income	356,737	1,161,636	1,518,373
Investments in associates	-	113,923	113,923
Property and equipment and right-of-use assets	-	635,928	635,928
Intangible assets	-	81,081	81,081
Assets obtained in settlement of debt	-	203,160	203,160
Other assets	331,149	1,354,292	1,685,441
Deferred tax assets	-	53,656	53,656
Goodwill	-	42,384	42,384
Assets held for sale	6,235,283	3,257,864	9,493,147
Total assets	22,435,212	30,977,120	53,412,332
Liabilities and shareholders' equity			
Due to central banks	683,379	3,340,929	4,024,308
Due to banks and financial institutions	940,148	435,137	1,375,285
Due to banks under repurchase agreements	143,888	-	143,888
Derivative financial instruments	142,854	303,939	446,793
Customers' deposits	30,423,009	1,819,444	32,242,453
Deposits from related parties	97,194	114,067	211,261
Debt issued and other borrowed funds	136,304	1,181,509	1,317,813
Engagements by acceptances	17,639	253	17,892
Other liabilities	285,326	160,927	446,253
Current tax liability	78,748	-	78,748
Deferred tax liabilities	-	6,018	6,018
Provision for risks and charges	-	150,599	150,599
Liabilities held for sale	5,611,168	2,891,433	8,502,601
Shareholders' equity	-	4,448,420	4,448,420
Total liabilities and shareholders' equity	38,559,657	14,852,675	53,412,332

56.0. | OPERATIONAL RISK

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

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

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

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

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

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

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

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

57.0. | LITIGATION RISK

Since 17 October 2019, the Group has been subject to increased litigations in Lebanon and abroad, as a result of the restrictive measures adopted by Lebanese banks in relation to the withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Pounds. Management is carefully considering the impact of these existing litigations and claims against the Group in relation to these restrictive measures. 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. Due to recent developments and to the increasing trend in judgments ruled in favour of the plaintiffs during 2021, Management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch (refer to Note 54 – Currency Risk). The amount cannot be determined presently. At the balance sheet date, shares owned by the Bank in certain local and foreign subsidiaries were placed under seizure, by court orders in relation to litigations raised by customers for the transfer of funds abroad. In addition, the Group may, from time to time, become involved in other legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (Note 49).

58.0. | POLITICAL RISK

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

59.0. | CAPITAL MANAGEMENT

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

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

- Raising the regulatory expected credit loss level for Lebanese government securities in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45%. Regulatory ECL for other exposures remain unchanged. These levels remained applicable in 2021.

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

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020, but was later extended for the banking sector to 28 February 2021. The Central Bank of Lebanon's Central Council may exceptionally approve a bank's completion of 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction.

- Inclusion of 100% of revaluations gain of owned real estate properties (excluding ones acquired in settlement of bad debt as per Article 154 of the Code of Money & Credit) in Common Equity Tier 1, instead of 50% of this gain in Tier 2, as was the case previously. The regulatory deadline for completing the reappraisal process for such properties was set on 31 December 2021.

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

- Prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for Common Equity Tier 1, 10% for Tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).

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

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 the full capital conservation buffer of 2.5%	**7.00%**	**8.50%**	**10.50%**
31 December 2020			
Minimum required capital ratios	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5%	7.00%	8.50%	10.50%

	2021 LBP Million	2020 LBP Million
Risk-weighted assets:		
Credit risk	28,552,147	37,577,900
Market risk	2,278,639	2,369,382
Operational risk	1,587,306	3,195,438
Total risk-weighted assets	32,418,092	43,142,720

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

	2021 LBP Million	2020 LBP Million
Tier 1 capital	4,178,251	4,968,202
Of which: Common Tier 1	*3,255,148*	*4,038,672*
Tier 2 capital	527,286	693,484
Total capital	4,705,537	5,661,686

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

	2021	2020
Capital adequacy – Common Tier 1	10.04%	9.36%
Capital adequacy – Tier 1	12.89%	11.52%
Capital adequacy – Total capital	14.52%	13.12%

The capital adequacy ratios as at 31 December 2021 and 2020 were calculated based on the recorded figures and do not take into consideration the adjustments that may result from the resolution of the uncertainties reflected in Note 1. Due to the high levels of uncertainties, the lack of observable reliable indicators, the high gap between the currency parallel market rates, the Platform Rate, the Sayrafa rate and the official published exchange rate, and the lack of visibility on the government's plans with respect to: (a) the high exposures of Lebanese banks with the Central Bank of Lebanon, (b) the Lebanese sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, Management is unable to estimate in a reasonable manner the impact of these matters on the Group's capital adequacy. Management has concerns about the effects that the above matters will have on the capital of the Group and the recapitalisation needs that may arise once the necessary adjustments are determined and recorded.

60.0. | SUBSEQUENT EVENTS

Actions Taken by the Mount Lebanon Public Prosecutor

On 28 February 2022, and at the request of the Mount Lebanon Public Prosecutor, the Chairman of the Board of Directors of Bank Audi sal – General Manager, attended a clarification session before the aforementioned Public Prosecutor, as a listener. On 10 March 2022, we learned from press sources that the Public Prosecutor had issued a restraining order imposing a travel ban on the Chairman. On 14 March 2022, we also learned from press sources that the Public Prosecutor had issued a restraining order preventing the Bank from disposing of its assets. The decision also extended to some members of the Board of Directors, and some current and former employees, without knowing what is attributed to them. On 1 April 2022, the Mount Lebanon Public Prosecutor lifted the travel ban previously imposed on the Chairman while he was outside of Lebanon with the matter to be revisited at his return.

Based on advice from its legal counsel, the Bank and its Board of Directors submitted two lawsuits: the first, submitted to the Mount Lebanon Court of Appeal, for the removal of the Public Prosecutor; and the second, presented before the General Assembly of the Court of Cassation, is a lawsuit against the State. However, the two courts have not yet been able to notify the two cases to the Mount Lebanon Public Prosecutor.

Also, we were verbally informed that the Public Prosecutor issued a so-called "search and investigation report" in order to request the Chairman to attend another hearing. We are awaiting for any further development, to date, the Mount Lebanon Public Prosecutor has not taken any position regarding the aforementioned requests.

Turkish Economy – Hyperinflation

Subsequent to the balance sheet date, based on the inflation data published as of March 2022 by Turkey Statistical Institute on 4 April 2022, the three-year cumulative increase in the Consumer Price Index has been 109.4%. Accordingly, as per one of the characteristics of IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29"), the Turkish economy will be defined as a hyperinflationary economy as on the date of these consolidated financial statements and consequently, IAS 29 should be implemented on the financial statements of the Group's subsidiary in Turkey for reporting periods ending 30 June 2022.

In accordance with IAS 29, financial statements would be expressed in terms of the measuring unit current at the end of the reporting period with the application of IAS 29. Non-monetary items which are not already expressed in terms of the measuring unit current at the end of the reporting period and components of shareholders' equity in the statement of financial position, and all items in the statement of profit or loss and other comprehensive income would be restated by applying a general price index. In addition, gains or losses arising from net monetary position would be recognised in profit or loss and other comprehensive income.

04

MANAGEMENT

1.0. | GROUP AND BANK AUDI sal MANAGEMENT

LEBANON

CHAIRMAN & CEO

Mr. Samir N. HANNA	Chairman of the Board of Directors & Group Chief Executive Officer

GROUP EXECUTIVE COMMITTEE

Voting Members

Mr. Khalil I. DEBS *(Co-chair)*	Deputy Group Chief Executive Officer
Mr. Tamer M. GHAZALEH *(Co-chair)*	Deputy Group Chief Executive Officer
Mr. Michel E. ARAMOUNI	Chief Capital Markets Officer
Mr. Mouayed C. MAKHLOUF	Head of International Division
Mr. Hassan A. SALEH	Chief Operating Officer

Non-voting Members

Mr. Elias L. ABOUSLEIMAN	Group Chief Risk Officer

Secretary

Dr. Farid F. LAHOUD	Group Chief Compliance Officer & Corporate Secretary

CENTRAL DEPARTMENTS

Mrs. Marion E. ABOU-JAOUDE	Acting Head of Marketing & Communications
Mr. Toufic S. ARIDA	Assistant Chief Operating Officer – Technology (Infostructure sal)
Mrs. Carol J. AYAT	Head of Large Corporates & Specialised Lending
Dr. Marwan S. BARAKAT	Group Chief Economist & Head of Research
Mr. Mohamad G. BAYDOUN	Head of Corporate & Commercial Banking
Mrs. Peggy S. BAZ	Head of Legal
Mr. Mahmoud A. KURDY	Chief Financial Officer
Mrs. Nayiri H. MANOUKIAN	Head of Human Resources
Mr. Antoine N. NAJM	Chief Credit Officer
Mrs. Rana S. NASSIF	Head of Internal Audit
Mr. Fady A. OBEID	Assistant Chief Operating Officer – Operations
Mr. Habib M. SAYDE	Head of Administrative
Mr. Bechara E. SERHAL	Head of Treasury

BRANCHES NETWORK

Mr. Rabih E. BERBERY	Network Manager
Mrs. Ghina M. DANDAN	Network Manager
Mr. Kamal S. TABBARA	Network Manager
Ms. Wafaa' S. YOUNES	Network Manager
Mrs. Carol S. ABOU JAOUDE	Regional Manager
Mr. Nagib A. CHEAIB	Regional Manager
Mrs. Joumana A. NAJJAR	Regional Manager
Mr. Fadi V. SAADE	Regional Manager

FINANCIAL INSTITUTIONS & CORRESPONDENT BANKING

Mr. Gabriel A. DROUBY	Group Financial Institutions & Correspondent Banking
	Tel: (961-1) 952405. Fax: (961-1) 989494. E-mail: gabriel.drouby@bankaudi.com.lb

INVESTOR RELATIONS

Ms. Sana M. SABRA	Investor Relations and Media
	Tel: (961-1) 977496. Fax: (961-1) 970404. E-mail: sana.sabra@bankaudi.com.lb

2.0. | ENTITIES' MANAGEMENT

2.1. | ODEA BANK A.Ş.
TURKEY

BOARD OF DIRECTORS

		Member of the Credit Committee	Member of the Audit Committee	Member of the Risk Committee	Member of the Remuneration Committee	Member of the Corporate Governance Committee
Dr. Imad I. ITANI	Chair				Chair•	
Mr. Tamer M. GHAZALEH	Vice-Chair	Alternate		•	•	
Ms. Oya E. AYDINLIK	Member		Chair •			
Dr. Ayse M. BOTAN BERKER	Member			Chair •		
Mr. Khalil I. DEBS	Member	•				
Me. Chahdan E. JEBEYLI	Member					Chair •
Dr. Farid F. LAHOUD	Member		•			
Mr. Mouayed C. MAKHLOUF	Member		•	•		•
Mr. Antoine N. NAJM	Member	•				
Mrs. Ebru M. OGAN KNOTTNERUS	Member	Alternate		•		
Dr. Mert R. ONCU	Member	Chair•				
Mrs. Dragica N. PILIPOVIC-CHAFFEY	Member			•	•	•

SENIOR MANAGEMENT

Dr. Mert R. ONCU	General Manager – Board Member
Mr. Yalcin F. AVCI	Deputy General Manager – Assistant General Manager – Commercial Banking
Mr. Mehmet Gokmen C. UCAR	Deputy General Manager – CFO/Finance, Financial Control and Strategy
Mr. Emir Kadir F. ALPAY	Assistant General Manager – Treasury, Capital Markets and Financial Institutions
Mr. Cenk R. DEMIROZ	Assistant General Manager – Credit Allocation
Mr. Huseyin H. GONUL	Assistant General Manager – CRO/Internal Systems
Mr. Cem A. MURATOGLU	Assistant General Manager – Retail Banking
Mr. Sinan Erdem S. OZER	Assistant General Manager – CIOO/Technology and Operations
Mr. Huseyin Cem H. TANER	Assistant General Manager – Credit Monitoring, Remedial and Recovery
Mrs. Ebru M. VARDAR	Assistant General Manager – Human Resources

2.2. | BAPB HOLDING LIMITED
CYPRUS

BOARD OF DIRECTORS

Mr. Marc J. AUDI	Member
Mr. Khalil I. DEBS	Member
Mr. Tamer M. GHAZALEH	Member
Mr. Alkis I. KAILOS	Member
Dr. Farid F. LAHOUD	Member
Mr. Georgios A. MICHAEL	Member
Mr. Philippe R. SEDNAOUI	Member
Alter Domus Services Limited	Company Secretary

2.2.1. | BANQUE AUDI (SUISSE) SA
SWITZERLAND

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Remuneration Committee
Mr. Philippe R. SEDNAOUI	Chairman		
Mr. Michel A. CARTILLIER	Vice-Chairman	Chair•	
Mr. Marc J. AUDI	Member		•
Mr. Pierre C. DE BLONAY	Member	•	
Mr. Khalil I. DEBS	Member		•
Mr. Jean-Pierre R. JACQUEMOUD	Member	•	•
Mr. Pierre J. RESPINGER	Member		Chair•
Mr. François P. TOBLER	Member		

MANAGEMENT

Mr. Ragi J. BOUSTANY	General Manager
Mr. Elie J. BAZ	Head of Forex & Treasury
Mr. Jean-Marc S. CODORELLO	Head of Business Management
Mrs. Mireille L. GAVARD	Corporate Secretary
Mr. Ian Gregor MACINTOSH	Chief Investment Officer
Mr. Youssef H. NIZAM	Head of Private Banking
Mr. Gregory K. SATNARINE	Chief Financial Officer/Chief Operating Officer

2.2.2. | AUDI CAPITAL (KSA) cjsc
KINGDOM OF SAUDI ARABIA

BOARD OF DIRECTORS

		Member of the Audit Committee	Member of the Nomination & Remuneration Committee
Mr. Abdullah I. AL HOBAYB	Chairman		Chair•
Mr. Philippe R. SEDNAOUI	Vice-Chairman – Member		•
Mr. Chahdan E. JEBEYLI	Member	Chair•	
Mr. Youssef H. NIZAM	Member		•
Dr. Asem T. ARAB	Independent member	•	
Dr. Khalil A. KORDI	Independent member	•	

MANAGEMENT

Mr. Abdulaziz A. AL GHUNEIM	Acting General Manager (CEO) & Head of Wealth Management *(effective 13/06/2021)* – General Manager (CEO) & Head of Wealth Management *(effective 27/01/2022)*
Mr. Tony G. ABOU FAYSSAL	CFO & Acting Head of Investment Banking
Mr. Mohammed I. Al ZABEN	Acting Head of Asset Management *(effective 07/09/2021)*

2.3. | OTHER ENTITIES

2.3.1. | BANK AUDI LLC
QATAR

BOARD OF DIRECTORS

		Member of the Executive Credit Committee	Member of the Audit & Risk Committee
Mr. Khalil I. DEBS	Chairman	Chair•	
Mr. Elias L. ABOUSLEIMAN	Member		Chair•
Mr. Rashed Nasser S. AL-KAABI	Member		•
Mrs. Ghina M. DANDAN	Member		•
Mr. Hassan A. SALEH	Member		
Mr. Hani R. ZAOUK	Member	•	

MANAGEMENT

Mr. Hani R. ZAOUK	General Manager

2.3.2. | BANK AUDI FRANCE sa
FRANCE

BOARD OF DIRECTORS

		Member of the Audit & Risk Committee
Mr. Elia S. SAMAHA	Chairman	•
Ms. Sherine R. AUDI	Member & General Manager	
Mr. Michel ARAMOUNI	Member	•
Mr. Denis G. GILLET	Member	•
Bank Audi sal *(represented by Mr. Khalil I. DEBS)*	Member	

MANAGEMENT

Mrs. Sherine R. AUDI	General Manager – Chief Executive Officer
Mr. Noel J. HAKIM	Deputy General Manager – Chief Business Officer

2.3.3. | SOLIFAC sal
LEBANON

BOARD OF DIRECTORS

		Member of the Risk & Audit Committee	Member of the ALCO Committee	Member of the Credit Committee	Member of the AML/CFT Committee
Mr. Khalil I. DEBS	Chairman	Chair•	•	Chair•	
Mr. Elie J. KAMAR	Chief Executive Officer	•	•	•	
Mr. Tamer M. GHAZALEH	Member	•	Chair•		
Mr. Hassan A. SALEH	Member	•	•		Chair•

MANAGEMENT

Mr. Elie J. KAMAR	Chief Executive Officer
Mrs. Lina F. SALEM	Assistant Chief Executive Officer

05

ADDRESSES

1.0. | LEBANON

BANK AUDI sal

Member of the Association of Banks in Lebanon
Capital: LBP 992,878,257,468 *(as at December 2021)*
Consolidated shareholders' equity:
LBP 3,756,192,951,213 *(as at December 2021)*
C.R. 11347 Beirut
List of Banks No. 56

HEADQUARTERS

Bank Audi Plaza, Bab Idriss.
P.O. Box 11-2560 Beirut - Lebanon
Tel: (961-1) 994000. Fax: (961-1) 990555.
Customer helpline: (961-1) 212120.
Swift: AUDBLBBX.
contactus@bankaudi.com.lb
bankaudigroup.com

BRANCHES

CORPORATE BRANCHES

ASHRAFIEH – MAIN BRANCH
SOFIL Center, Charles Malek Avenue.
Tel: (961-1) 200250. Fax: (961-1) 200724, 339092.
Branch Manager: Mrs. Josette F. Aramouni

BAB IDRISS
Bank Audi Plaza, Omar Daouk Street.
Tel: (961-1) 977588. Fax: (961-1) 999410, 971502.
Network Manager – Corporate Banking:
Mrs. Ghina M. Dandan
Branch Manager: Mrs. Patricia G. Debs

VERDUN
Verdun 2000 Center, Rashid Karameh Avenue.
Tel: (961-1) 805805. Fax: (961-1) 865635, 861885.
Network Manager – Corporate Banking:
Mrs. Wafaa S. Younes
Branch Manager: Mr. Haytham M. Ramadan

BEIRUT

ASHRAFIEH – SASSINE
Le Gabriel Hotel, Elias Sarkis Avenue, Sassine.
Tel: (961-1) 200640. Fax: (961-1) 216685.
Branch Manager: Ms. Rita C. Haddad

BADARO
Ibrahim Ghattas Bldg., Badaro Street.
Tel: (961-1) 387395. Fax: (961-1) 387398.
Branch Manager: Mrs. Nayla S. Hanna

BESHARA EL-KHOURY
Banna & Sayrawan Bldg., Beshara El-Khoury Street.
Tel: (961-1) 664093. Fax: (961-1) 664096.
Branch Manager: Mrs. Roula F. Ramadan

BLISS
Kanater Bldg., Bliss Street.
Tel: (961-1) 361793. Fax: (961-1) 361796.
Branch Manager: Ms. Nisrine A. Ismail

GEFINOR
Gefinor Center, Clemenceau Street.
Tel: (961-1) 743400. Fax: (961-1) 743412.
Branch Manager: Ms. Rima M. Hoss

HAMRA
Mroueh Bldg., Hamra Street.
Tel: (961-1) 341491. Fax: (961-1) 344680.
Branch Manager: Mrs. Dima R. Chahine

JNAH
Tahseen Khayat Bldg., Khalil Moutran Street.
Tel: (961-1) 844870. Fax: (961-1) 844875.
Branch Manager: Mrs. Ghada S. Al-Ameen

MAZRAA
Wakf El-Roum Bldg., Saeb Salam Blvd.
Tel: (961-1) 305612. Fax: (961-1) 316873, 300451.
Branch Manager: Mr. Moustafa M. Anouty

MOUSSEITBEH
Makassed Commercial Center, Mar Elias Street.
Tel: (961-1) 818277. Fax: (961-1) 303084.
Branch Manager: Mr. Taha N. Keshly

SELIM SALAM
Sharkawi Bldg., Selim Salam Avenue.
Tel: (961-1) 318824. Fax: (961-1) 318657.
Branch Manager: Mrs. Iman M. Hankir

SERAIL
Bank Audi Plaza, Omar Daouk Street.
Tel: (961-1) 952515. Fax: (961-1) 991287.
Senior Branch Manager: Mrs. Nada N. Rizk

SODECO
Alieh Bldg., Istiklal Street.
Tel: (961-1) 612790. Fax: (961-1) 612793.
Branch Manager: Mrs. Nancy S. Boustany

TABARIS
Saifi Plaza, Fouad Shehab Avenue
& Georges Haddad crossroad.
Tel: (961-1) 992335-9. Fax: (961-1) 990416, 990516.
Branch Manager: Mrs. Raghida N. Bacha

ZARIF
Salhab Center, Algeria Street.
Tel: (961-1) 747550. Fax: (961-1) 747553.
Branch Manager: Mrs. Hiba M. Kayyal

MOUNT LEBANON

AIN EL-REMMANEH
Etoile Center, El-Areed Street.
Tel: (961-1) 292870. Fax: (961-1) 292869.
Branch Manager: Mrs. Roula E. Fayad

AJALTOUN
Bou Shaaya & Khoury Center, El-Midane.
Tel: (961-9) 234620. Fax: (961-9) 234439.
Branch Manager: Mr. Jihad A. Sfeir

ALEY
Beshara El-Khoury Road (near Aley Club), Aley.
Tel: (961-5) 556902. Fax: (961-5) 558903.
Branch Manager: Mr. Alaa Y. Azzam

BAABDA
Boulos Brothers Bldg., Damascus International Road.
Tel: (961-5) 451452. Fax: (961-5) 953236.
Branch Manager: Mrs. Hala N. Younes

BOURJ HAMMOUD
Mekheterian Bldg., Municipality Square.
Tel: (961-1) 263325. Fax: (961-1) 265679.
Branch Manager: Mr. Christapor A. Libarian

BROUMMANA
Lodge Center, Main Road.
Tel: (961-4) 860163. Fax: (961-4) 860167.
Branch Manager: Mr. Hadi M. Chaoul

DEKWANEH
El-Nefaa, Main Road.
Tel: (961-1) 693790. Fax: (961-1) 693795.
Branch Manager: Mr. Fady A. Khoury

DORA
Cité Dora 1, Dora Highway.
Tel: (961-1) 255686. Fax: (961-1) 255695.
Senior Branch Manager: Mrs. Hilda G. Sadek

ELYSSAR
Elyssar Main Road, Mazraat Yashouh.
Tel: (961-4) 913928. Fax: (961-4) 913932.
Branch Manager: Mrs. Nisrine N. Chidiac

FANAR
La Rose Center, Main Road.
Tel: (961-1) 879637. Fax: (961-1) 879641.
Branch Manager: Mrs. Grace E. Moussa

GHAZIR
Main Road, Ghazir, Kfarhebab.
Tel: (961-9) 851720. Fax: (961-9) 856376.
Branch Manager: Ms. Roula F. Kmeid

GHOBEYRI
Hoteit Bldg., Shiyah Blvd., Mousharrafieh Square.
Tel: (961-1) 541125. Fax: (961-1) 272342.
Branch Manager: Mrs. Lina A. Hayek

HADATH
El-Ain Square, Main Road.
Tel: (961-5) 464050. Fax: (961-5) 471854.
Branch Manager: Mrs. Rachel J. Sarkis

HARET HREIK
Ahmad Abbas Bldg., Baajour Street, Main Road.
Tel: (961-1) 277270. Fax: (961-1) 547265.
Branch Manager: Mr. Yasser A. Zein

HAZMIEH
Dar Assayad Bldg., Saïd Freiha Street, Hazmieh Roundabout.
Tel: (961-5) 451850. Fax: (961-5) 457963.
Branch Manager: Mr. Charles A. Berberi

HORSH TABET
Central Business Center, Saint Antoine de Padoue Street.
Tel: (961-1) 480483. Fax: (961-1) 480423.
Branch Manager: Mrs. Karla M. Ghaoui

JAL EL-DIB
Milad Sarkis Bldg., Main Road.
Tel: (961-4) 710393. Fax: (961-4) 710395.
Branch Manager: Mr. Salam N. Dagher

JBEIL
Byblos Sun Bldg., Jbeil Roundabout.
Tel: (961-9) 543890. Fax: (961-9) 543895.
Branch Manager: Mr. Chady F. Kassis

JOUNIEH
La Joconde Center, Fouad Shehab Blvd.
Tel: (961-9) 641660. Fax: (961-9) 644224.
Branch Manager: Mrs. Rana A. Khoury

KHALDEH
Lebanese Commercial Mall, Saida Highway.
Tel: (961-5) 801988. Fax: (961-5) 806405.
Branch Manager: Mrs. Rana N. Mecharrafieh

MANSOURIEH
Kikano Bldg., Main Road.
Tel: (961-4) 533610. Fax: (961-4) 533614.
Branch Manager: Mr. Roger D. Chami

MREIJEH
Mreijeh Plaza Center, Abdallah Yaffi Avenue.
Tel: (961-1) 477980. Fax: (961-1) 477200.
Branch Manager: Mr. Hassan Z. Jaafar

NACCASH – DBAYEH
Naccash – Dbayeh Highway, East Side.
Tel: (961-4) 521671. Fax: (961-4) 521677.
Branch Manager: Mrs. Georgina Y. Nakad

RABIEH
Rabieh First Entrance, Street No. 5.
Tel: (961-4) 405950. Fax: (961-4) 416105.
Branch Manager: Mrs. Marthe A. Nawar

ROUEISS
Hoteit Bldg., Hady Nasrallah Blvd.
Tel: (961-1) 541146. Fax: (961-1) 541149.
Branch Manager: Mr. Majed A. Hajj

ZOUK
Val de Zouk Center, Zouk Mikhael.
Tel: (961-9) 211140. Fax: (961-9) 223603, 225505.
Branch Manager: Mr. Pierre E. Harb

NORTH

AMYOUN
Main Road.
Tel: (961-6) 955600. Fax: (961-6) 955604.
Branch Manager: Mrs. Theodora A. Bachawaty

BATROUN
Batroun Square Center, Main Road No. 7.
Tel: (961-6) 642371. Fax: (961-6) 642347.
Branch Manager: Mr. Tannous N. Abi-Saab

HALBA
Main Road.
Tel: (961-6) 692020. Fax: (961-6) 692024.
Branch Manager: Mr. Ali A. Hammad

SHEKKA
Main Road.
Tel: (961-6) 545379. Fax: (961-6) 541526.
Branch Manager: Mrs. Houda A. Azar

TRIPOLI – AZMI
Fayad Bldg., Azmi Street.
Tel: (961-6) 445590. Fax: (961-6) 435348.
Branch Manager: Mr. Georges A. Khodr

TRIPOLI – EL-BOHSAS
Fattal Tower 1, El-Bohsas Blvd.
Tel: (961-6) 410200. Fax: (961-6) 410799.
Branch Manager: Mr. Mohsen A. Dabliz

TRIPOLI – EL-MINA
Mandarine Bldg., Riad El-Solh Street, El-Mina Blvd.
Tel: (961-6) 205100. Fax: (961-6) 205103.
Branch Manager: Mr. Ziad M. Kabbara

SOUTH

BENT JBEIL
Ahmad Beydoun Bldg., Serail Square.
Tel: (961-7) 450900. Fax: (961-7) 450904.
Branch Manager: Mr. Ayoub I. Khreich

MARJEYOUN
Boulevard Hay El-Serail, Jdeidet Marjeyoun.
Tel: (961-7) 831790. Fax: (961-7) 831794.
Branch Manager: Mr. Marwan F. Massaad

NABATIEH
Office 2000 Bldg., Hassan Kamel El-Sabbah Street.
Tel: (961-7) 767812. Fax: (961-7) 767816.
Branch Manager: Mr. Mohamad H. Noureddine

SAIDA – EAST
Dandashli Bldg., Eastern Blvd.
Tel: (961-7) 751885. Fax: (961-7) 751889.
Branch Manager: Mrs. Sherine M. Assaad

SAIDA – RIAD EL-SOLH
Wakf El-Roum Catholic Bldg., Riad El-Solh Blvd.
Tel: (961-7) 733750. Fax: (961-7) 724561.
Branch Manager: Mr. Mohamad M. Bizri

SAIDA – SOUTH
Moustapha Saad Street.
Tel: (961-7) 728601. Fax: (961-7) 752704.
Branch Manager: Mr. Mohamad M. Kalo

TYRE
Abou Saleh & Moughnieh Bldg., Main Road.
Tel: (961-7) 345196. Fax: (961-7) 345201.
Branch Manager: Mrs. Lara Z. Yazbeck

TYRE ABBASSIEH
Tyre North Entrance, Main Road, Abbassieh.
Tel: (961-7) 741830-1-2-3. Fax: (961-7) 741835.
Branch Manager: Mrs. Mounira E. Khalife

AL-ZAIDANIEH
Al-Zaidanieh village, Main Road, Majdelyoun.
Tel: (961-7) 724905. Fax: (961-7) 723639.
Branch Manager: Ms. Diana A. Assaad

BEKAA

JEB JANNINE
Majzoub Bldg., Main Road.
Tel: (961-8) 661488. Fax: (961-8) 661481.
Acting Branch Manager: Ms. Zeina H. Hajj

SHTAURA
Daher Bldg., Main Road.
Tel: (961-8) 542960. Fax: (961-8) 544853.
Acting Branch Manager: Mr. Philippe M. Saidy.

ZAHLEH
Beshwati Bldg., El-Boulevard.
Tel: (961-8) 813592. Fax: (961-8) 801921.
Branch Manager: Mrs. Mona K. Doummar

NOVO NETWORK

PALLADIUM DOWNTOWN
Bank Audi Palladium Bldg., Bab Idriss.

ZGHARTA
North Palace Hotel, Kfarhata.

ABC VERDUN MALL
Verdun.

SOLIFAC sal

Zen Building, Charles Malek Avenue, Ashrafieh.
P.O. Box: 11-1121 Beirut - Lebanon.
Tel: (961-1) 209200. Fax: (961-1) 209205.

2.0. | TURKEY

ODEA BANK A.Ş.

HEADQUARTERS

Levent 199 Bldg., No.199/119, Buyukdere Street,
Esentepe District, Sisli, Istanbul.
Tel: (90-212) 3048444. Fax: (90-212) 3048445.
info@odeabank.com.tr – odeabank.com.tr

BRANCHES

ISTANBUL
MASLAK
No. 255 (Nurol Plaza), Door No. Z 10, Buyukdere Street,
Maslak District, Sariyer, Istanbul.
Tel: (90-212) 3048100. Fax: (90-212) 3481835.
Branch Manager: Ms. Ciler A. Durmaz (Retail)

GUNESLI
No. 65, Osmanpasa Street, 34209, Baglar District,
Bagcilar, Istanbul.
Tel: (90-212) 4646000. Fax: (90-212) 3481840.
Branch Managers: Ms. Nermin I. Pacaci (Retail)
Mr. Irfan M. Sahinkaya (Commercial)

SUADIYE ANATOLIAN CENTRAL BRANCH
No. 406, Bagdat Street, Suadiye District,
Kadikoy, Istanbul.
Tel: (90-216) 4685400. Fax: (90-212) 3481908.
Branch Managers: Ms. Asli O. Yasar (Retail);
Mr. Hamit M. Gonuldas (Commercial)

KOZYATAGI
No. 12/35, Ataturk Avenue, Sahrayicedid District,
Kadikoy, Istanbul.
Tel: (90-216) 6657000. Fax: (90-212) 3481839.
Branch Manager: Ms. Cagla T. Cavusoglu Yilmaz (Retail)

CADDEBOSTAN
No. 270, Bagdat Avenue, Caddebostan District,
Goztepe, Istanbul.
Tel: (90-216) 4686800. Fax: (90-212) 3481850.
Branch Manager: Ms. Naciye Ebru F. Topdemir (Retail)

NISANTASI
No. 17/2-3, Mim Kemal Oke Street, Harbiye District,
Sisli, Istanbul.
Tel: (90-212) 3738100. Fax: (90-212) 3481853.
Branch Manager: Ms. Umut H. Altayli Yilmaz (Retail)

BEBEK
No. 36, Cevdetpasa Street, 34342, Bebek District,
Besiktas, Istanbul.
Tel: (90-212) 3624700. Fax: (90-212) 3481851.
Branch Manager: Ms. Seren M. Sag (Retail)

BESIKTAS
No. 99/3, Barbaros Avenue, Cihannuma District,
Besiktas, Istanbul.
Tel: (90-212) 3961500. Fax: (90-212) 3481879.
Branch Manager: Mr. Derya Asim T. Bayrakci (Retail)

ETILER EUROPE CENTRAL BRANCH
No. 60/A-B, Nispetiye Street, Etiler, Besiktas, Istanbul.
Tel: (90-212) 3591600. Fax: (90-212) 3481872.
Branch Managers: Ms. Mehrzad H. Senefe (Retail);
Ms. Aylin M. Cora (Commercial)

SISLI
No. 169, Halaskargazi Street, Sisli, Istanbul.
Tel: (90-212) 3734300. Fax: (90-212) 3481874.
Branch Manager: Ms. Hulya H. Kucuk (Retail)

YESILYURT
Eba Apartmani, No. 17A/1, Sipahioglu Street, Yesilyurt
District, Merkez, Bakirkoy, Istanbul.
Tel: (90-212) 4631100. Fax: (90-212) 3481875.
Branch Manager: Mr. Umut S. Kilic (Retail)

ALTUNIZADE
No. 35/1, Kisikli Avenue, Altunizade District,
Uskudar, Istanbul.
Tel: (90-216) 4001600. Fax: (90-212) 3481886.
Branch Manager: Ms. Alev Y. Dogan (Retail)

HADIMKOY
No. 154-156, Hadimkoy Street, Akcaburgaz District,
Esenyurt, Istanbul.
Tel: (90-212) 8667800. Fax: (90-212) 3481885.
Branch Manager: Mr. Levent A. Bostanci
(Commercial & Retail)

ATASEHIR
No. 59, D:1, Halk Street, Barbaros District,
Atasehir, Istanbul.
Tel: (90-216) 5471200. Fax: (90-212) 3481890.
Branch Managers: Ms. Serap H. Coskun (Retail);
Mr. Hikmet S. Guncan (Commercial)

BOSTANCI
No. 97/A, Semsettin Gunaltay Street, Suadiye District,
Kadikoy, Istanbul.
Tel: (90-216) 5791400. Fax: (90-212) 3481894.
Branch Manager: Ms. Esin I. K. Yurdaer (Retail)

KADIKOY
No. 35/1, Kisikli Avenue, Altunizade District,
Uskudar, Istanbul.
Tel: (90-216) 5421300. Fax: (90-212) 3481898.
Branch Manager: Ms. Tansel M. Coklar (Retail)

KARTAL
No. 2, Sehzade Street, Kordonboyu District,
Kartal, Istanbul.
Tel: (90-216) 5865300. Fax: (90-212) 3481895.
Branch Manager: Mr. Mehmet P. Sakalli (Retail)

TAKSIM
No. 10/1, Tarlabasi Street, Sehitmuhtar District,
Taksim, Beyoglu, Istanbul.
Tel: (90-212) 3134100. Fax: (90-212) 3481899.
Branch Manager: Ms. Hayal M. Yuksel (Retail)

LEVENT CARSI
No. 2/1, Yasemin Street, Levent District, Besiktas, Istanbul.
Tel: (90-212) 3395100. Fax: (90-212) 3481903.
Branch Manager: Ms. Digdem M. Yavasoglu (Retail)

UMRANIYE
No. 50/52 A, Alemdag Avenue, Ataturk District,
Umraniye, Istanbul.
Tel: (90-216) 6491200. Fax: (90-212) 3481901.
Branch Manager: Mr. Mehmet Emin N. Kaya (Retail)

EMINONU
Hobyar District, Fatih, Istanbul.
Tel: (90-212) 4027000. Fax: (90-212) 3481905.
Branch Manager: Mr. Mehmet Cihat H. Erdogan (Retail)

ALTINTEPE
No. 93/A, Bagdat Street, Altintepe District,
Maltepe, Istanbul.
Tel: (90-216) 5872800. Fax: (90-212) 3481915.
Branch Manager: Mrs. Esin B. Unlu (Retail)

BAKIRKOY
No: 45/A, Istanbul Street, Cevizlik District,
Bakirkoy, Istanbul.
Tel: (90-212) 4093100. Fax: (90-212) 3481917.
Branch Manager: Ms. Sibel V. D. Donmez (Retail)

CIFTEHAVUZLAR
No. 173/A, Bagdat Street, Goztepe District,
Kadikoy, Istanbul.
Tel: (90-216) 4682900. Fax: (90-212) 3481916.
Branch Manager: Mrs. Seda H. Yanar (Retail)

BANK'O BRANCH
Olive Plaza, No. 11/8, Ahi Evran Street, Maslak District,
Sariyer, Istanbul.
Tel: (90-212) 2608444. Fax: (90-212) 3481919.
Branch Manager: Mr. Aykut S. Mangaloglu (Retail)

ANKARA
ANKARA
Tepe Prime Shopping Mall, Block B, No. 266,
Eskisehir Devlet Street, 9 Km, Dumlupinar District,
Cankaya, Ankara.
Tel: (90-312) 2489800. Fax: (90-312) 2489801.
Branch Managers: Mr. Yildiray I. Demirci (Retail);
Mr. Ahmet O. Yetkiner (Commercial)

GOP
No. 16, Ugur Mumcu Street, Kazim Ozalp District,
Çankaya, Ankara.
Tel: (90-312) 4553800. Fax: (90-212) 3481858.
Branch Managers: Ms. Deniz F. Omay (Retail);
Mr. Hakki Murat S. Onlem (Commercial)

BALGAT
No: 106 A, Ehlibeyt Mah. Ceyhun Atuf Kansu Cad.
Balgat, Cankaya, Ankara.
Tel: (90-312) 5927500. Fax: (90-212) 3481877.
Branch Manager: Mr. Keykubat K. Sancaktaroglu
(Commercial & Retail)

UMITKOY
No. 12, Osmanaga Konaklari, Cayyolu 1 District,
Cankaya, Ankara.
Tel: (90-312) 2917300. Fax: (90-212) 3481912.
Branch Manager: Ms. Irem E. Celtemen (Retail)

IZMIR
IZMIR CORPORATE AND COMMERCIAL CENTER
Megapol Tower Business Center, No. 41, Anadolu Street,
Bayrakli, Izmir.
Tel: (90-232) 4951500. Fax: (90-212) 3481837.
Branch Managers: Ms. Nursel A. Esen (Retail);
Ms. Nur C. Polat Ruscuklu (Commercial)

ALSANCAK
Cumhuriyet Bldg., No. 176-A, Konak District,
Konak, Izmir.
Tel: (90-232) 4981800. Fax: (90-212) 3481868.
Branch Manager: Ms. Ebru O. Cindoglu (Retail)

BORNOVA
No. 152, Mustafa Kemal Street,
Manavkuyu District, Bayrakli, Izmir.
Tel: (90-232) 3909300. Fax: (90-212) 3481911.
Branch Manager: Mr. Celal E. Oner (Retail)

HATAY
No. 285-293-A, Inonu Street, Arab Hasan District,
Karabaglar, Izmir.
Tel: (90-232) 2921200. Fax: (90-212) 3481887.
Branch Manager: Ms. Nalan H. Pala (Retail)

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No. 532/A-B, Cemal Gursel Street,
Bostanli District, Karsiyaka, Izmir.
Tel: (90-232) 4911000. Fax: (90-212) 3481892.
Branch Manager: Ms. Gulum O. Gurle (Retail)

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GEBZE
No. 34, Ismetpasa Avenue, Hacihalil District,
Gebze, Kocaeli.
Tel: (90-262) 6742400. Fax: (90-212) 3481873.
Branch Manager: Ms. Gaye S. Akcoru
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No. 104, Cumhuriyet Street, Izmit, Kocaeli.
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Branch Manager: Ms. Nur Esin A. Keles (Retail)

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BURSA
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Branch Managers: Ms. Aysegul H. Ozata (Retail);
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Seyhan, Adana.
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Branch Managers: Ms. Banu U. Gurer (Retail);
Mr. Eray Sevki M. Karabay (Commercial)

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Melikgazi, Kayseri.
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Branch Manager: Mr. Ismail I. Murat (Retail)

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Mr. Ahmet M. Sengun (Commercial)

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KONYA BUSAN
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Branch Managers: Ms. Ebru E. Savas (Retail);
Mr. Ali Zafer A. Kacar (Commercial)

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BODRUM
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Branch Manager: Mr. Mehmet Can A. Aykol (Retail)

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Branch Managers: Ms. Pinar E. Asal (Retail);
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