

BLC BANK S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2020

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BT 30714/DTT

INDEPENDENT AUDITORS' REPORT

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

Adverse Opinion

We have audited the accompanying consolidated financial statements of BLC Bank S.A.L. (the "Bank") and its subsidiaries (collectively referred to the "Group"), which comprise the consolidated statement of financial position as at December 31, 2020 and the consolidated statement of profit or loss, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our audit report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at December 31, 2020, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

1. As explained in Note 3, the Group has not applied the requirements of IAS 29 '*Financial Reporting in Hyperinflationary Economies*' in the preparation of the consolidated financial statements for the year ended December 31, 2020. IAS 29 requires that the financial statements, and corresponding figures for previous periods, of an entity with a functional currency that is hyperinflationary, to be stated in the terms of the measuring unit current at the end of the reporting period. Had the Group applied the requirements of IAS 29 many of the elements of the accompanying consolidated financial statements, including disclosures, would have been significantly impacted. The effects on the consolidated financial statements of this departure have not been determined.

INDEPENDENT AUDITORS REPORT (CONTINUED)

2. Note 1 to the financial statements indicates that there is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole, triggered by the severe financial crisis and unprecedented economic downturn, the effects of the Covid-19 pandemic and the explosion at Beirut Seaport in August 2020. As the situation is rapidly evolving, the magnitude of the possible adverse effects on the Lebanese economy and the banking sector, remains unknown and gave rise to unusual practices that are not considered to be in the normal course of business in a non-crisis environment as disclosed under Notes 1 and 35 to the consolidated financial statements.

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

This situation indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and in the absence of any alternative evidence available to us, we were unable to form a view as to the applicability of the going concern basis, the circumstances of which, together with the effect on the consolidated financial statements should this basis be inappropriate, could result in the Group being unable to realize its assets and discharge its liabilities in the normal course of business. The consolidated financial statements do not adequately disclose this fact. Our opinion on the Group's consolidated financial statements for the year ended December 31, 2019 was also modified in respect of this matter.

3. Cash and balances with Central Bank of Lebanon and investment securities at amortized cost which are carried in the consolidated statement of financial position at LBP 2,238 billion and LBP 1,916 billion respectively (2019: LBP1,959 billion and LBP2,214 billion respectively), include balances and investments with the Central Bank of Lebanon and Lebanese government debt securities at amortized cost with carrying amounts of LBP 3,068 billion and LBP 1,050 billion respectively (2019: LBP 2,907 billion and LBP 1,218 billion respectively). Management has not stated these balances net of allowances for expected credit losses which take into account the significant deterioration in credit quality since initial recognition which has arisen as a result of the continuing economic crisis in Lebanon and the government default on Eurobonds, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.
4. Loans and advances to customers, deposits with banks and financial institutions, and investment securities at amortized cost which are carried in the consolidated statement of financial position at LBP 1,373 billion, LBP 100 and LBP 1,916 billion respectively (2019: LBP 2,072 billion, LBP 41 billion and LBP 2,214 billion respectively) include balances concentrated in Lebanon of loans and advances to customers, balances with banks and financial institutions and investments in debt securities originated by the private sector with carrying amounts of LBP 1,373 billion, LBP 100 billion and LBP 2 billion respectively (2019: LBP 2,072 billion; LBP 41 billion and LBP 31 billion respectively). Management has not stated these balances net of allowances for expected credit losses which take into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.
5. Provisions, which are carried in the consolidated statement of financial position at LBP 12 billion, include a provision for expected credit losses on financial guarantees and other commitments of LBP 0.4 billion. Management has not stated the allowance for expected credit losses on financial guarantees and other commitments by taking into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount.

INDEPENDENT AUDITORS REPORT (CONTINUED)

6. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried in the consolidated statement of financial position at LBP 11 billion and LBP 51 billion respectively (2019: LBP 36 billion and LBP 98 billion respectively), include investment securities of LBP 5 billion and LBP 51 billion respectively (2019: LBP 13 billion and LBP 98 billion respectively), which are issued by the Lebanese government and private entities. Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing in Lebanon at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.
7. Management has not disclosed the fair value of the Group's financial assets and financial liabilities at amortized cost, which constitutes a departure from IFRSs. It is not practical for us to disclose the omitted information as that information has not been made available to us by management. Our opinion in the prior year was also modified in respect of this matter.

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

Emphasis of Matter

We draw attention to Note 1 of the consolidated financial statements, which describes that the Group's assets and liabilities denominated in foreign currencies are translated to Lebanese Pounds in accordance with the accounting policy on foreign currency transactions detailed in note 3 of the financial statements i.e. at the official exchange rate prevailing at the end of the reporting period and that the realization of these assets and the settlement of these liabilities, could be materially different. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. Except for the matters described in the Basis for adverse opinion section of our report, we have determined that there are no other key audit matters to communicate in our report.

INDEPENDENT AUDITORS REPORT (CONTINUED)

Other Information

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

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

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

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

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

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

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

INDEPENDENT AUDITORS REPORT (CONTINUED)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Beirut, Lebanon
September 2, 2021


DFK Fiduciaire du Moyen Orient


Deloitte & Touche

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

<u>ASSETS</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2020</u>	<u>2019</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Cash and balances with Central Bank of Lebanon	5	2,237,560,555	1,959,272,028
Deposits with banks and financial institutions	6	100,226,378	41,369,161
Loan to a bank	7	1,384,631	2,078,252
Loans and advances to customers	8	1,373,000,311	2,071,600,987
Investment securities at fair value through profit or loss	9	10,854,238	36,107,719
Investment securities at amortized cost	9	1,916,393,975	2,213,812,236
Investment securities at fair value through other comprehensive income	9	51,406,657	97,495,880
Customers' liability under acceptances	11	149,084	27,988,048
Assets acquired in satisfaction of loans	12	69,863,846	83,976,041
Right-of-use assets	13	18,616,649	22,349,593
Property and equipment	14	89,825,297	94,881,950
Intangible assets	15	4,671,738	4,618,351
Other assets	16	<u>33,701,125</u>	<u>31,498,428</u>
		5,907,654,484	6,687,048,674
 Assets held for sale	 17	 <u>23,849,831</u>	 <u>21,732,835</u>
 Total Assets		 <u>5,931,504,315</u>	 <u>6,708,781,509</u>
 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:	 38		
Letters of guarantee and standby letters of credit		83,116,613	123,875,508
Letters of credit		-	4,374,695
Forward exchange contracts		18,512,100	39,311,870
 FIDUCIARY ACCOUNTS	 39	 7,228,463	 7,228,463

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL
PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

(Continued)

<u>LIABILITIES</u>	<u>Notes</u>	<u>December 31,</u>	
		<u>2020</u>	<u>2019</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Deposits from banks and financial institutions	18	107,618,670	173,746,297
Customers' accounts	19	4,634,625,901	5,310,511,959
Liability under acceptances	11	149,084	28,332,312
Other borrowings	20	304,738,835	347,826,103
Lease liabilities	13	19,678,708	22,065,854
Other liabilities	21	82,759,157	66,284,074
Provisions	22	<u>12,321,265</u>	<u>20,475,746</u>
		5,161,891,620	5,969,242,345
Liabilities associated with assets held for sale	17	<u>844,339</u>	<u>769,393</u>
Total liabilities		<u>5,162,735,959</u>	<u>5,970,011,738</u>
 <u>EQUITY</u> 			
Capital	23	214,000,000	214,000,000
Shareholders' cash contribution to capital	23	69,289,411	-
Preferred shares	24	152,786,633	152,786,633
Treasury shares	25	(76,855,365)	(75,787,285)
Non-distributable reserves	26	262,937,542	263,137,526
Brought forward retained earnings		177,761,217	226,124,529
Cumulative change in fair value of investments at fair value through other comprehensive income		(4,906,146)	5,532,268
Net loss for the year		(27,441,570)	(48,116,693)
Equity attributable to equity holders of the Bank		<u>767,571,722</u>	<u>737,676,978</u>
Non-controlling interests		<u>1,196,634</u>	<u>1,092,793</u>
Total equity		<u>768,768,356</u>	<u>738,769,771</u>
Total Liabilities and Equity		<u>5,931,504,315</u>	<u>6,708,781,509</u>

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL
PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
YEAR ENDED DECEMBER 31, 2020

	Notes	Year ended December 31,	
		2020 LBP'000	2019 LBP'000
Interest income		351,020,601	506,436,493
Less: Tax on interest		(25,755,438)	(22,606,098)
Interest income, net of tax	28	325,265,163	483,830,395
Interest expense	29	(191,532,944)	(403,954,752)
Net interest income		133,732,219	79,875,643
Fee and commission income	30	37,802,489	29,025,392
Fee and commission expense	31	(2,256,887)	(2,285,054)
Net fee and commission income		35,545,602	26,740,338
Losses arising from the derecognition of financial assets measured at amortized cost	32	(36,574,731)	-
Losses arising from the derecognition of debt securities measured at fair value through other comprehensive income	33	(108,793)	-
Net interest income and other gain on investment securities at fair value through profit or loss	34	3,031,717	816,126
Other operating (expense)/income	35	(7,824,593)	3,251,942
Net financial revenues		127,801,421	110,684,049
Allowance for expected credit losses, net	43	(53,360,701)	(54,104,711)
Recovery/(direct write-off) of loans and advances, net		94,713	(19,860)
Net financial revenues after net expected credit losses		74,535,433	56,559,478
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	12, 14	16,032,178	1,423,797
Provision for risks and charges, net	22	3,279,000	(186,000)
Staff costs	36	(66,558,586)	(65,284,814)
Tax on revenues	21	(11,500,000)	-
General and administrative expenses	37	(25,258,941)	(26,876,465)
Depreciation and amortization	14, 15	(7,663,290)	(7,303,350)
Depreciation of right-of-use assets	13	(3,732,944)	(2,991,207)
Loss before income tax		(20,867,150)	(44,658,561)
Income tax expense	21	(6,535,493)	(3,360,192)
Loss for the year		(27,402,643)	(48,018,753)
Attributable to:			
Equity holders of the Bank		(27,441,570)	(48,116,693)
Non-controlling interests		38,927	97,940
		(27,402,643)	(48,018,753)

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL
PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2020

	<u>Notes</u>	<u>Year ended</u> <u>December 31,</u>	
		<u>2020</u>	<u>2019</u>
		<u>LBP'000</u>	<u>LBP'000</u>
Loss for the year		(27,402,643)	(48,018,753)
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net change in fair value of equity securities at fair value through other comprehensive income		(11,519,602)	-
Deferred tax	21	933,232	-
		<u>(10,586,370)</u>	<u>-</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of debt securities at fair value through other comprehensive income (net of tax)		178,261	(534,923)
Deferred tax	21	(30,305)	89,034
		<u>147,956</u>	<u>(445,889)</u>
Total other comprehensive loss		(10,438,414)	(445,889)
Total comprehensive loss for the year		(37,841,057)	(48,464,642)
Attributable to:			
Equity holders of the Bank		(37,879,984)	(48,562,582)
Non-controlling interests		38,927	97,940
		<u>(37,841,057)</u>	<u>(48,464,642)</u>

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL
PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2020

	Attributable to equity holders of the Bank										
	Capital LBP'000	Preferred Shares and Premiums LBP'000	Treasury Shares LBP'000	Shareholders' Cash Contribution to Capital LBP'000	Non- distributable Reserves LBP'000	Cumulative Change in Fair Value of Investments LBP'000	Brought Forward Retained Earnings LBP'000	Profit/(Loss) for the Year LBP'000	Total LBP'000	Non- controlling Interests LBP'000	Total LBP'000
Balance - January 1, 2019	213,650,000	152,786,633	-	-	238,220,958	5,978,157	201,383,390	61,748,513	873,767,651	6,531,644	880,299,295
Prior year adjustment	-	-	-	-	(350,000)	-	(1,180,823)	-	(1,180,823)	-	(1,180,823)
Issuance of common shares	350,000	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	(75,787,285)	-	-	-	36,481,945	-	(75,787,285)	-	(75,787,285)
Appropriation of 2018 profit	-	-	-	-	25,266,568	-	(10,296,396)	61,748,513	(10,296,396)	-	(10,296,396)
Dividends paid on preferred shares (Note 27)	-	-	-	-	-	-	-	-	-	(5,521,238)	(5,521,238)
Disposal of subsidiary	-	-	-	-	-	-	229,117	-	(229,117)	-	(229,117)
Other movement	-	-	-	-	-	-	-	-	-	-	-
Deferred tax on future dividend distribution of subsidiaries	-	-	-	-	-	445,889	(34,470)	-	(34,470)	-	(34,470)
Total comprehensive loss for the year 2019	-	-	-	-	-	-	226,124,529	(48,116,693)	(48,562,582)	97,940	(48,464,642)
Balance - December 31, 2019	214,000,000	152,786,633	(75,787,285)	-	263,137,526	5,532,268	48,116,693	48,116,693	1,092,793	738,769,771	
Appropriation of 2019 loss	-	-	-	-	-	-	-	-	-	-	-
Contributions from shareholders (Note 23)	-	-	-	69,289,411	-	-	-	-	-	-	69,289,411
Adjustment related to disposal of subsidiary	-	-	-	-	(199,984)	-	(157,373)	-	(357,357)	-	(357,357)
Other movement	-	-	(1,068,080)	-	-	-	-	-	(1,068,080)	-	(1,068,080)
Effect of exchange rates changes	-	-	-	-	-	-	-	-	-	-	-
Deferred tax on future dividend distribution of subsidiaries	-	-	-	-	-	10,438,414	(89,246)	-	(89,246)	-	(89,246)
Total comprehensive loss for the year 2020	-	-	-	-	-	(4,906,146)	177,761,217	(27,441,570)	(37,879,984)	38,927	(37,841,057)
Balance - December 31, 2020	214,000,000	152,786,633	(76,855,365)	69,289,411	262,937,542	4,906,146	177,761,217	27,441,570	1,196,634	768,768,356	

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	Notes	Year ended December 31,	
		2020	2019
		LBP'000	LBP'000
Cash flows from operating activities:			
Net loss for the year		(27,402,643)	(48,018,753)
Adjustments for:			
Allowance for expected credit losses	42	53,360,701	54,104,711
Depreciation and amortization	14, 15	7,663,290	7,303,350
Depreciation of right-of-use	13	3,732,944	2,991,207
(Write-back)/allowance for risk and charges (net)	22	(3,279,000)	186,000
(Write-back)/provision for end-of-service indemnities (net)	22	(2,473,389)	577,773
Allowance for/(write-back of) provision for loss on foreign currency position	22	(841,411)	901,398
Unrealized (gain)/loss on investments at fair value through profit or loss	34	(3,153,122)	222,343
Tax on revenues		11,500,000	-
Income tax expense	21	6,535,493	3,360,192
(Gain)/loss on disposal of property and equipment	14	(321,071)	7,922
Gain on disposal of property acquired in satisfaction of loans	12	(15,711,107)	(1,431,719)
Dividend income	34, 35	(97,742)	(2,113,583)
Interest expense	29	191,532,944	403,954,752
Interest income	28, 34, 40	(325,278,100)	(484,422,009)
		(104,232,213)	(62,376,416)
Net decrease in loans and advances to customers	40	697,729,652	311,561,082
Net decrease in investments at fair value through other comprehensive income	40	33,947,936	15,299,001
Net decrease in investments at fair value through profit or loss	40	28,268,615	18,961,180
Net decrease in investments at amortized cost	40	235,638,078	322,341,111
Net decrease in customers' deposits		(641,233,286)	(582,970,787)
Net decrease in compulsory deposits with the Central Bank		26,994,024	8,088,084
Net increase/(decrease) in margin with banks		244,709	3,800,352
Net (decrease)/increase in term deposits with Central Bank		220,642,877	(276,782,618)
Net (decrease)/increase in deposits from banks		(68,792,258)	24,763,106
Net increase in other assets		(2,202,697)	(7,776,898)
Net increase/(decrease) in other liabilities		(486,537)	(11,244,494)
Proceeds from disposal of assets acquired in satisfaction of loans	40	29,823,302	2,368,276
Payment of tax assessment		(325,080)	-
Settlements made from provisions	22	(1,559,437)	(2,247,789)
		454,457,685	(236,216,810)
Income tax paid		(260,192)	(4,710,054)
Dividends received from investments at fair value through profit or loss	34	86,504	429,627
Dividends received from investments at fair value through other comprehensive income	35	11,238	1,683,956
Interest paid		(222,430,749)	(400,375,516)
Interest received		342,613,442	487,171,323
Net cash generated/(used in) from operating activities		574,477,928	(152,017,474)
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		1,345,042	2,444
Proceeds from disposal of a subsidiary	17	-	98,101,015
Acquisition of property and equipment		(3,450,225)	(11,093,575)
Acquisition of intangible assets		(233,770)	(1,482,828)
Net cash generated from/(used in) investing activities		(2,338,953)	85,527,056
Cash flows from financing activities:			
Dividends paid	27	-	(10,296,396)
Settlement of lease liabilities	13	(3,480,120)	(2,840,988)
Shareholders' cash contribution to capital	23	69,289,411	-
Net decrease in loan to a bank		700,000	700,000
Acquisition of treasury shares	25	-	(75,787,285)
Net decrease in other borrowings	20	(43,084,630)	(56,441,557)
Net cash generated/(used in) from financing activities		23,424,661	(144,666,226)
Net (decrease)/increase in cash and cash equivalents		595,563,636	(211,156,644)
Effect of foreign currency fluctuation and other adjustments		(2,837,502)	(240,456)
Cash and cash equivalents beginning of year	40	260,197,774	471,594,874
Cash and cash equivalents end of year	40	852,905,296	260,197,774

THE ACCOMPANYING NOTES 1 TO 47 FORM AN INTEGRAL
PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BLC BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

1. GENERAL INFORMATION

BLC Bank S.A.L., (the “Bank”), is a Lebanese joint stock company registered in the Commercial Register under No. 1952 and in the Central Bank of Lebanon list of banks under No. 11. The consolidated financial statements of the Bank comprise the financial statements of the Bank and those of its subsidiaries (collectively the “Group”). The Group is primarily involved in investment, corporate and retail banking.

The Bank’s headquarters are located at BLC Bank building, Adlieh Square, Beirut, Lebanon.

Fransabank S.A.L. is the ultimate parent of the Bank.

The consolidated subsidiaries consist of the following as at December 31:

	<u>Ownership interest</u>		<u>Country of incorporation</u>	<u>Business activity</u>
	<u>2020</u>	<u>2019</u>		
	%	%		
BLC Finance S.A.L.	99.04	99.04	Lebanon	Financial Institution
BLC Services S.A.L.	90.67	90.67	Lebanon	Insurance Brokerage
USB Holdings PLC (classified as held for sale in 2017 formerly USB Bank PLC)	99.25	99.25	Cyprus	Commercial bank
BLC Invest S.A.L.	-	-	Lebanon	Under liquidation

1.1 The Macro Economic Environment

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

The dry up of the dollar inflow to the country, precipitated systemic failures across banking, debt and the exchange rate. A significant portion of the Lebanese banks holdings consist of sovereign lending, including deposits with Central Bank of Lebanon, which made banks unable to meet their dollar obligations to customers. A *de facto* restriction on outbound transfers and foreign currency cash withdrawals, were imposed to preserve the foreign currency left in the country. The difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies increased, deviating significantly from the official peg of 1507.5 LBP/USD. This has resulted in an uncontrolled rise in prices driving high inflation and rise in the consumer price index, loss of confidence in the economy and deterioration in the economic fundamentals.

The financial crisis has been intensified by the devastating explosion occurred on August 4, 2020 at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, and the COVID-19 pandemic which particularly hit the tourism sector.

The Central Bank of Lebanon efforts to control foreign exchange and slow the loss of foreign currency reserves, led to multiple exchange rates, however unsustainable.

- Official exchange rate (1507.5 LBP/USD) currently maintained mainly in banking transactions.
- Platform rate - Sayrafa (3,900 LBP/USD): currently mainly used for LBP cash withdrawals in small amounts, from foreign currency deposits accounts, based on limits set by banks separately.
- Platform rate introduced by Central Bank of Lebanon during the second quarter of 2021.

On April 30, 2020, the Lebanese Council of Ministers approved the Lebanese Government's Financial Recovery Plan (the Plan) which includes among other items, reviewing the peg policy, restructuring of the government debt, restructuring of the financial system and the banking sector, and international financial assistance. On May 1, 2020, a formal request for support from the International Monetary Fund (IMF) was addressed to the IMF with no progress made so far.

In this respect the Association of Banks in Lebanon (ABL) has challenged the Government's Plan for many uncertainties associated with the Plan and the assumptions made in it. The ABL submitted an alternative approach to tackling the Lebanese economic crisis in general and the banking crisis in particular.

1.2 Central Bank of Lebanon policy initiatives

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

Regulatory framework:

- *Intermediate Circular 567:*
 - BDL licensees should apply the following minimum regulatory expected credit loss ("ECL") ratios, while permitting banks to constitute progressively those ECLs over a period of five years (starting from 2020). The BDL Central Council may consider the extension of the period to 10 years, for banks that manage to complete the 20% cash contribution to capital requirement:
Foreign currency placements with BDL, including certificates of deposits: 1.89%
Local currency deposits with BDL: 0%
Lebanese government bonds in foreign currencies: 45%
Lebanese treasury bills in local currency: 0%
 - BDL licensees are allowed not to downgrade loans exposures showing past dues (principal and interest) between February 2020 and December 2020 as a result of COVID-19, unless borrower ceases to operate as a going concern, in which case exposure should be automatically downgraded to Stage 3.
 - Prohibition of dividends distribution on banks' common shares for the years 2019 and 2020.
 - By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018. The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these are liquidated within 5 years.

- Banks can include the revaluation surplus of property and equipment in Tier I capital, subject to BDL approval on the revaluation.
- Banks must comply with the minimum capital adequacy ratios. Bank should refrain from dividend distribution, should these ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio.
Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022.
- Banks are required to submit to a comprehensive plan to Central Bank, reflecting own strategies to comply with the regulatory minimum capital requirements, including the timeline to achieve compliance. The plan should incorporate allowances required by the Banking Control Commission of Lebanon against different risks banks are exposed to.
- As exceptional measures, 100% of ECL on Stage 1 and Stage 2 exposures (except those against sovereign and BDL exposures in local and foreign currency), may be added to common equity Tier I capital. These will be gradually amortized to 75% in 2022, 50% in 2023 and 25% in 2024.
- *Basic Circular 154:*
 - Banks should perform a fair value assessment of their assets and liabilities and set a plan to comply with all applicable regulatory requirements, namely those related to liquidity and capital adequacy, and restore their levels of service which were in place before the economic crisis. Banks should also submit a request to the BDL Central Council to reconstitute/raise their capital to the required levels by the end of the first quarter of the year 2021, where applicable. In this respect, banks shall consider soliciting their depositors to convert their deposits into shares or bonds, provided listing the bank's shares on the Beirut Stock Exchange.
 - In order to enhance their offshore liquidity, banks are required to instigate those depositors to repatriate 30% (in the case of banks' key executives and politically exposed persons) and 15% (for other depositors) of their overseas transfers made since July 1, 2017 and exceeding the equivalent of USD 500,000. Funds received will be deposited in special saving accounts for 5 years and will not be subject to compulsory reserve requirements.
 - Banks should secure by February 28, 2021, offshore foreign currency deposits equivalent to a minimum of 3% of their total foreign currency as at July 31, 2020.
- *Intermediate Circular 575* approving banks to book exceptionally one third of the capital gains arising from the revaluation of assets received in settlement of debts, under Tier II capital subject to the approval of the BDL Central Council on the revaluation methodology and raising capital before December 31, 2021 as follows:
 - Add a maximum of one third of the revaluation gains under Tier 2 capital,
 - Increase common equity Tier I capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier II capital.

Monetary and exchange rate policies and socio-economic support:

- *Intermediate Circular 536*: Stipulates the following measures:
 - Interest earned on by banks on USD Certificates of Deposits issued by BDL, are received 50%-50% in USD and LBP respectively. Similarly, interest on customers deposits denominated in foreign currencies are paid 50%-50% in the account currency and LBP respectively.
 - Banks should comply with interest rate ceilings on customer deposits capped at 5% and 8.5% on foreign currency and LBP denominated deposits respectively.
 - The Beirut Reference Rates (BRR) should reflect the lower deposit rates.
- *Basic Circular 150* exempting banks from compulsory reserve requirements on fresh foreign currency deposits received after April 9, 2020, subject to conditions.
- *Basic Circulars 148 and 151 and Intermediate Circulars 549 and 565* allowing withdrawals of pre-crisis customers' deposits foreign currency accounts at the BDL platform rate subject to limits set by banks.
- *Intermediate Circulars 547 and 552* requesting banks to rollover loans to customers in local and foreign currencies maturing between March 2020 to June 2020 up to 5 years at zero interest rate and fees, subject to the bank assessment of the customers' inability to settle their dues because of the economic situation. BDL also allowed the extension of loans to businesses to fund salaries and operating expenses, at the same terms mentioned above. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
- *Basic Circular 152 and Intermediate Circular 569* allowing banks extension of loans up to 5 years at zero interest rate, to help those affected by the Beirut Seaport explosion. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
- *Intermediate Circular 568* requesting banks to accept repayment by resident customers of their USD denominated retail loans (up to USD 800,000 for housing loans and USD 100,000 for retail loans) in local currency at the official exchange rate (LBP 1,507.5 to the USD).

1.3 The Group's Financial particulars

The Group's monetary assets and liabilities in foreign currency, were converted in Lebanese Pound at the official exchange rate peg of USD1 = LBP1,507.5 which is the rate that Lebanese banks and other regulated entities are legally required to use. As the official exchange rate significantly deviated from the exchange rates in the parallel markets, the valuation of assets and liabilities in foreign currencies at a different rate is expected to significantly impact the Group's financial statements once the regulatory authorities adopt a free-floating exchange rate policy or implement a new legal exchange mechanism. Foreign currency mismatch is detailed in Note 42 to these financial statements.

The substantially overvalued official exchange rate along with the restrictions imposed on outbound payments and the large amounts of offshore liquidity needed by the Group, has led to significant costs recognized during 2020 and which amounted to LBP10.5 billion (Note 35).

As at December 31, 2020, the Group's net credit exposure to Lebanese sovereign debt, including BDL, represented approximately 70% of total consolidated assets. LBP denominated net exposures and foreign currency denominated net exposures amounted to LBP1.5 billion and LBP2.7 billion respectively.

The material uncertainties discussed under Note 1.1 above and the lack of observable indicators, have impacted management ability to formulate adequate loss allowances on the Group's exposures to BDL, Lebanese government bonds, deposits with banks, and other financial instruments originated by Lebanese banks and other corporate entities. Therefore, the loss allowances recognized in these financial statements do not represent a reasonable estimate of the expected credit losses on these exposures and have not been assessed in accordance with IFRS 9. This applies as well to the credit risk Staging of these exposures as disclosed in these financial statements. The basis of the loss allowances recognized by the Group against BDL and sovereign exposures is described under Note 44.

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

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

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

Management has significant concerns about the effects that the above matters will have on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

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

As disclosed in Note 44 to these consolidated financial statements, the Group's capital adequacy ratio as at December 31, 2020 and 2019, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

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

2.1 New and amended IFRS that effective for the current year

The Group has applied the following amendments to IFRS which became effective for annual periods beginning on or after January 1, 2020:

- *Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions*
In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16). The amendments provide relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.
- *IBOR Transition (Interest Rate Benchmark Reform)*
In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) (IBOR reform Phase 1). IBOR reform Phase 1 provides a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. Such reliefs permit to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered as a result of IBOR reform. Also, the reliefs allow to not discontinue hedging relationships as a result of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.
- *Annual Improvements to IFRS Standards 2018–2020 Cycle amending IFRS 1, IFRS 9, IFRS 16, and IAS 41.*
- *Amendments to References to the Conceptual Framework in IFRS Standards*
The amendments include consequential amendments to affected Standards so that they refer to the new *Framework*. Not all amendments, however, update those pronouncements with regard to references to and quotes from the *Framework* so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the *Framework* they are referencing to (the IASB *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
- *Amendments to IAS 3 Definition of a business*
The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Portfolio of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after January 1, 2020.

- *Amendments to IAS 1 and IAS 8 Definition of 'material'*

The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

The application of the above amendments to IFRS did not have a material impact on the Group's accounting policies, financial position or performance.

2.3 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- *Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16:* In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a risk-free rate ("RFR").

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 RFR. As a practical expedient, changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required 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. Effective for annual periods beginning on or after January 1, 2021.

- *IFRS 3 — Reference to the Conceptual Framework:* Amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. Effective for annual periods beginning on or after January 1, 2022.
- *IFRS 9 — Financial Instruments:* Amendments resulting from annual improvements to IFRS standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities). Effective for annual periods beginning on or after January 1, 2022.
- *IAS 16 — Property, Plant and Equipment:* Amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. Effective for annual periods beginning on or after January 1, 2022.
- *IAS 37 Provisions, Contingent Liabilities and Contingent Assets:* Amendments specify that the 'cost of fulfilling' a contract comprises the 'cost that relate directly to the contract'. Effective for annual periods beginning on or after January 1, 2022.
- *Amendments to IAS 1 Presentation of Financial Statements:* Amendments regarding the classification of liabilities as Current or Non-current. Effective for annual periods beginning on or after January 1, 2023.
- *IFRS 17 Insurance Contracts:* IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at January 1, 2023. Effective for annual periods beginning on or after January 1, 2023.
- *Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011)* relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. Effective date deferred indefinitely. Adoption is still permitted.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements are presented in Lebanese Pound (LBP) which is the Group's reporting currency. The primary currency of the economic environment in which the Group operates (functional currency) is the Lebanese Pound. All values are rounded to the nearest thousands, except when indicated otherwise.

The consolidated financial statements have been prepared on the historical cost basis except for the following that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below:

- Land and buildings acquired prior to 1999 are measured at their revalued amounts based on market prices prevailing during 1999 as permitted by local regulations, to compensate for the inflationary effects prevailing in the earlier years.
- Financial assets and liabilities at fair value through profit and loss and other comprehensive income.
- Derivative financial instruments.
- Assets and liabilities classified as held for sale.

Hyperinflation in Lebanon

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

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

During the year ended December 31, 2020, the economic environment in Lebanon experienced the acceleration of inflation indices, a three-year cumulative inflation rate exceeding 100%, and the significant devaluation of the Lebanese Pound. Judgement applied, determine that there were sufficient characteristics in Lebanon to consider its economy hyperinflationary as of December 31, 2020.

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

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

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

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

Summary of significant accounting policies

Following is a summary of the Group's significant accounting policies:

A. Basis of consolidation

The consolidated financial statements of BLC Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as at the reporting date. Control is achieved when the Bank:

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

The Bank 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.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank's voting rights and potential voting rights.

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

Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. Business combinations

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Foreign currencies

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

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

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

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

D. Financial instruments

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

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

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

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

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

E. Financial assets

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

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

Specifically:

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

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

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

Debt instruments at amortized cost or at FVTOCI

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

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

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

Impairment

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

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

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

Credit-impaired financial assets

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

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

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

Purchased or originated credit impaired (POCI) financial assets

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

Definition of default

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

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

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

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

Significant increase in credit risk

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

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

Modification and derecognition of financial assets

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

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

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

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

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

Exchange of securities

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

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

Write-off

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

Presentation of allowance for ECL in the statement of financial position

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

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

F. Financial liabilities and equity

Classification as debt or equity:

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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

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

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments is an equity instrument.

Financial Liabilities:

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

G. Offsetting

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

H. Fair Value measurement of financial instruments

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 of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

For financial reporting purposes, fair value measurement are categorized into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and
- Level 3 - Inputs are unobservable inputs for the asset or liability.

I. Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9.

J. Financial guarantee contracts

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

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

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

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

K. Hedge accounting

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

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

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

L. Non-Current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

M. Property and equipment

Property and equipment except for buildings acquired prior to 1999 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1999 are stated at their revalued amounts, based on market prices prevailing during 1999 less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures less their residual values, if any, using the straight-line method over the useful lives estimated as follows:

	<u>%</u>
Buildings	2-4
Office improvements and installations	20
Furniture, equipment and machines	8-20
Computer equipment	20-33
Vehicles	10-20

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

N. Intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets other than goodwill are amortized on a straight line over their estimated useful lives as follows:

Computer software	5 years
Key money	15 years

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

O. Leases

The Group as lessee

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

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

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

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

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

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

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

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

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

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

P. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from Banking Control Commission approval date. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the statement of profit or loss. Gains resulting from the sale of repossessed assets are transferred to reserves to be used for capital increase starting in the following financial year.

Q. Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets, other than investment properties and deferred taxes, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Goodwill is tested annually for impairment. Recoverable amount is the higher of fair value less costs to sell and value in use.

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

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

An impairment loss in respect of goodwill is not reversed.

R. Provision for employees' end-of-service indemnity

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

S. Provisions

Provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact is material.

T. Deferred restricted contributions

Restricted contributions derived from special and non-conventional deals arrangement concluded with the regulator are deferred until designated conditions for recognition are met. At the time income is received it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

U. Net Interest income

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

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

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

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities.

V. Net fee and commission income

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

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

W. Dividend income

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

X. Income tax

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

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

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

Y. Fiduciary accounts

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

Z. Cash and cash equivalents

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Going Concern:

Notwithstanding the uncertainties resulting from the events and conditions disclosed under Note 1, these consolidated financial statements have been prepared based on the going concern assumption which assumes that the Group will have adequate resources to continue in operational existence for the foreseeable future. The Board of Directors are monitoring the situation and believe that they are taking all possible attainable measures under these circumstances to maintain the viability of the Group and continue operations in the current business environment.

Deferred tax assets:

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized within the regulatory expiration period. 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. When assessing if it is probable that future taxable profits will be available, management considers all available evidence, both negative and positive. In the light of the current circumstances and uncertainties described in Note 1, management did not recognize deferred tax assets.

Business model assessment:

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

Significant increase of credit risk:

As explained in note 3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 3 and note 41 for more details.

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar.

Models and assumptions used:

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 and note 42 for more details on ECL.

B. Key Sources of Estimation Uncertainty:

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Macroeconomic Factors and Forward-Looking Information:

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

Probability of default:

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

Loss Given default:

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

5. CASH AND BALANCES WITH CENTRAL BANK OF LEBANON

	December 31,			
	2020		2019	
	Balance	of which compulsory/regulatory deposits	Balance	of which compulsory/regulatory deposits
	LBP'000	LBP'000	LBP'000	LBP'000
Cash on hand	38,491,940	-	17,650,581	-
<i>Central Bank of Lebanon:</i>				
Current accounts	578,642,630	40,264,821	187,214,490	67,258,845
Term placements	1,596,631,492	512,360,130	1,724,250,619	546,266,444
Accrued interest receivable	27,196,813	-	31,250,492	-
	2,240,962,875	552,624,951	1,960,366,182	613,525,289
Allowance for expected credit losses (Note 42)	(3,402,320)	-	(1,094,154)	-
	<u>2,237,560,555</u>	<u>552,624,951</u>	<u>1,959,272,028</u>	<u>613,525,289</u>

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with local banking regulations. These deposits are not available for use in the Group's day-to-day operations.

Regulatory deposits under term placements with Central Bank of Lebanon are made in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and borrowings acquired from non-resident financial institutions.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2020	2019
	LBP'000	LBP'000
Items for collection	-	10,434
Current accounts with banks and financial institutions	23,228,066	37,354,469
Current accounts with the Parent Bank	4,956,943	2,115,671
Current accounts with related banks and financial institutions	<u>4,981,288</u>	<u>952,223</u>
	<u>33,166,297</u>	<u>40,432,797</u>
Term placements with the Parent Bank	67,686,750	-
Margin accounts	<u>814,742</u>	<u>1,059,452</u>
	<u>68,501,492</u>	<u>1,059,452</u>
	101,667,789	41,492,249
Allowance for expected credit losses (Note 42)	<u>(1,441,411)</u>	<u>(123,088)</u>
	<u>100,226,378</u>	<u>41,369,161</u>

Above balances are allocated between onshore and offshore accounts as follows:

	December 31,	
	2020	2019
	LBP'000	LBP'000
Onshore	73,376,965	2,695,137
Offshore	<u>28,290,824</u>	<u>38,797,112</u>
	<u>101,667,789</u>	<u>41,492,249</u>

7. LOAN TO A BANK

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Regular performing account	1,400,000	2,100,000
Accrued interest receivable	<u>11,305</u>	<u>18,288</u>
	1,411,305	2,118,288
Allowance for expected credit losses (Note 42)	(<u>26,674</u>)	(<u>40,036</u>)
	<u>1,384,631</u>	<u>2,078,252</u>

The above loan is secured against a pledge of notes receivable against housing loans granted by the borrower. The loan principal balance matures over 10 yearly payments of LBP700 million each with final payment in year 2022.

8. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortized cost consist of the following:

	<u>December 31, 2020</u>		
	<u>Exposures (net of interest in suspense)</u>	<u>Allowance for expected credit losses</u>	<u>Net</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Credit risk stage 1&2:			
Retail loans:			
Housing loans	450,930,781	(4,257,044)	446,673,737
Personal loans	123,211,088	(5,220,231)	117,990,857
Car loans	45,553,160	(1,177,358)	44,375,802
Credit cards	8,913,453	(202,307)	8,711,146
Education loans	8,419,796	(56,109)	8,363,687
Staff loans	4,494,850	-	4,494,850
Private banking	5,332	-	5,332
Small and medium enterprises	148,830,354	(2,831,613)	145,998,741
Corporates	<u>464,637,844</u>	(<u>31,576,131</u>)	<u>433,061,713</u>
	<u>1,254,996,658</u>	(<u>45,320,793</u>)	<u>1,209,675,865</u>
Credit risk stage 3:			
Substandard	73,335,953	(18,918,944)	54,417,009
Doubtful	154,089,563	(64,071,026)	90,018,537
Bad	<u>38,764,146</u>	(<u>38,747,001</u>)	<u>17,145</u>
	<u>266,189,662</u>	(<u>121,736,971</u>)	<u>144,452,691</u>
	1,521,186,320	(167,057,764)	1,354,128,556
Accrued interest receivable	<u>18,871,755</u>	-	<u>18,871,755</u>
Total	<u>1,540,058,075</u>	(<u>167,057,764</u>)	<u>1,373,000,311</u>

	December 31, 2019		
	Exposures (net of interest in suspense)	Allowance for expected credit losses	Net
	LBP'000	LBP'000	LBP'000
Credit risk staging 1&2:			
Retail loans:			
Housing loans	536,316,092	(2,481,430)	533,834,662
Personal loans	204,051,337	(5,995,917)	198,055,420
Car loans	86,124,462	(1,545,409)	84,579,053
Credit cards	18,143,932	(347,563)	17,796,369
Education loans	11,611,515	(47,173)	11,564,342
Staff loans	7,556,456	-	7,556,456
Private banking	1,025,577	-	1,025,577
Small and medium enterprises	270,490,617	(1,805,275)	268,685,342
Corporates	<u>844,190,570</u>	<u>(48,204,685)</u>	<u>795,985,885</u>
	<u>1,979,510,558</u>	<u>(60,427,452)</u>	<u>1,919,083,106</u>
Credit risk staging 3:			
Substandard	64,529,283	(13,398,543)	51,130,740
Doubtful	137,841,162	(60,253,197)	77,587,965
Bad	<u>45,857,430</u>	<u>(45,640,120)</u>	<u>217,310</u>
	<u>248,227,875</u>	<u>(119,291,860)</u>	<u>128,936,015</u>
	<u>2,227,738,433</u>	<u>(179,719,312)</u>	<u>2,048,019,121</u>
Accrued interest receivable	<u>23,581,866</u>	<u>-</u>	<u>23,581,866</u>
Total	<u>2,251,320,299</u>	<u>(179,719,312)</u>	<u>2,071,600,987</u>

The above balances include loans to related parties of LBP5.2billion (2019: LBP7.1billion).

9. INVESTMENT SECURITIES

	December 31,					
	2020			2019		
	Local currency	Foreign currencies	Total	Local currency	Foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
At fair value through profit or loss	1,370,420	9,483,818	10,854,238	5,180,550	30,789,181	35,969,731
Accrued interest receivable	-	-	-	-	137,988	137,988
	<u>1,370,420</u>	<u>9,483,818</u>	<u>10,854,238</u>	<u>5,180,550</u>	<u>30,927,169</u>	<u>36,107,719</u>
At fair value through other comprehensive income	13,665,607	37,621,608	51,287,215	57,716,787	38,833,460	96,550,247
Accrued interest receivable	119,442	-	119,442	766,944	178,689	945,633
	<u>13,785,049</u>	<u>37,621,608</u>	<u>51,406,657</u>	<u>58,483,731</u>	<u>39,012,149</u>	<u>97,495,880</u>
At amortized cost	765,852,628	1,124,638,809	1,890,491,437	965,371,514	1,214,910,500	2,180,282,014
Accrued interest receivable	25,053,118	849,420	25,902,538	27,525,980	6,004,242	33,530,222
	<u>790,905,746</u>	<u>1,125,488,229</u>	<u>1,916,393,975</u>	<u>992,897,494</u>	<u>1,220,914,742</u>	<u>2,213,812,236</u>

A. Investments at fair value through profit or loss:

	December 31,					
	2020			2019		
	Local currency	Foreign currencies	Total	Local currency	Foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equities	-	6,150,799	6,150,799	-	2,892,528	2,892,528
Unquoted equities	1,370,420	3,016,444	4,386,864	1,177,962	1,885,836	3,063,798
Foreign Eurobonds	-	-	-	-	20,006,530	20,006,530
Mutual Funds	-	316,575	316,575	4,002,588	6,004,287	10,006,875
	<u>1,370,420</u>	<u>9,483,818</u>	<u>10,854,238</u>	<u>5,180,550</u>	<u>30,789,181</u>	<u>35,969,731</u>
Accrued interest receivable	-	-	-	-	137,988	137,988
	<u>1,370,420</u>	<u>9,483,818</u>	<u>10,854,238</u>	<u>5,180,550</u>	<u>30,927,169</u>	<u>36,107,719</u>

Unquoted equities represent the Group's share in startups established based on co-sharing agreement with the regulator providing the funding.

B. Investments at fair value through other comprehensive income:

	December 31,					
	2020			2019		
	Local currency	Foreign currencies	Total	Local currencies	Foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equities	5,601,841	1,095,976	6,697,817	17,079,305	1,131,351	18,210,656
Lebanese government bonds	-	36,525,632	36,525,632	-	37,702,109	37,702,109
Lebanese treasury bills	<u>8,063,766</u>	<u>-</u>	<u>8,063,766</u>	<u>40,637,482</u>	<u>-</u>	<u>40,637,482</u>
	13,665,607	37,621,608	51,287,215	57,716,787	38,833,460	96,550,247
Accrued interest receivable	<u>119,442</u>	<u>-</u>	<u>119,442</u>	<u>766,944</u>	<u>178,689</u>	<u>945,633</u>
	<u>13,785,049</u>	<u>37,621,608</u>	<u>51,406,657</u>	<u>58,483,731</u>	<u>39,012,149</u>	<u>97,495,880</u>

The cumulative change in fair value of investments at fair value through other comprehensive income was as follows:

	December 31,	
	2020	2019
	LBP'000	LBP'000
Unquoted equities	(1,752,742)	9,766,860
Lebanese government bonds	(3,543,445)	(3,755,618)
Lebanese treasury bills	<u>(2,792)</u>	<u>4,876</u>
	<u>(5,298,979)</u>	<u>6,016,118</u>

C. Investments at amortized cost:

	December 31, 2020							
	Local currency			Foreign currencies				
	Amortized cost	Allowance for expected credit losses	Net carrying value	Accrued interest receivable	Amortized cost	Allowance for expected credit losses	Net carrying value	Accrued interest receivable
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Lebanese treasury bills	169,307,126	-	169,307,126	3,271,698	-	-	-	-
Lebanese government bonds	-	(74,621,250)	(74,621,250)	-	971,299,772	(19,115,447)	952,184,325	-
Certificates of deposit issued by Central Bank of Lebanon	669,964,128	-	669,964,128	21,763,082	171,684,660	(170,290)	171,514,370	837,290
Corporate bonds and asset backed securities	1,211,479	(8,855)	1,202,624	18,338	947,020	(6,906)	940,114	12,130
	840,482,733	(74,630,105)	765,852,628	25,053,118	1,143,931,452	(19,292,643)	1,124,638,809	849,420

	December 31, 2019							
	Local currency			Foreign currencies				
	Amortized cost	Allowance for expected credit losses	Net carrying value	Accrued interest receivable	Amortized cost	Allowance for expected credit losses	Net carrying value	Accrued interest receivable
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Lebanese treasury bills	211,408,478	-	211,408,478	3,944,692	-	-	-	-
Lebanese government bonds	-	(19,597,500)	(19,597,500)	-	1,036,894,450	(19,859,296)	1,017,035,154	4,794,981
Certificates of deposit issued by Central Bank of Lebanon	769,230,473	-	769,230,473	23,504,007	171,669,689	(172,507)	171,497,182	837,290
Corporate bonds and asset backed securities	4,350,000	(19,937)	4,330,063	77,281	26,499,173	(121,009)	26,378,164	371,971
	984,988,951	(19,617,437)	965,371,514	27,525,980	1,235,063,312	(20,152,812)	1,214,910,500	6,004,242

Lebanese treasury bills and certificates of deposit issued by Central Bank of Lebanon amounting to LBP15.22billion and LBP7.94billion respectively (2019: LBP15.22billion and LBP7.94billion respectively) are pledged against borrowings from Central Bank of Lebanon (Note 41).

Debt securities at amortized cost are segregated over the remaining period to maturity as follows:

Remaining period to maturity	December 31, 2020					
	Local currency			Foreign currencies		
	Nominal value LBP'000	Amortized cost LBP'000	Average coupon rate %	Nominal value LBP'000	Amortized cost LBP'000	Average coupon rate %
Lebanese treasury bills:						
Up to one year	54,620,000	54,704,904	6.49	-	-	-
1 year to 3 years	72,725,000	73,007,269	6.36	-	-	-
3 years to 5 years	23,155,020	24,481,809	8.52	-	-	-
5 years to 10 years	1,648,000	1,648,000	7.46	-	-	-
Above 10 years	<u>15,124,490</u>	<u>15,465,144</u>	10.50	-	-	-
	<u>167,272,510</u>	<u>169,307,126</u>		<u>-</u>	<u>-</u>	
Lebanese government bonds:						
Past due (defaulted)	-	-	-	19,597,500	19,597,500	-
Up to one year (defaulted)	-	-	-	98,377,943	98,394,990	-
1 year to 3 years (defaulted)	-	-	-	52,536,375	51,845,657	-
3 years to 5 years (defaulted)	-	-	-	192,560,513	193,122,245	-
5 years to 10 years (defaulted)	-	-	-	249,554,565	250,791,467	-
Above 10 years (defaulted)	-	-	-	<u>357,352,875</u>	<u>357,547,913</u>	-
	-	-	-	<u>969,979,771</u>	<u>971,299,772</u>	-
Certificates of deposit issued by						
Central Bank of Lebanon:						
1 year to 3 years	-	-	-	1,206,000	1,186,410	5.80
3 years to 5 years	-	-	-	22,612,500	22,612,500	6.48
5 years to 10 years	11,000,000	12,325,415	9.20	147,885,750	147,885,750	6.78
Above 10 years	<u>649,000,000</u>	<u>657,638,713</u>	10.89	-	-	-
	<u>660,000,000</u>	<u>669,964,128</u>		<u>171,704,250</u>	<u>171,684,660</u>	
Corporate bonds & asset backed securities:						
5 years to 10 years	<u>1,211,479</u>	<u>1,211,479</u>	7.94	<u>947,020</u>	<u>947,020</u>	5.50
	<u>1,211,479</u>	<u>1,211,479</u>		<u>947,020</u>	<u>947,020</u>	

No interest income on defaulted Lebanese government bonds is being recognized by the Group.

Remaining period to maturity	December 31, 2019					
	Local currency			Foreign currencies		
	Nominal value LBP'000	Amortized cost LBP'000	Average coupon Rate %	Nominal value LBP'000	Amortized cost LBP'000	Average coupon rate %
Lebanese treasury bills:						
Up to one year	41,500,000	41,503,583	7.80	-	-	-
1 year to 3 years	127,345,000	128,067,288	6.41	-	-	-
3 years to 5 years	3,155,000	3,153,013	7.11	-	-	-
5 years to 10 years	21,648,020	23,207,210	8.64	-	-	-
Above 10 years	15,124,490	15,477,384	10.50	-	-	-
	<u>208,772,510</u>	<u>211,408,478</u>		<u>-</u>	<u>-</u>	
Lebanese government bonds:						
Up to one year (defaulted)	-	-	-	85,188,067	85,194,908	6.29
1 year to 3 years (defaulted)	-	-	-	131,542,943	131,026,258	7.71
3 years to 5 years (defaulted)	-	-	-	29,923,875	29,921,318	6.35
5 years to 10 years (defaulted)	-	-	-	408,625,965	410,266,461	6.45
Above 10 years (defaulted)	-	-	-	380,289,488	380,485,505	7.02
	<u>-</u>	<u>-</u>		<u>1,035,570,338</u>	<u>1,036,894,450</u>	
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	-	-	-	1,206,000	1,171,439	5.80
3 years to 5 years	-	-	-	22,612,500	22,612,500	6.48
5 years to 10 years	22,000,000	24,900,402	9.20	147,885,750	147,885,750	6.78
Above 10 years	735,000,000	744,330,071	10.70	-	-	-
	<u>757,000,000</u>	<u>769,230,473</u>		<u>171,704,250</u>	<u>171,669,689</u>	
Corporate bonds & asset backed securities:						
5 years to 10 years	4,350,000	4,350,000	7.83	26,499,173	26,499,173	6.74
	<u>4,350,000</u>	<u>4,350,000</u>		<u>26,499,173</u>	<u>26,499,173</u>	

During 2020 and 2019, the Bank entered into swap deals with the Central Bank of Lebanon to enhance the yield on its investments and term placements with Central Bank as follows:

Classification	Nominal Value	
	December 31, 2020 LBP'000	December 31, 2019 LBP'000
Sold through swap:		
Term placements with Central Bank of Lebanon in LBP	(135,443,000)	-
Certificates of deposit issued by Central Bank of Lebanon	(11,000,000)	(371,154,000)
	<u>(146,443,000)</u>	<u>(371,154,000)</u>
Acquired through swap:		
Term placements with Central Bank of Lebanon	111,774,000	56,110,000
Current accounts with the Central Bank of Lebanon	25,738,000	-
Certificates of deposit issued by Central Bank of Lebanon	-	306,000,000
	<u>137,512,000</u>	<u>362,110,000</u>

During 2020, the Group entered into swap transaction of certificates of deposit in Lebanese Pounds of aggregate nominal value of LBP11billion in addition to the unwinding of placements with the Central Bank of Lebanon in Lebanese Pounds of aggregate nominal value of LBP135.4billion, concluded in conjunction with the acquisition of placements with the Central Bank of Lebanon in Lebanese Pounds in an aggregate nominal value of LBP111.8billion and current account with Central Bank of Lebanon in the amount of USD17million (C/V in LBP25.7billion). The new securities mature in 2037 and yielding 1% on average per annum.

During 2019, the Group entered into swap transaction of certificates of deposit in Lebanese Pounds of aggregate nominal value of LBP300billion in addition to certificates of deposit in U.S. Dollars of aggregate nominal value of USD47.2million, concluded in conjunction with the acquisition of certificates of deposit with the Central Bank of Lebanon in Lebanese Pounds in an aggregate nominal value of LBP306billion along with the acquisition of term placements with the Central Bank of Lebanon in Lebanese Pounds and U.S. Dollars in the aggregate amount of LBP7.3billion and USD32.4million, respectively. The premium resulting from the above transaction was deferred as yield enhancement on the new portfolio with longer maturity. The new securities mature in 2049 and yielding 11.92% on average per annum.

10. ASSETS UNDER LEVERAGE ARRANGEMENT WITH THE CENTRAL BANK OF LEBANON

	December 31,	
	2020	2019
	LBP'000	LBP'000
Assets under leverage arrangements:		
Term placements with Central Bank of Lebanon	355,831,000	348,295,000
Lebanese treasury bills at amortized cost	<u>88,845,980</u>	<u>88,845,980</u>
	444,676,980	437,140,980
Less:		
Borrowings under leverage arrangements	<u>444,676,980</u>	<u>437,140,980</u>
Net	<u><u>-</u></u>	<u><u>-</u></u>

Assets under leverage arrangement consist of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP subject to interest rates between 3.26% and 10.66% originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing a 2% interest rate), with the purpose of providing yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities.

The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Term placements with Central Bank of Lebanon in U.S. Dollars	73,038,375	73,038,375
Term placements with Central Bank of Lebanon in Euro	64,828,800	72,231,872
Term placements with Central Bank of Lebanon in LBP originated from the sale of foreign currency	196,842,867	190,839,950
Term placements with Central Bank of Lebanon in LBP originated from the swap of certificates of deposit in foreign currency	<u>19,682,000</u>	<u>19,682,000</u>
	<u>354,392,042</u>	<u>355,792,197</u>

During 2020, the Bank signed with Central Bank of Lebanon a netting agreement allowing to offset the “assets under leverage arrangement” versus the borrowing from the Central Bank. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. As such the Bank has presented “time deposits with Central Bank of Lebanon” and term borrowing from Central Bank of Lebanon” on a net basis for the years ended December 31, 2020 and 2019 for comparative purpose.

11. CUSTOMERS’ LIABILITY UNDER ACCEPTANCES

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

12. ASSETS ACQUIRED IN SATISFACTION OF LOANS

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits (Note 26).

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

	<u>Cost</u>	<u>Impairment</u>	<u>Carrying value</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
Balance January 1, 2019	92,278,486	(8,417,140)	83,861,346
Additions	1,051,252	-	1,051,252
Disposals	(1,139,243)	202,686	(936,557)
Balance December 31, 2019	<u>92,190,495</u>	<u>(8,214,454)</u>	<u>83,976,041</u>
Disposals	(14,387,672)	275,477	(14,112,195)
Balance December 31, 2020	<u>77,802,823</u>	<u>(7,938,977)</u>	<u>69,863,846</u>

Gain on disposal of assets acquired in satisfaction of loans during the year amounted to LBP15.7billion included in profit or loss (2019: LBP1.43billion).

13. LEASES

The Group only operates as a lessee for the Bank's branches. The average lease term is 7 years.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and their related movement during the year:

	<u>Right-of-use assets</u> LBP'000	<u>Lease liabilities</u> LBP'000
Balance January 1, 2019	25,340,800	23,062,657
Amortization of right-of-use assets	(2,991,207)	-
Accretion of interest	-	1,844,185
Payments	-	(2,840,988)
Balance December 31, 2019	<u>22,349,593</u>	<u>22,065,854</u>
Termination of rent contracts	(813,108)	(648,354)
Amortization of right-of-use assets	(2,919,836)	-
Accretion of interest	-	1,741,328
Payments	-	(3,480,120)
Balance December 31, 2020	<u>18,616,649</u>	<u>19,678,708</u>

The following are the amounts recognized in profit or loss during the year:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Amortization of right-of-use assets	3,732,944	2,991,207
Interest portion of lease liabilities	<u>1,092,974</u>	<u>1,844,185</u>
	<u>4,825,918</u>	<u>4,835,392</u>

14. PROPERTY AND EQUIPMENT

	<u>Balance January 1, 2020</u> LBP'000	<u>Additions</u> LBP'000	<u>Disposals and adjustments</u> LBP'000	<u>Transfers</u> LBP'000	<u>Transfer to intangible assets</u> LBP'000	<u>Balance December 31, 2020</u> LBP'000
Cost/Revaluation:						
Owned properties	89,264,582	-	(1,493,964)	-	-	87,770,618
Computer hardware	18,116,221	82,452	(27,074)	275,653	-	18,447,252
Machines and equipment	6,394,311	66,368	(270,099)	326,178	-	6,523,980
Furniture and fixtures	6,507,853	21,636	(11,383)	-	-	6,518,106
Vehicles	1,124,747	-	(140,770)	-	-	983,977
Freehold and leasehold improvements	<u>34,435,328</u>	<u>46,291</u>	<u>(489,617)</u>	<u>1,927,377</u>	<u>-</u>	<u>35,919,379</u>
	<u>155,843,042</u>	<u>216,747</u>	<u>(2,432,907)</u>	<u>2,529,208</u>	<u>-</u>	<u>156,156,090</u>
Accumulated depreciation	(62,821,104)	(6,208,741)	1,408,936	-	-	(67,620,909)
Allowance for impairment	(65,308)	-	-	-	-	(65,308)
	<u>(62,886,412)</u>	<u>(6,208,741)</u>	<u>1,408,936</u>	<u>-</u>	<u>-</u>	<u>(67,686,217)</u>
Capital work-in-progress	<u>1,925,320</u>	<u>3,233,478</u>	<u>-</u>	<u>(2,529,208)</u>	<u>(1,274,166)</u>	<u>1,355,424</u>
Carrying values	<u>94,881,950</u>					<u>89,825,297</u>

	Balance January 1, 2019 LBP'000	Additions LBP'000	Disposals and adjustments LBP'000	Transfers LBP'000	Transfer to intangible Assets LBP'000	Balance December 31, 2019 LBP'000
Cost/Revaluation:						
Owned properties	61,194,477	1,549,615	-	26,520,490	-	89,264,582
Computer hardware	17,368,799	754,233	(6,811)	-	-	18,116,221
Machines and equipment	6,192,122	222,951	(20,762)	-	-	6,394,311
Furniture and fixtures	6,197,300	183,498	(2,742)	129,797	-	6,507,853
Vehicles	1,038,067	86,680	-	-	-	1,124,747
Freehold and leasehold Improvements	<u>30,664,334</u>	<u>1,384,518</u>	<u>-</u>	<u>2,386,476</u>	<u>-</u>	<u>34,435,328</u>
	<u>122,655,099</u>	<u>4,181,495</u>	<u>(30,315)</u>	<u>29,036,763</u>	<u>-</u>	<u>155,843,042</u>
Accumulated depreciation	(56,885,411)	(5,955,642)	19,949	-	-	(62,821,104)
Allowance for impairment of owned properties	(65,308)	-	-	-	-	(65,308)
	<u>(56,950,719)</u>	<u>(5,955,642)</u>	<u>19,949</u>	<u>-</u>	<u>-</u>	<u>(62,886,412)</u>
Capital work-in-progress	<u>24,190,659</u>	<u>6,912,080</u>	<u>-</u>	<u>(29,036,763)</u>	<u>(140,656)</u>	<u>1,925,320</u>
Carrying values	<u>89,895,039</u>					<u>94,881,950</u>

Gain on disposal of property and equipment during the year amounted to LBP332million included in profit or loss (2019: Loss of LBP7million).

15. INTANGIBLE ASSETS

	Carrying value January 1, 2020 LBP'000	Additions LBP'000	Amortization for the year LBP'000	Transfer from Property and Equipment LBP'000	Carrying value December 31, 2020 LBP'000
Computer software	<u>4,618,351</u>	<u>233,770</u>	<u>(1,454,549)</u>	<u>1,274,166</u>	<u>4,671,738</u>
	Carrying Value January 1, 2019 LBP'000	Additions LBP'000	Amortization for the Year LBP'000	Transfer from Property and Equipment LBP'000	Carrying value December 31, 2019 LBP'000
Computer software	<u>4,342,575</u>	<u>1,482,828</u>	<u>(1,347,708)</u>	<u>140,656</u>	<u>4,618,351</u>

16. OTHER ASSETS

	December 31,	
	2020 LBP'000	2019 LBP'000
Prepayments	7,484,697	9,134,466
Commission receivable	1,064,589	723,117
Sundry debtors (a)	18,494,144	16,929,727
Sundry receivable from Central Bank of Lebanon	1,505,854	-
Regulatory blocked deposit (b)	4,500,000	4,500,000
Accrued interest subsidy from Central Bank of Lebanon	600,000	-
Fair value of forward exchange contracts	<u>51,841</u>	<u>211,118</u>
	<u>33,701,125</u>	<u>31,498,428</u>

- (a) Sundry debtors include amounts to be reimbursed by the insurance companies, for damages incurred from the Beirut Port explosion on August 4, 2020 in the amount of LBP2.2billion. Till date, the Bank has still not received the re-imburement on these amounts due to the fact that the insurance companies are still performing an assessment of the losses and are still awaiting the results of the investigation of the reason of the explosion.
- (b) Regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the establishment of a subsidiary that is in the process of liquidation. This deposit will be refunded upon finalizing the liquidation of the subsidiary, according to article 132 of the Lebanese Code of Money and Credit.

17. ASSETS AND LIABILITIES HELD FOR SALE

In 2017 the Group committed to a plan to sell its controlling interest in USB Bank PLC (Cyprus). In August 2018, the Bank's Board of Directors approved the sale and the Group received a total consideration of LBP98 billion (EUR57 million) in 2019 representing the net assets of USB Holdings PLC excluding the following which continue to be presented as a disposal group held for sale:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Investment properties	22,842,167	20,814,615
Deferred assets adjustments to reach fair value less cost to sell	<u>1,007,664</u>	<u>918,220</u>
Assets held for sale	<u>23,849,831</u>	<u>21,732,835</u>
Other liabilities	<u>844,339</u>	<u>769,393</u>
Liabilities associated with assets held for sale	<u>844,339</u>	<u>769,393</u>

Proceeds from the sale of these properties will be collected by the Group upon completion of formalities.

18. DEPOSITS FROM BANKS

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Short term deposits from Parent Bank	100,729,196	31,550,000
Current deposits	1,997,045	22,434,983
Short term deposits	1,214,487	118,748,003
Accrued interest payable	<u>3,677,942</u>	<u>1,013,311</u>
	<u>107,618,670</u>	<u>173,746,297</u>

19. CUSTOMERS' ACCOUNTS

Customers' accounts at amortized cost are detailed as follows:

	December 31,	
	2020	2019
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	1,188,787,506	703,433,463
Term deposits	3,304,609,567	4,354,087,800
Collateral against loans and advances	85,904,061	142,741,222
Margins and other accounts:		
Margins against import letters of credit	11,479	3,508,190
Margins against letters of guarantee issued	26,222,841	26,011,645
Other margins	1,635,941	14,299,022
Blocked accounts	16,045,450	20,368,789
Accrued interest payable	<u>11,409,056</u>	<u>46,061,828</u>
Total	<u>4,634,625,901</u>	<u>5,310,511,959</u>

Blocked accounts include balances amounting to LBP14.6billion (2019: LBP17.4billion) representing undisbursed loans to customers.

Customers' deposits include related party deposits detailed as follows:

	December 31,	
	2020	2019
	LBP'000	LBP'000
Demand deposits	2,437,110	2,428,979
Term deposits	51,115,627	52,808,799
Collateral against loans and advances	204,643	410,145
Accrued interest payable	<u>769,023</u>	<u>931,810</u>
	<u>54,526,403</u>	<u>56,579,733</u>

Brackets of deposits were as follows:

	December 31, 2020				
	Local currency		Foreign currencies		Total LBP'000
	Total deposits LBP'000	% to total deposits %	Total deposits LBP'000	% to total deposits %	
Less than LBP250million	452,000,725	35%	837,985,534	25%	1,289,986,259
From LBP250million to LBP1.5billion	401,397,295	31%	1,132,706,873	34%	1,534,104,168
Above LBP1.5billion	<u>425,035,720</u>	<u>33%</u>	<u>1,385,499,754</u>	<u>41%</u>	<u>1,810,535,474</u>
	<u>1,278,433,740</u>	<u>100%</u>	<u>3,356,192,161</u>	<u>100%</u>	<u>4,634,625,901</u>

	December 31, 2019				
	Local currency		Foreign currencies		Total LBP'000
	Total deposits LBP'000	% to total deposits %	Total deposits LBP'000	% to total deposits %	
Less than LBP250million	609,347,901	35%	687,594,385	19%	1,296,942,286
From LBP250million to LBP1.5billion	609,070,250	34%	1,138,719,789	32%	1,747,790,039
Above LBP1.5billion	<u>553,428,787</u>	<u>31%</u>	<u>1,712,350,847</u>	<u>49%</u>	<u>2,265,779,634</u>
	<u>1,771,846,938</u>	<u>100%</u>	<u>3,538,665,021</u>	<u>100%</u>	<u>5,310,511,959</u>

Deposits from customers include coded deposit accounts in the aggregate amount of LBP64billion as at December 31, 2020 (2019: LBP63billion). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include fiduciary deposits received from resident and non-resident banks totaling LBP16billion and LBP Nil respectively as at December 31, 2020 (2019: LBP19billion and LBP11billion respectively).

20. OTHER BORROWINGS

	December 31,	
	2020 LBP'000	2019 LBP'000
Soft loans from Central Bank of Lebanon (a)	7,116,443	-
Borrowings from Central Bank of Lebanon (b)	297,622,392	347,425,980
Other borrowings	-	<u>397,485</u>
	<u>304,738,835</u>	<u>347,823,465</u>
Accrued interest payable	-	<u>2,638</u>
	<u>304,738,835</u>	<u>347,826,103</u>

- (a) Outstanding facilities in Lebanese Pounds granted from the Central Bank of Lebanon in the amount of LBP7.1billion (LBP Nil as at December 31, 2019) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. These facilities bear interest rate of 0% computed annually and paid monthly.
- (b) Outstanding facilities in Lebanese Pounds granted from the Central Bank of Lebanon in the amount of LBP298 billion (2019: LBP347billion) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. These facilities bear interest rate of 1% computed annually and paid monthly. Part of these facilities are collateralized by Lebanese treasury bills and certificates of deposit issued by Central Bank of Lebanon.

The remaining contractual maturities of above borrowings are as follows:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Up to 1 year	-	400,123
Over 5 years	<u>304,738,835</u>	<u>347,425,980</u>
	<u>304,738,835</u>	<u>347,826,103</u>

The movement of borrowings was as follows:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Balance January 1	347,823,465	404,265,022
Additions	7,116,443	-
Settlements	(50,201,073)	(56,441,557)
Balance December 31	<u>304,738,835</u>	<u>347,823,465</u>

21. OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Accounts payable	23,202,358	20,136,211
Accrued expenses	16,419,519	16,038,920
Provision for tax – Article 20 of Law No. 6/2020	11,500,000	-
Current tax liability (a)	10,707,571	5,632,270
Withheld taxes payable	3,755,175	5,600,305
Deferred tax liability on accrued interest receivable	5,700,232	4,239,981
Deferred tax liability on future dividend distribution of subsidiaries	786,147	664,625
Deferred tax liability on other comprehensive income	230,187	1,133,114
Other deferred taxes	1,639,606	1,639,606
Payable to personnel and directors	4,940,320	5,245,926
Checks and incoming payment orders in course of settlement	1,868,234	3,762,827
Deferred revenues	947,417	1,225,337
Due to the National Social Security Fund	641,278	721,506
Blocked capital subscriptions for companies under incorporation	409,764	91,416
Financial guarantees	-	140,681
Payable to non-controlling interests of a subsidiary under liquidation	<u>11,349</u>	<u>11,349</u>
	<u>82,759,157</u>	<u>66,284,074</u>

(a) Below is the reconciliation of income tax expense:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Loss before tax	(20,867,150)	(44,658,561)
Income tax on enacted applicable rates	7,526,632	(6,575,666)
Effect of non-deductible expense and non-taxable income	(991,139)	9,935,858
Income tax expense	6,535,493	3,360,192
Transfer between taxes	(1,200,000)	-
Unpaid prior year income tax	5,371,895	-
Other additional provisions/adjustments	183	2,272,078
Current tax liability	<u>10,707,571</u>	<u>5,632,270</u>

The movement of current tax liability was as follows:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Balance January 1,	5,632,270	6,982,132
Charge for the year	6,535,493	3,360,192
Transfer from deferred tax assets	(1,200,000)	-
Less taxes paid:		
Prior year tax liabilities	(260,192)	(4,710,054)
Balance December 31	<u>10,707,571</u>	<u>5,632,270</u>

22. PROVISIONS

	<u>December 31,</u>	
	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Provision for staff end-of-service indemnities (a)	3,262,874	6,825,724
Provision for risk and charges (b)	8,412,440	12,161,416
Provision for expected credit losses on commitments and financial guarantees	363,600	364,844
Provision for loss on foreign currency position	<u>282,351</u>	<u>1,123,762</u>
	<u>12,321,265</u>	<u>20,475,746</u>

(a) The movement of the provision for staff end-of-service indemnities was as follows:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Balance January 1	6,825,724	7,440,023
(Write-back)/additions - net (Note 34)	(2,473,389)	577,773
Settlements	(1,089,461)	(1,192,072)
Balance December 31	<u>3,262,874</u>	<u>6,825,724</u>

(b) The movement of the provision for risk and charges was as follows:

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Balance January 1	12,161,416	11,850,310
Write-back/additions	(3,279,000)	186,000
Difference of exchange	115,024	-
Adjustment on assets held for sale	-	1,180,823
Settlements	(585,000)	(1,055,717)
Balance December 31	<u>8,412,440</u>	<u>12,161,416</u>

23. SHARE CAPITAL

As at December 31, 2020 and 2019, the Bank's ordinary share capital consists of 214,000,000 shares of a par value of LBP1,000 each fully paid.

The meet the requirements of Central Bank of Lebanon towards increasing common equity Tier I as at December 31, 2018 by 20% in foreign currencies by December 31, 2020 but was later extended to February 28, 2021. the Bank's Extraordinary General Assembly of shareholders held on January 30, 2020 called additional cash contribution from shareholders in the amount of USD93.86million. Up to December 31, 2020, the Bank's shareholders settled USD45.96million (LBP69.29billion) in the form of cash contribution with the remaining balance of USD47.9million (LBP72.2billion), paid subsequently by the shareholders.

24. PREFERRED SHARES

	Year of issue	Number of shares	Annual return	December 31,	
				2020	2019
	Year		%	LBP'000	LBP'000
Series "D"	2016	750,000	6.75	113,062,501	113,062,501
Series "E"	2018	263,510	7.00	39,724,132	39,724,132
				<u>152,786,633</u>	<u>152,786,633</u>

The above are Tier I non-cumulative preferred shares with an issue price of USD 100 per share and a nominal value of LBP1,000 each.

The preferred shares may be redeemed during the 60 days period following the annual general meeting held to approve the Bank's financial statements after 5 years for issue date and each subsequent year thereafter.

In the event of liquidation of the Bank, holders of preferred shares series "D" and "E" rank senior to the holders of common shares.

25. TREASURY SHARES

	<u>No. of shares</u>	<u>Cost</u> <u>LBP'000</u>
Balance January 1, 2019	-	-
Purchase of treasury shares	<u>21,365,000</u>	<u>75,787,285</u>
Balance December 31, 2019	21,365,000	75,787,285
Effect of exchange rates changes	<u>-</u>	<u>1,068,080</u>
Balance December 31, 2020	<u>21,365,000</u>	<u>76,855,365</u>

26. NON-DISTRIBUTABLE RESERVES

	<u>Legal reserve</u> <u>LBP'000</u>	<u>Reserve for General Banking Risks</u> <u>LBP'000</u>	<u>Special Reserve for Loans and Advances</u> <u>LBP'000</u>	<u>Reserve for Assets Acquired in Satisfaction of Loans</u> <u>LBP'000</u>	<u>Total</u> <u>LBP'000</u>
Balance - January 1, 2019	20,736,533	150,488,120	4,803,478	62,192,827	238,220,958
Issuance of common shares	-	(350,000)	-	-	(350,000)
Appropriation of 2018 profit	6,115,988	13,056,424	2,500,000	3,594,156	25,266,568
Reallocation of reserves	<u>-</u>	<u>805,796</u>	<u>-</u>	<u>(805,796)</u>	<u>-</u>
Balance - December 31, 2019	26,852,521	164,000,340	7,303,478	64,981,187	263,137,526
Other movement	-	(199,984)	-	-	(199,984)
Reallocation of reserves	<u>-</u>	<u>9,374,868</u>	<u>-</u>	<u>(9,374,868)</u>	<u>-</u>
Balance - December 31, 2020	<u>26,852,521</u>	<u>173,175,224</u>	<u>7,303,478</u>	<u>55,606,319</u>	<u>262,937,542</u>

- (a) The legal reserve is constituted in conformity with the requirements of the Lebanese Commercial Law and the Bank's articles of incorporation on the basis of 10% of the yearly net profits. Subsidiaries are also subject to legal reserve requirements. This reserve is not available for dividend distribution.

- (b) Based on Central Bank of Lebanon Circular 73 and Banking Control Commission memo 12/2010 relating to reserve allocation for doubtful debts, the Bank has allocated an amount of LBP7.3billion (2019: LBP7.3billion) to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved. This reserve is not available for distribution.
- (c) The reserve for assets acquired in satisfaction of loans 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 loans shall be transferred to unrestricted reserves upon the disposal of the related assets.

27. DIVIDENDS PAID

The Bank distributed Nil dividends during 2020 (2019: LBP 10.3billion) to preferred shares owners.

28. INTEREST INCOME

	2020		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Loans and advances to customers	118,083,427	-	118,083,427
Deposits with Central Bank of Lebanon	121,649,330	(13,425,506)	108,223,824
Investment securities (excluding FVTPL) (a)	110,891,898	(12,300,352)	98,591,546
Deposits with banks and financial institutions	63,827	-	63,827
Deposits with a related bank	85,020	(24,836)	60,184
Loan to a bank	40,460	(4,745)	35,715
Loans and advances to related parties	<u>206,640</u>	<u>-</u>	<u>206,640</u>
	<u>351,020,602</u>	<u>(25,755,439)</u>	<u>325,265,163</u>

	2019		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Loans and advances to customers	188,328,299	-	188,328,299
Deposits with Central Bank of Lebanon	127,014,782	(12,759,232)	114,255,550
Investment securities (excluding FVTPL) (a)	190,066,874	(9,826,800)	180,240,074
Deposits with banks and financial institutions	613,389	(20,066)	593,323
Deposits with a related bank	84,955	-	84,955
Loan to a bank	61,093	-	61,093
Loans and advances to related parties	<u>267,101</u>	<u>-</u>	<u>267,101</u>
	<u>506,436,493</u>	<u>(22,606,098)</u>	<u>483,830,395</u>

(a) Interest income from investment securities:

	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Lebanese government bonds	1,544,831	65,207,674
Lebanese treasury bills	22,735,718	29,349,982
Certificates of deposit issued by Central Bank of Lebanon	86,053,983	93,300,869
Corporate bonds and asset backed securities	557,366	2,208,349
	<u>110,891,898</u>	<u>190,066,874</u>

Interest income on financial assets at fair value through profit or loss is included under "Net interest and other gain/(loss) on investment securities at fair value through profit or loss" (Note 34).

29. INTEREST EXPENSE

	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Interest expense on:		
Customers' accounts	162,074,760	378,406,771
Deposits and borrowings from banks	15,084,572	10,174,458
Deposits from Parent Bank	5,339,393	5,812,673
Deposits from related parties	4,010,020	3,877,433
Revolving loans and facilities from Central Bank of Lebanon	3,927,697	3,722,044
Lease liabilities (Note 13)	1,092,974	1,844,185
Other borrowings	3,528	117,188
	<u>191,532,944</u>	<u>403,954,752</u>

30. FEE AND COMMISSION INCOME

	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Fee income on customers' transactions	23,614,130	11,517,611
Fee income on loans and advances	7,461,828	9,108,524
Commission earned on insurance policies	2,648,601	4,258,923
Fee income on letters of guarantee	2,420,016	1,730,308
Fee income on documentary credits	638,491	1,111,819
Fee income on transactions with banks	59,284	94,554
Commission on capital market customers' transactions (Note 38)	167,496	504,626
Other	792,643	699,027
	<u>37,802,489</u>	<u>29,025,392</u>

31. FEE AND COMMISSION EXPENSE

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Brokerage fees	591,284	96,502
Commission on transactions with banks and financial institutions	646,215	710,655
Commission paid to car dealers	237,448	227,537
Other	781,940	1,250,360
	<u>2,256,887</u>	<u>2,285,054</u>

32. LOSSES ARISING FROM THE DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Lebanese government bonds (a)	13,169,545	-
Certificates of deposit issued by Central Bank of Lebanon (a)	9,630,833	-
Term placements with Central Bank of Lebanon	13,774,353	-
	<u>36,574,731</u>	<u>-</u>

(a) During 2020, the Group sold certificates of deposits issued by the Central Bank of Lebanon and Lebanese government bonds with a nominal value of LBP97billion and LBP65.6billion respectively, classified at amortized cost, which resulted in losses of LBP9.6billion and LBP13.2billion respectively.

33. LOSSES ARISING FROM THE DERECOGNITION OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2020</u> LBP'000	<u>2019</u> LBP'000
Lebanese government bonds	108,793	-
	<u>108,793</u>	<u>-</u>

During 2020, the Group sold Lebanese government bonds with a nominal value of LBP1.2billion, classified at fair value through other comprehensive income, which resulted in losses of LBP108.8million.

34. NET INTEREST AND OTHER GAIN / (LOSS) ON INVESTMENT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2020</u>	<u>2019</u>
	LBP'000	LBP'000
Interest income (net of withheld tax)	13,366	591,614
Dividends received	86,504	429,627
Net unrealized gain (loss)	3,153,122 (222,343)
Net realized gain/(loss)	(221,275)	17,228
	<u>3,031,717</u>	<u>816,126</u>

35. OTHER OPERATING (EXPENSE) / INCOME

	<u>2020</u>	<u>2019</u>
	LBP'000	LBP'000
Dividend income on investments at fair value through other comprehensive income	11,238	1,683,956
Multiplier factor costs (a)	(10,491,923)	-
Foreign exchange gain	1,565,513	531,429
Miscellaneous income	1,090,579	1,036,557
	<u>(7,824,593)</u>	<u>3,251,942</u>

(a) Multiplier factor costs represent amounts paid to depositors of fresh funds benefitting from the multiplier factor.

36. STAFF COSTS

	<u>2020</u>	<u>2019</u>
	LBP'000	LBP'000
Salaries	40,848,504	41,772,777
Directors' remunerations	1,167,079	2,000,691
Social security contributions	5,575,076	6,581,966
Provision for staff end-of-service indemnities (Note 22)	(2,473,389)	577,773
Redundancy costs	13,849,417	1,276,812
Other staff benefits and costs	7,591,899	13,074,795
	<u>66,558,586</u>	<u>65,284,814</u>

37. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2020</u>	<u>2019</u>
	LBP'000	LBP'000
Fees and taxes	1,333,565	1,310,660
Maintenance and repairs	7,417,561	6,641,930
Money transport	2,800,931	1,314,275
Legal and professional fees	2,623,673	3,099,324
Subscriptions	1,927,868	1,890,302
Credit card expenses	1,341,798	1,456,463
Electricity and water	996,303	907,961
Insurance	789,016	704,457
Heat, light and power	784,659	734,247
Rent and building services	709,050	672,775
Telephone and postage	766,006	1,193,410
Cleaning	696,894	801,099
Security	468,088	491,983
Advertising and publicity	358,277	2,691,395
Public relations and entertainment	331,357	624,291
Printing and stationery	323,765	513,307
Donations	153,063	1,030
Software implementation fees	62,800	61,900
Travel	65,212	281,892
Miscellaneous expenses	<u>1,309,055</u>	<u>1,483,764</u>
	<u><u>25,258,941</u></u>	<u><u>26,876,465</u></u>

Legal and professional fees include an amount of LBP65million and 226million representing various services provided by the parent bank during 2020 and 2019 respectively.

38. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the statement of financial position. However, documentary and commercial letters of credit which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2020 and 2019 represent positions held for customers' accounts. The Group entered into such instrument to serve the needs of customers, and these contracts are fully hedged by the Group.

39. FIDUCIARY ACCOUNTS

Fiduciary deposits include deposits invested in back-to-back lending and are related to resident lenders and borrowers in addition to fiduciary deposits held or invested on behalf of the Group's customers on a non-discretionary basis. The risks and rewards of the related operations belong to the account holders.

40. CASH AND CASH EQUIVALENTS

	December 31,	
	2020	2019
	LBP'000	LBP'000
Cash on hand	38,491,940	17,650,581
Deposits with Central Bank (excluding compulsory deposits)	538,377,809	119,955,645
Term placements with Central Bank (with original maturity of less than 3 months)	175,182,500	82,158,751
Purchased checks	-	10,434
Current accounts with correspondents	23,228,066	37,354,469
Current accounts with related banks and financial institutions	4,981,288	952,223
Current accounts with the parent bank	4,956,943	2,115,671
Term placements with correspondents (with original maturity of less than 3 months)	67,686,750	-
	<u>852,905,296</u>	<u>260,197,774</u>

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2020 and 2019 are summarized as follows:

- a. Adjustment of right-of-use assets in the amount of LBP25billion against other assets in the amount of LBP2billion and lease liability in the amount of LBP23billion upon the initial application of IFRS 16 in 2019.
- b. Negative change in fair value of investments as at fair value through other comprehensive income of LBP12billion and related deferred tax liability of LBP1billion (Negative change in fair value of LBP195million and related deferred tax liability of LBP89million during 2019).
- c. Assets and investment properties acquired in satisfaction of loans in the amount of LBP Nil (LBP1.05billion in 2019).
- d. Transfer of LBP1.3billion from property and equipment to intangible assets (LBP141million in 2019).

41. COLLATERAL GIVEN

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

	December 31,				2019
	2020				
	Corresponding Facilities				
	Amount of Pledged Assets	Maturity Date	Amount of Facility	Nature of Facility	
LBP'000		LBP'000	LBP'000	Amount of Pledged Assets LBP'000	
Certificates of deposit issued by the Central bank of Lebanon	7,943,789	June 9, 2029	9,064,299	Facilities from Central Bank of Lebanon	7,943,789
Lebanese treasury bills	15,219,300	Revolving	311,540,932	Facilities from Central Bank of Lebanon	15,219,300

42. RISK MANAGEMENT

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

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.

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.

A. Credit Risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities) and investments in Government debt securities, certificates of deposit issued by the Central Bank of Lebanon and term deposits with the Central Bank of Lebanon. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

The Group's Risk Management committee is responsible for managing the Group's credit risk by:

- Overseeing the risk management function as a whole.
- Ensuring that adequate policies and procedures governing the work of the risk management function exist at all levels, are up to date at all times, and ensure the proper and timely identification of risks that may put the capital of the bank at risk.
- Ensuring full compliance with laws and regulations related to risk management.
- Following up on corrective measures proposed by the risk management function and approved by the risk management committee.
- Overseeing the work of sub-committees especially when it comes to policies and procedures.
- Relaying to the board of directors its assessment on the adequacy of the risk management framework as a whole.
- Reviewing the risk reports making sure to relay to the board of directors in due time identified risks that may require a prompt attention/action.
- Validating all Risk related Policies, Business Continuity Policies, the Internal Capital Adequacy.
- Assessing the Recovery Plan Framework and the Impairment Framework before submission to the BOD for approval.
- Ensuring that the Bank risk appetite and limits are properly understood and duly approved by BOD
- Reviewing and following up the audit findings related to the risk management function
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

Significant increase in credit risk

As explained in note 3 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In order to minimize credit risk, the Group has tasked its risk management committee to develop and maintain the Group's credit risk grading to categorize exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored, and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis
- Extent of utilization of granted limit
- Forbearances (both requested and granted)
- Changes in business, financial and economic conditions
- Credit rating information supplied by external rating agencies.

For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and for corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

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

Central Bank of Lebanon Risk Rating	Central Bank of Lebanon Description	Moody's Grading	Moody's Description
1	Normal	1 – 4	Excellent – Satisfactory
2	Follow up	5 – 6	Adequate – Marginal
3	Follow up and regularization	7	Vulnerable
4	Substandard	8	Substandard
5	Doubtful	9	Doubtful
6	Loss	10	Loss

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic, mainly Real GDP growth. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group presumes for retail loans that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

Incorporation of forward-looking information

The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- Exposure at default (EAD).

Commercial and retail lending

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD 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, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for exposures such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such exposures the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These exposures do not have a fixed term or repayment structure and have a short contractual cancellation period.

However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these exposures. This is because these exposures are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of product type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Credit Risk monitoring and review

Since the last quarter of 2019, the severe and unprecedented economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types.

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

1. Maximum exposure to credit risk

The following corresponds to the maximum credit risk exposure net of the expected credit loss allowances:

	December 31, 2020		
	Gross Carrying Amount (Including Accrued Interest) LBP'000	Expected Credit Losses LBP'000	Net Carrying Amount LBP'000
Deposits with Central Bank of Lebanon (Note 5)	2,202,470,935	(3,402,320)	2,199,068,615
Deposits with banks and financial institutions (Note 6)	101,667,789	(1,441,411)	100,226,378
Loan to a bank (Note 7)	1,411,305	(26,674)	1,384,631
Loans and advances to customers (Note 8)	1,540,058,075	(167,057,764)	1,373,000,311
Investment securities at amortized cost (Note 9)	2,010,316,723	(93,922,748)	1,916,393,975
Investment securities at fair value through other comprehensive income (Note 9)	52,163,963	(757,306)	51,406,657
Other assets	16,253,408	-	16,253,408
Customers' liability under acceptances	149,084	-	149,084
	<u>5,924,491,282</u>	<u>(266,608,223)</u>	<u>5,657,883,059</u>
Financial Guarantees and other commitments	<u>87,387,866</u>	<u>(363,600)</u>	<u>87,024,266</u>
	December 31, 2019		
	Gross Carrying Amount (Including Accrued Interest) LBP'000	Expected Credit Losses LBP'000	Net Carrying Amount LBP'000
Deposits with Central Bank of Lebanon (Note 5)	1,942,715,601	(1,094,154)	1,941,621,447
Deposits with banks and financial institutions (Note 6)	41,481,815	(123,088)	41,358,727
Loan to a bank (Note 7)	2,118,288	(40,036)	2,078,252
Loans and advances to customers (Note 8)	2,251,320,299	(179,719,312)	2,071,600,987
Investment securities at amortized cost (Note 9)	2,253,582,485	(39,770,249)	2,213,812,236
Investment securities at fair value through other comprehensive income (Note 9)	98,279,431	(783,551)	97,495,880
Other assets	12,343,209	-	12,343,209
Customers' liability under acceptances	28,332,312	(344,264)	27,988,048
	<u>6,630,173,440</u>	<u>(221,874,654)</u>	<u>6,408,298,786</u>
Financial Guarantees and other commitments	<u>113,621,468</u>	<u>(364,844)</u>	<u>113,256,624</u>

2. Exposures subject to ECL

	December 31, 2020			
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000
Gross exposures				
Deposits with Central Bank of Lebanon	2,202,470,935	-	-	2,202,470,935
Deposits with banks and financial institutions	101,667,789	-	-	101,667,789
Loan to a bank	1,411,305	-	-	1,411,305
Loans and advances to customers	930,382,937	343,485,476	266,189,662	1,540,058,075
Financial assets at amortized cost	1,039,016,951	971,299,772	-	2,010,316,723
Financial assets at fair value through other comprehensive income	14,881,025	37,282,938	-	52,163,963
Customers' liability under acceptances	149,084	-	-	149,084
Commitments and financial guarantees	85,992,333	1,032,103	363,430	87,387,866
	<u>4,375,972,359</u>	<u>1,353,100,289</u>	<u>266,553,092</u>	<u>5,995,625,740</u>
Expected credit losses				
Deposits with Central Bank of Lebanon	(3,402,320)	-	-	(3,402,320)
Deposits with banks and financial institutions	(1,441,411)	-	-	(1,441,411)
Loan to a bank	(26,674)	-	-	(26,674)
Loans and advances to customers	(22,696,339)	(22,624,454)	(121,736,971)	(167,057,764)
Financial assets at amortized cost	(186,051)	(93,736,697)	-	(93,922,748)
Financial assets at fair value through other comprehensive income	-	(757,306)	-	(757,306)
Commitments and financial guarantees	(250,685)	(112,915)	-	(363,600)
	<u>(28,003,480)</u>	<u>(117,231,372)</u>	<u>(121,736,971)</u>	<u>(266,971,823)</u>
Net exposures				
Deposits with Central Bank of Lebanon	2,199,068,615	-	-	2,199,068,615
Deposits with banks and financial institutions	100,226,378	-	-	100,226,378
Loan to a bank	1,384,631	-	-	1,384,631
Loans and advances to customers	907,686,598	320,861,022	144,452,691	1,373,000,311
Financial assets at amortized cost	1,038,830,900	877,563,075	-	1,916,393,975
Financial assets at fair value through other comprehensive income	14,881,025	36,525,632	-	51,406,657
Customers' liability under acceptances	149,084	-	-	149,084
Commitments and financial guarantees	85,741,648	919,188	363,430	87,024,266
	<u>4,347,968,879</u>	<u>1,235,868,917</u>	<u>144,816,121</u>	<u>5,728,653,917</u>

December 31, 2019

	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross exposures				
Deposits with Central Bank of Lebanon	1,942,715,601	-	-	1,942,715,601
Deposits with banks and financial institutions	41,481,815	-	-	41,481,815
Loan to a bank	2,118,288	-	-	2,118,288
Loans and advances to customers	1,663,805,432	339,286,992	248,227,875	2,251,320,299
Financial assets at amortized cost	2,253,582,485	-	-	2,253,582,485
Financial assets at fair value through other comprehensive income	98,279,431	-	-	98,279,431
Customers' liability under acceptances	25,555,566	2,776,746	-	28,332,312
Commitments and financial guarantees	112,596,241	1,025,227	-	113,621,468
	<u>6,140,134,859</u>	<u>343,088,965</u>	<u>248,227,875</u>	<u>6,731,451,699</u>

Expected credit losses

Deposits with Central Bank of Lebanon	(1,094,154)	-	-	(1,094,154)
Deposits with banks and financial institutions	(123,088)	-	-	(123,088)
Loan to a bank	(40,036)	-	-	(40,036)
Loans and advances to customers	(13,495,930)	(46,931,522)	(119,291,860)	(179,719,312)
Financial assets at amortized cost	(39,770,249)	-	-	(39,770,249)
Financial assets at fair value through other comprehensive income	(783,551)	-	-	(783,551)
Customers' liability under acceptances	(188,182)	(156,082)	-	(344,264)
Commitments and financial guarantees	(263,359)	(101,485)	-	(364,844)
	<u>(55,758,549)</u>	<u>(47,189,089)</u>	<u>(119,291,860)</u>	<u>(222,239,498)</u>

Net exposures

Deposits with Central Bank of Lebanon	1,941,621,447	-	-	1,941,621,447
Deposits with banks and financial institutions	41,358,727	-	-	41,358,727
Loan to a bank	2,078,252	-	-	2,078,252
Loans and advances to customers	1,650,309,502	292,355,470	128,936,015	2,071,600,987
Financial assets at amortized cost	2,213,812,236	-	-	2,213,812,236
Financial assets at fair value through other comprehensive income	97,495,880	-	-	97,495,880
Customers' liability under acceptances	25,367,384	2,620,664	-	27,988,048
Commitments and financial guarantees	112,332,882	923,742	-	113,256,624
	<u>6,084,376,310</u>	<u>295,899,876</u>	<u>128,936,015</u>	<u>6,509,212,201</u>

3. Movement of ECL

	December 31, 2020			
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000
At January 1, 2020				
Deposits with Central Bank of Lebanon	1,094,154	-	-	1,094,154
Deposits with banks and financial institutions	123,088	-	-	123,088
Loan to a bank	40,036	-	-	40,036
Loans and advances to customers	13,495,930	46,931,522	119,291,860	179,719,312
Financial assets at amortized cost	39,770,249	-	-	39,770,249
Financial assets at fair value through other comprehensive income	783,551	-	-	783,551
Customers' liability under acceptances	188,180	156,084	-	344,264
Commitments and financial guarantees	300,161	64,683	-	364,844
	<u>55,795,349</u>	<u>47,152,289</u>	<u>119,291,860</u>	<u>222,239,498</u>
Net charge for year				
Deposits with Central Bank of Lebanon	2,864,587	-	-	2,864,587
Deposits with banks and financial institutions	1,315,237	-	-	1,315,237
Loan to a bank	(13,362)	-	-	(13,362)
Loans and advances to customers	4,354,799	(6,192,514)	(1,694,369)	(3,532,084)
Financial assets at amortized cost	55,789,501	-	-	55,789,501
Financial assets at fair value through other comprehensive income	(26,245)	-	-	(26,245)
Customers' liability under acceptances	(60,828)	-	-	(60,828)
Commitments and financial guarantees	83,953	2,891	-	86,844
	<u>64,307,642</u>	<u>(6,189,623)</u>	<u>(1,694,369)</u>	<u>56,423,650</u>
Transfer to off-balance sheet				
Loans and advances to customers	-	-	(8,264,258)	(8,264,258)
	<u>-</u>	<u>-</u>	<u>(8,264,258)</u>	<u>(8,264,258)</u>
Write-offs				
Loans and advances to customers	(124)	-	(585,373)	(585,497)
	<u>(124)</u>	<u>-</u>	<u>(585,373)</u>	<u>(585,497)</u>
Recoveries and related to financial assets sold				
Deposits with Central Bank of Lebanon	(568,726)	-	-	(568,726)
Deposits with banks and financial institutions	(1,219)	-	-	(1,219)
Loans and advances to customers	(199,002)	(234,428)	(44,768)	(478,198)
Financial assets at amortized cost	(1,637,002)	-	-	(1,637,002)
Customers' liability under acceptances	(131,256)	(156,084)	-	(287,340)
Commitments and financial guarantees	(87,106)	(3,358)	-	(90,464)
	<u>(2,624,311)</u>	<u>(393,870)</u>	<u>(44,768)</u>	<u>(3,062,949)</u>
Net transfers between stages				
Loans and advances to customers	4,925,108	(17,880,126)	12,955,018	-
Financial assets at amortized cost	(93,736,697)	93,736,697	-	-
Financial assets at fair value through other comprehensive income	(757,306)	757,306	-	-
Commitments and financial guarantees	(48,699)	48,699	-	-
	<u>(89,617,594)</u>	<u>76,662,576</u>	<u>12,955,018</u>	<u>-</u>
Effect of exchange rates changes				
Deposits with Central Bank of Lebanon	12,305	-	-	12,305
Deposits with banks and financial institutions	4,305	-	-	4,305
Loans and advances to customers	-	-	198,489	198,489
Commitments and financial guarantees	2,376	-	-	2,376
Customers' liability under acceptances	3,904	-	-	3,904
	<u>22,890</u>	<u>-</u>	<u>198,489</u>	<u>221,379</u>
At December 31, 2020				
Deposits with Central Bank of Lebanon	3,402,320	-	-	3,402,320
Deposits with banks and financial institutions	1,441,411	-	-	1,441,411
Loan to a bank	26,674	-	-	26,674
Loans and advances to customers	22,696,339	22,624,454	121,736,971	167,057,764
Financial assets at amortized cost	186,051	93,736,697	-	93,922,748
Financial assets at fair value through other comprehensive income	-	757,306	-	757,306
Customers' liability under acceptances	-	-	-	-
Commitments and financial guarantees	250,685	112,915	-	363,600
	<u>28,003,480</u>	<u>117,231,372</u>	<u>121,736,971</u>	<u>266,971,823</u>

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
At January 1, 2019				
Deposits with Central Bank of Lebanon	6,893,673	-	-	6,893,673
Deposits with banks and financial institutions	635,023	-	-	635,023
Loan to a bank	65,409	-	-	65,409
Loans and advances to customers	6,384,035	12,287,004	124,872,963	143,544,002
Financial assets at amortized cost	20,061,518	-	-	20,061,518
Financial assets at fair value through other comprehensive income	1,123,916	-	-	1,123,916
Customers' liability under acceptances	181,201	205,559	-	386,760
Commitments and financial guarantees	393,282	20,459	-	413,741
	<u>35,738,057</u>	<u>12,513,022</u>	<u>124,872,963</u>	<u>173,124,042</u>
Net charge for year				
Deposits with Central Bank of Lebanon	(2,698,330)	-	-	(2,698,330)
Deposits with banks and financial institutions	(9,029)	-	-	(9,029)
Loan to a bank	(25,373)	-	-	(25,373)
Loans and advances to customers	30,503,557	21,307,729	(10,344,320)	41,466,966
Financial assets at amortized cost	22,030,481	-	-	22,030,481
Financial assets at fair value through other comprehensive income	(340,365)	-	-	(340,365)
Customers' liability under acceptances	17,861	(4,433)	-	13,428
Commitments and financial guarantees	47,705	(2,254)	-	45,451
	<u>49,526,507</u>	<u>21,301,042</u>	<u>(10,344,320)</u>	<u>60,483,229</u>
Transfer to off-balance sheet				
Loans and advances to customers	-	-	(3,026,048)	(3,026,048)
	-	-	<u>(3,026,048)</u>	<u>(3,026,048)</u>
Write-offs				
Loans and advances to customers	(50,643)	(3,485)	(1,799,773)	(1,853,901)
	<u>(50,643)</u>	<u>(3,485)</u>	<u>(1,799,773)</u>	<u>(1,853,901)</u>
Recoveries and related to financial assets sold				
Deposits with Central Bank of Lebanon	(3,100,492)	-	-	(3,100,492)
Deposits with banks and financial institutions	(415,561)	-	-	(415,561)
Loans and advances to customers	(73,129)	(245,905)	(75,114)	(394,148)
Financial assets at amortized cost	(2,321,750)	-	-	(2,321,750)
Customers' liability under acceptances	(7,722)	(45,042)	-	(52,764)
Commitments and financial guarantees	(71,211)	(22,593)	-	(93,804)
	<u>(5,989,865)</u>	<u>(313,540)</u>	<u>(75,114)</u>	<u>(6,378,519)</u>
Net transfers between stages				
Loans and advances to customers	(23,267,890)	13,586,179	9,681,711	-
Commitments and financial guarantees	(69,071)	69,071	-	-
	<u>(23,336,961)</u>	<u>13,655,250</u>	<u>9,681,711</u>	<u>-</u>
Effect of exchange rates changes				
Deposits with Central Bank of Lebanon	(697)	-	-	(697)
Deposits with banks and financial institutions	(87,345)	-	-	(87,345)
Loans and advances to customers	-	-	(17,559)	(17,559)
Customers' liability under acceptances	(3,160)	-	-	(3,160)
Commitments and financial guarantees	(544)	-	-	(544)
	<u>(91,746)</u>	<u>-</u>	<u>(17,559)</u>	<u>(109,305)</u>
At December 31, 2019				
Deposits with Central Bank of Lebanon	1,094,154	-	-	1,094,154
Deposits with banks and financial institutions	123,088	-	-	123,088
Loan to a bank	40,036	-	-	40,036
Loans and advances to customers	13,495,930	46,931,522	119,291,860	179,719,312
Financial assets at amortized cost	39,770,249	-	-	39,770,249
Financial assets at fair value through other comprehensive income	783,551	-	-	783,551
Customers' liability under acceptances	188,180	156,084	-	344,264
Commitments and financial guarantees	300,161	64,683	-	364,844
	<u>55,795,349</u>	<u>47,152,289</u>	<u>119,291,860</u>	<u>222,239,498</u>

Allocation of carrying amount of loans and advances to customers by economic sector:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
<u>Corporate:</u>		
Agriculture	32,657,159	45,571,117
Commerce	295,105,083	432,058,861
Construction and real estate	315,959,642	456,153,968
Individual	24,641,444	76,849,091
Industrial	76,982,890	129,931,628
Public Sector	6,040,162	8,560,925
Services	<u>52,828,886</u>	<u>128,717,120</u>
	<u>804,215,266</u>	<u>1,277,842,710</u>
Retail loans	716,971,054	949,895,723
Accrued interest receivable	<u>18,871,755</u>	<u>23,581,866</u>
	<u>1,540,058,075</u>	<u>2,251,320,299</u>

Netting arrangements:

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

The Group makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Group's exposure to credit risk, as shown in the tables on the following pages. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

4. Risk Mitigation Policies

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

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees

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

5. Financial assets with credit risk exposure and related concentrations

(a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of deposits with banks and financial institutions and loans and advances:

(a.1) Distribution of deposits with banks and financial institutions by brackets (gross exposures):

	December 31, 2020		
	Total	% to Total	Number of
	Balance		
	LBP'000	%	
Less than LBP5billion	12,083,640	12	27
From LBP5billion to LBP15billion	16,940,456	17	2
Over LBP30Billion	72,643,693	71	1
	<u>101,667,789</u>	<u>100</u>	<u>30</u>
	December 31, 2019		
	Total	% to Total	Number of
	Balance		
	LBP'000	%	
Less than LBP5billion	27,162,232	65	34
From LBP5billion to LBP15billion	14,330,017	35	1
	<u>41,492,249</u>	<u>100</u>	<u>35</u>

(a.2) Loans and advances to customers are allocated as follows by brackets (gross exposures):

	December 31, 2020		
	Carrying	% of Total	Number of
	Amount		
	LBP'000	%	Counterparties
Less than LBP500million	792,144,632	52	39,137
From LBP500million to LBP5billion	343,842,854	23	271
From LBP5billion to LBP15billion	131,490,857	9	18
Above LBP15billion	253,707,977	16	9
	1,521,186,320	100	39,435
Accrued interest receivable	18,871,755		
	<u>1,540,058,075</u>		
	December 31, 2019		
	Carrying	% of Total	Number of
	Amount		
	LBP'000	%	Counterparties
Less than LBP500million	1,062,054,445	48	47,625
From LBP500million to LBP5billion	551,466,954	25	429
From LBP5billion to LBP15billion	283,408,679	12	36
Above LBP15billion	330,808,355	15	11
	2,227,738,433	100	48,101
Accrued interest receivable	23,581,866		
	<u>2,251,320,299</u>		

(a.3) Details of the Group's exposure to credit risk with respect to loans and advances to customers:

	Carrying Values of Collaterals Received											Lesser of Individual Exposure or Total Guarantees LBP'000
	December 31, 2020											
	Carrying Amount LBP'000	Expected Credit Losses LBP'000	Net Amount LBP'000	Pledged Funds LBP'000	Bank Guarantees LBP'000	First & Second Degree Mortgage on Properties LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Others LBP'000	Total Guarantees LBP'000		
Performing – Stages 1 and 2	1,273,868,413	(45,320,793)	1,228,547,620	98,360,399	27,397,293	1,524,210,451	339,188	150,750	188,223,742	1,838,681,823	933,265,205	
Substandard – Stage 3	73,335,953	(18,918,944)	54,417,009	122,171	873,329	81,764,549	-	-	6,317,113	89,077,162	61,955,103	
Doubtful – Stage 3	154,089,563	(64,071,026)	90,018,537	95,682	2,046,637	152,193,452	-	-	8,601,223	162,936,994	124,253,864	
Loss – Stage 3	38,764,146	(38,747,001)	17,145	53,727	1,038,402	1,370,439	-	-	17,689,209	20,151,777	12,346,431	
	1,540,058,075	(167,057,764)	1,373,000,311	98,631,979	31,355,661	1,759,538,891	339,188	150,750	220,831,287	2,110,847,756	1,131,820,603	

	Carrying Values of Collaterals Received											Lesser of Individual Exposure or Total Guarantees LBP'000
	December 31, 2019											
	Carrying Amount LBP'000	Expected Credit Losses LBP'000	Net Amount LBP'000	Pledged Funds LBP'000	Bank Guarantees LBP'000	First & Second Degree Mortgage on Properties LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	Others LBP'000	Total Guarantees LBP'000		
Performing – Stages 1 and 2	2,006,906,523	(60,427,452)	1,946,479,071	203,892,197	40,112,111	1,824,042,914	3,137,108	226,125	502,783,298	2,574,193,753	1,334,692,184	
Substandard – Stage 3	64,529,220	(13,398,543)	51,130,677	175,265	713,929	77,521,594	-	-	20,680,809	99,091,597	58,067,300	
Doubtful – Stage 3	134,031,262	(60,253,197)	73,778,065	98,295	5,036,537	151,546,329	-	-	11,971,261	168,652,422	123,096,493	
Loss – Stage 3	45,853,294	(45,640,120)	213,174	63,482	1,089,551	1,460,889	-	-	20,635,653	23,249,575	13,389,343	
	2,251,320,299	(179,719,312)	2,071,600,987	204,229,239	46,952,128	2,054,571,726	3,137,108	226,125	556,071,021	2,865,187,347	1,529,245,320	

Overdue but not impaired loans as at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	<u>LBP'000</u>	<u>LBP'000</u>
Between 60 and 90 days	32,049,447	82,361,114
Between 90 and 180 days	74,205,167	128,082,935
Between 180 and 360 days	90,737,449	30,990,525
Over 360 days	<u>80,675,721</u>	<u>5,666,167</u>
	<u>277,667,784</u>	<u>247,100,741</u>

(a.4) Concentration of major financial assets and liabilities by geographical location:

	<u>December 31, 2020</u>					
	<u>Lebanon</u>	<u>Middle East and Africa</u>	<u>North America</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
FINANCIAL ASSETS						
Cash and Central Bank	2,237,560,555	-	-	-	-	2,237,560,555
Deposits with banks and financial institutions	71,935,554	750,048	991,662	26,549,114	-	100,226,378
Loan to a bank	1,384,631	-	-	-	-	1,384,631
Investments at fair value through profit or loss	10,854,238	-	-	-	-	10,854,238
Loans and advances to customers	1,312,329,005	49,064,742	4,350,302	5,630,770	1,625,492	1,373,000,311
Investments at amortized cost	1,916,393,975	-	-	-	-	1,916,393,975
Investments at fair value through other comprehensive income	<u>51,406,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,406,657</u>
Total	<u>5,601,864,615</u>	<u>49,814,790</u>	<u>5,341,964</u>	<u>32,179,884</u>	<u>1,625,492</u>	<u>5,690,826,745</u>
FINANCIAL LIABILITIES						
Deposits from banks	106,502,582	133	-	1,115,955	-	107,618,670
Customers' accounts	3,892,963,933	492,215,819	73,538,510	132,558,681	43,348,958	4,634,625,901
Other borrowings	304,738,835	-	-	-	-	304,738,835
Lease liability	<u>19,678,708</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,678,708</u>
Total	<u>4,323,884,058</u>	<u>492,215,952</u>	<u>73,538,510</u>	<u>133,674,636</u>	<u>43,348,958</u>	<u>5,066,662,114</u>
	<u>December 31, 2019</u>					
	<u>Lebanon</u>	<u>Middle East and Africa</u>	<u>North America</u>	<u>Europe</u>	<u>Other</u>	<u>Total</u>
	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>	<u>LBP'000</u>
FINANCIAL ASSETS						
Cash and Central Bank	1,959,272,028	-	-	-	-	1,959,272,028
Deposits with banks and financial institutions	2,591,901	1,663,777	7,330,279	29,783,204	-	41,369,161
Loan to a bank	2,078,252	-	-	-	-	2,078,252
Investments at fair value through profit or loss	20,497,682	-	-	15,610,037	-	36,107,719
Loans and advances to customers	1,976,556,994	76,226,029	7,204,781	8,486,450	3,126,733	2,071,600,987
Investments at amortized cost	2,213,812,236	-	-	-	-	2,213,812,236
Investments at fair value through other comprehensive income	<u>97,495,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,495,880</u>
Total	<u>6,272,304,973</u>	<u>77,889,806</u>	<u>14,535,060</u>	<u>53,879,691</u>	<u>3,126,733</u>	<u>6,421,736,263</u>
FINANCIAL LIABILITIES						
Deposits from banks	112,012,965	46,305,237	-	15,428,095	-	173,746,297
Customers' accounts	4,447,377,184	619,755,599	67,575,714	130,128,901	45,674,561	5,310,511,959
Other borrowings	347,425,980	400,123	-	-	-	347,826,103
Lease liability	<u>22,065,854</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,065,854</u>
Total	<u>4,928,881,983</u>	<u>666,460,959</u>	<u>67,575,714</u>	<u>145,556,996</u>	<u>45,674,561</u>	<u>5,854,150,213</u>

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. That being said, Lebanon is facing adverse conditions and high level of uncertainty since October 2019, as a result of deterioration of the economic environment which lead to a severe disruption of normal business operations and a de-facto capital control, leading to incremental credit risks and restricted access to foreign currency among other adverse factors.

1. *Management of liquidity risk*

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in their business operations or unanticipated events. Through Assets and Liabilities Committee, the Board of Directors is responsible for establishing the liquidity policy as well as approving operating and contingency procedures and monitoring liquidity on an ongoing basis. The treasury department is responsible for planning and executing their funding activities and strategy.

Liquidity management and business unit activities are managed consistent with a strategy of funding stability, flexibility and diversity. It includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met
- Maintenance of a portfolio of liquid and marketable assets
- Daily and forecast cash flow management
- Implementation of long-term funding strategies.

The cumulative impact of these various elements is monitored on at least monthly basis by ALCO. Monitoring and reporting take the form of cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

2. *Exposure to liquidity risk*

Regulatory requirements

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Group. In Lebanon and since October 2019 events, the Group monitors on a daily basis the ratio of available international foreign currency liquidity to international commitments over various time horizons. The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by February 28, 2021. On December 24, 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Bank has not yet met this regulatory international liquidity ratio, and communication with the regulator is still ongoing for meeting this ratio.

The table below shows the allocation of major monetary liabilities based on the earliest possible contractual maturity (undiscounted values). The expected maturities vary significantly from the contractual maturities namely with regard to customers' deposits.

Residual contractual maturities of financial liabilities

	December 31, 2020						
	Up to	3 Months to	1 Year to	3 Years to	5 Years	Over	
	3 Months	3 Months to	1 Year to	3 Years to	5 Years	5 Years	
	LBP'000	1 Year	3 Years	5 Years	5 Years	Total	
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Deposits from banks	16,906,526	90,712,144	-	-	-	-	107,618,670
Customers' accounts at amortized cost	3,589,700,901	924,854,000	108,765,000	11,306,000	-	-	4,634,625,901
Lease Liabilities	1,225,241	612,865	4,213,077	4,230,240	9,397,285	19,678,708	19,678,708
Other borrowings	465,943	288,059,892	-	15,430,000	783,000	304,738,835	304,738,835
	<u>3,608,298,611</u>	<u>1,304,238,901</u>	<u>112,978,077</u>	<u>30,966,240</u>	<u>10,180,285</u>	<u>5,066,662,114</u>	
	December 31, 2019						
Up to	3 Months to	1 Year to	3 Years to	5 Years	Over	Total	
3 Months	3 Months to	1 Year to	3 Years to	5 Years	5 Years	Total	
LBP'000	1 Year	3 Years	5 Years	5 Years	LBP'000	LBP'000	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Deposits from banks	163,696,297	10,050,000	-	-	-	173,746,297	
Customers' accounts at amortized cost	4,195,974,078	867,796,858	220,454,402	25,759,005	527,616	5,310,511,959	
Lease Liabilities	1,097,045	906,468	4,767,622	4,101,473	11,193,246	22,065,854	
Other borrowings	2,638	397,485	-	-	347,425,980	347,826,103	
	<u>4,360,770,058</u>	<u>879,150,811</u>	<u>225,222,024</u>	<u>29,860,478</u>	<u>359,146,842</u>	<u>5,854,150,213</u>	

C. Market Risk

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

Exposure to foreign exchange risk:

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2020					
	LBP LBP'000	USD LBP'000	Euro LBP'000	GBP LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Central Bank	651,440,507	1,459,066,350	125,944,776	1,108,922	-	2,237,560,555
Deposits with banks and Financial institutions	1,663,081	84,392,751	7,739,652	2,409,765	4,021,129	100,226,378
Loan to a bank	1,384,631	-	-	-	-	1,384,631
Investments at fair value through profit or loss	1,370,421	9,483,817	-	-	-	10,854,238
Loans and advances to customers	605,933,493	758,060,902	9,000,315	4,506	1,095	1,373,000,311
Investments at amortized cost	790,905,747	1,125,488,228	-	-	-	1,916,393,975
Investments at fair value through other comprehensive income	13,785,048	37,545,413	76,196	-	-	51,406,657
Customers' liability under acceptances	-	-	149,084	-	-	149,084
Assets acquired in satisfaction of loans	11,262,904	58,600,942	-	-	-	69,863,846
Right-of-use assets	1,483,429	17,133,220	-	-	-	18,616,649
Property and equipment	89,825,297	-	-	-	-	89,825,297
Intangible assets	4,671,738	-	-	-	-	4,671,738
Other assets	23,464,786	10,214,440	4,991	13,519	3,389	33,701,125
Assets classified as held-for-sale	-	-	23,849,831	-	-	23,849,831
Total Assets	2,197,191,082	3,559,986,063	166,764,845	3,536,712	4,025,613	5,931,504,315
LIABILITIES						
Deposits from banks	103,678,160	3,006,321	934,189	-	-	107,618,670
Customers' accounts	1,278,433,740	3,156,351,295	192,683,476	3,497,010	3,660,380	4,634,625,901
Liability under acceptances	-	-	149,084	-	-	149,084
Other borrowings	288,971,732	15,767,103	-	-	-	304,738,835
Lease liability	1,623,653	18,055,055	-	-	-	19,678,708
Other liabilities	67,486,783	15,000,171	260,812	435	10,956	82,759,157
Provisions	10,454,772	570,646	1,295,847	-	-	12,321,265
Liabilities directly associated with assets classified as held for sale	-	-	844,339	-	-	844,339
Total Liabilities	1,750,648,840	3,208,750,591	196,167,747	3,497,445	3,671,336	5,162,735,959
Currency to be received	-	-	-	-	-	-
Currency to be delivered	-	-	-	-	-	-
Net assets	446,542,242	351,235,472	(29,402,902)	39,267	354,277	768,768,356

	December 31, 2019					
	LBP LBP'000	USD LBP'000	Euro LBP'000	GBP LBP'000	Other LBP'000	Total LBP'000
ASSETS						
Cash and Central Bank	851,700,744	1,011,909,044	94,930,594	731,646	-	1,959,272,028
Deposits with banks and Financial institutions	446,318	13,190,071	20,016,368	2,337,216	5,379,188	41,369,161
Loan to a bank	2,078,252	-	-	-	-	2,078,252
Investments at fair value through profit or loss	5,180,551	25,405,282	5,521,886	-	-	36,107,719
Loans and advances to customers	741,377,916	1,296,621,101	35,115,221	4,660	(1,517,911)	2,071,600,987
Investments at amortized cost	992,897,494	1,220,914,742	-	-	-	2,213,812,236
Investments at fair value through other comprehensive income	58,483,730	38,942,718	69,432	-	-	97,495,880
Customers' liability under acceptances	-	15,349,432	10,700,471	-	1,938,145	27,988,048
Assets acquired in satisfaction of loans	11,985,064	71,990,977	-	-	-	83,976,041
Right-of-use assets	1,726,879	20,615,833	-	-	6,881	22,349,593
Property and equipment	94,881,950	-	-	-	-	94,881,950
Intangible assets	4,618,351	-	-	-	-	4,618,351
Other assets	18,122,224	12,659,198	599,753	19,975	93,881	31,495,031
Assets classified as held-for-sale	-	-	21,732,835	-	-	21,732,835
Total Assets	2,783,499,473	3,727,598,398	188,686,560	3,093,497	5,900,184	6,708,778,112
LIABILITIES						
Deposits from banks	111,355,615	24,364,839	38,025,843	-	-	173,746,297
Customers' accounts	1,771,846,930	3,346,845,218	185,083,516	3,062,938	3,673,357	5,310,511,959
Liability under acceptances	-	15,591,648	10,802,519	-	1,938,145	28,332,312
Other borrowings	317,888,463	29,937,640	-	-	-	347,826,103
Lease liability	1,801,913	20,263,923	-	-	18	22,065,854
Other liabilities	45,215,672	20,683,604	372,931	494	11,373	66,284,074
Provisions	18,648,628	617,501	1,209,617	-	-	20,475,746
Liabilities directly associated with assets classified as held for sale	-	-	769,393	-	-	769,393
Total Liabilities	2,266,757,221	3,458,304,373	236,263,819	3,063,432	5,622,893	5,970,011,738
Currency to be received	-	683,574	-	-	-	683,574
Currency to be delivered	-	-	(590,412)	-	(89,765)	(680,177)
	-	683,574	(590,412)	-	(89,765)	3,397
Net assets	516,742,252	269,977,599	(48,167,671)	30,065	187,526	738,769,771

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars and Euros. As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, whereas there is high volatility and significant variance in the multiple unofficial exchange rates in the parallel markets that have emerged since the start of the economic crisis and the de-facto capital control on foreign currency withdrawals and transfers overseas, and therefore, management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the official exchange rate is changed by the relevant authorities.

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

December 31, 2020

	LBP	Onshore foreign currencies	Offshore foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000
<u>ASSETS</u>				
Cash and Central Bank	651,440,506	1,574,330,309	11,789,740	2,237,560,555
Deposits with banks and Financial institutions	1,663,082	70,317,752	28,245,544	100,226,378
Loan to a bank	1,384,631	-	-	1,384,631
Investments at fair value through profit or loss	1,370,421	9,483,817	-	10,854,238
Loans and advances to customers	605,933,491	767,066,820	-	1,373,000,311
Investments at amortized cost	790,905,746	1,125,488,229	-	1,916,393,975
Investments at fair value through other comprehensive income	13,785,049	37,621,608	-	51,406,657
Customers' liability under acceptances	-	149,084	-	149,084
Assets acquired in satisfaction of loans	11,262,904	58,600,942	-	69,863,846
Right-of-use assets	1,483,429	17,133,220	-	18,616,649
Property and equipment	89,825,297	-	-	89,825,297
Intangible assets	4,671,738	-	-	4,671,738
Other assets	23,464,785	10,236,340	-	33,701,125
Assets classified as held-for-sale	-	-	23,849,831	23,849,831
Total Assets	<u>2,197,191,079</u>	<u>3,670,428,121</u>	<u>63,885,115</u>	<u>5,931,504,315</u>
<u>LIABILITIES</u>				
Deposits from banks	103,678,160	2,824,423	1,116,087	107,618,670
Customers' accounts	1,278,433,738	3,356,192,163	-	4,634,625,901
Liability under acceptances	-	-	149,084	149,084
Other borrowings	288,971,732	15,767,103	-	304,738,835
Lease liability	1,623,653	18,055,055	-	19,678,708
Other liabilities	67,525,839	15,233,318	-	82,759,157
Provisions	10,454,772	1,866,493	-	12,321,265
Liabilities directly associated with	-	-	844,339	844,339
Total Liabilities	<u>1,750,687,894</u>	<u>3,409,938,555</u>	<u>2,109,510</u>	<u>5,162,735,959</u>
Currency to be received	-	-	-	-
Currency to be delivered	-	-	-	-
Net assets	<u>446,503,185</u>	<u>260,489,566</u>	<u>61,775,605</u>	<u>768,768,356</u>

	December 31, 2019			
	LBP	Onshore foreign currencies	Offshore foreign currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000
<u>ASSETS</u>				
Cash and Central Bank	851,700,744	1,104,856,575	2,714,709	1,959,272,028
Deposits with banks and Financial institutions	446,318	2,189,534	38,733,309	41,369,161
Loan to a bank	2,078,252	-	-	2,078,252
Investments at fair value through profit or loss	5,180,551	30,927,168	-	36,107,719
Loans and advances to customers	741,377,916	1,330,223,071	-	2,071,600,987
Investments at amortized cost	992,897,494	1,220,914,742	-	2,213,812,236
Investments at fair value through other comprehensive income	58,483,730	39,012,150	-	97,495,880
Customers' liability under acceptances	-	27,988,048	-	27,988,048
Assets acquired in satisfaction of loans	11,985,064	71,990,977	-	83,976,041
Right-of-use assets	1,726,879	20,622,714	-	22,349,593
Property and equipment	94,881,950	-	-	94,881,950
Intangible assets	4,618,351	-	-	4,618,351
Other assets	18,122,224	13,372,807	-	31,495,031
Assets classified as held-for-sale	-	-	21,732,835	21,732,835
Total Assets	<u>2,783,499,473</u>	<u>3,862,097,786</u>	<u>63,180,853</u>	<u>6,708,778,112</u>
<u>LIABILITIES</u>				
Deposits from banks	111,355,615	657,351	61,733,331	173,746,297
Customers' accounts	1,771,846,930	3,538,665,029	-	5,310,511,959
Liability under acceptances	-	420,500	27,911,812	28,332,312
Other borrowings	317,888,463	29,537,517	400,123	347,826,103
Lease liability	1,801,913	20,263,941	-	22,065,854
Other liabilities	45,215,672	20,258,111	810,291	66,284,074
Provisions	18,648,628	1,827,118	-	20,475,746
Liabilities directly associated with	-	-	769,393	769,393
Total Liabilities	<u>2,266,757,221</u>	<u>3,611,629,567</u>	<u>91,624,950</u>	<u>5,970,011,738</u>
Currency to be received	-	683,574	-	683,574
Currency to be delivered	-	(680,177)	-	(680,177)
	-	3,397	-	3,397
Net assets	<u>516,742,252</u>	<u>250,471,616</u>	<u>(28,444,097)</u>	<u>738,769,771</u>

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level of volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading-related assets and liabilities, deposits, borrowings and derivative instruments. Interest rate repricing gap is used to estimate the impact on earnings of an adverse movement in interest rates.

Exposure to Interest rate risk

Below is a summary of the Group's interest rate gap position on major financial assets and liabilities reflected at carrying amounts at year end by repricing time bands:

	Weighted Average Interest Rate %	December 31, 2020						Total LBP'000
		Not Subject to Interest LBP'000	Less than 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	
FINANCIAL ASSETS								
Cash and Central Bank	5.23%	1,204,791,555	38,000,000	29,791,000	90,451,000	139,065,000	735,462,000	2,237,560,555
Deposits with banks and financial institutions	0.17%	99,998,378	228,000	-	-	-	-	100,226,378
Loan to a bank	2.59%	10,631	-	1,374,000	-	-	-	1,384,631
Investment securities at fair value through profit or loss	0.14%	10,853,948	-	290	-	-	-	10,854,238
Loans and advances to customers	7.28%	144,452,238	363,925,000	90,653,000	208,943,000	187,470,000	377,557,073	1,373,000,311
Investment securities at amortized cost	4.82%	115,651,776	-	155,258,000	132,897,000	252,199,000	1,260,388,199	1,916,393,975
Investment securities at fair value through other comprehensive income	2.35%	18,345,657	-	12,785,000	19,199,000	1,077,000	-	51,406,657
		<u>1,594,104,183</u>	<u>402,153,000</u>	<u>289,861,290</u>	<u>451,490,000</u>	<u>579,811,000</u>	<u>2,373,407,272</u>	<u>5,690,826,745</u>
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions		6,914,513	9,975,157	90,729,000	-	-	-	107,618,670
Customer's deposits and credit balances		1,299,777,901	2,716,116,000	498,666,000	108,760,000	11,306,000	-	4,634,625,901
Lease Liability		-	1,225,241	612,865	4,213,077	4,230,240	9,397,285	19,678,708
Other borrowings		99,283,835	-	185,937,000	-	19,518,000	-	304,738,835
		<u>1,405,976,249</u>	<u>2,727,316,398</u>	<u>775,944,865</u>	<u>112,973,077</u>	<u>35,054,240</u>	<u>9,397,285</u>	<u>5,066,662,114</u>

Weighted Average Interest Rate %	December 31, 2019						Total LBP'000
	Not Subject to Interest LBP'000	Less than 3 Months LBP'000	3 Months to 1 Year LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	
FINANCIAL ASSETS							
6.09	207,873,028	89,696,000	93,386,000	242,758,000	329,262,000	996,297,000	1,959,272,028
0.35	1,521,400	39,847,761	-	-	-	-	41,369,161
2.96	18,252	-	2,060,000	-	-	-	2,078,252
1.31	-	15,456,000	4,558,290	16,093,429	-	-	36,107,719
8.88	128,935,668	570,581,545	124,542,045	325,417,199	317,503,105	604,621,425	2,071,600,987
7.37	43,151,435	65,602,000	72,348,500	266,431,000	59,775,000	1,706,504,301	2,213,812,236
5.11	19,450,880	1,207,000	47,650,000	18,171,000	11,017,000	-	97,495,880
	<u>400,950,663</u>	<u>782,390,306</u>	<u>344,544,835</u>	<u>868,870,628</u>	<u>717,557,105</u>	<u>3,307,422,726</u>	<u>6,421,736,263</u>
FINANCIAL LIABILITIES							
9.9	59,421,904	104,274,393	10,050,000	-	-	-	173,746,297
6.81	458,197,959	3,737,775,000	867,797,000	220,455,000	25,759,000	528,000	5,310,511,959
8.5	-	1,097,045	906,468	4,767,622	4,101,473	11,193,246	22,065,854
0.84	2,638	-	397,485	-	-	347,425,980	347,826,103
	<u>517,622,501</u>	<u>3,843,146,438</u>	<u>879,150,953</u>	<u>225,222,622</u>	<u>29,860,473</u>	<u>359,147,226</u>	<u>5,854,150,213</u>

Weighted average interest rate with Central Bank of Lebanon is normalized to exclude the impact of the assets under leverage arrangements.

D. Other Operational Risks

Litigation Risk

Litigation risk arises from pending or potential legal proceedings against the Group (Note 42) and in the event that legal issues are not properly dealt with by the Group. Litigation that may arise, whether from lawsuits or from arbitration proceedings, may affect the operations of the Group as well as its results.

Since October 17, 2019, and as a result of the de-facto capital control and other measures adopted by Lebanese banks imposing various restrictions of free flow of customers' funds deposited with the banking sector, the Group has been subject to an increased litigation risk. Management is monitoring and assessing the impact of existing and/or potential litigation and claims against the Group in relation to these restrictive measures taking into consideration prevailing laws, regulations and local banking practices. Although there are uncertainties with respect to outcomes of any litigation in connection with the adoption of the various restrictive measures, management considers that any associated claims are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

43. CONTINGENCIES

The Bank is defendant in several lawsuits, whereby the aggregate amount claimed by the plaintiffs is around LBP 8.6 billion.

The Bank's tax returns for the years 2015 till 2019 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

The Bank's social security declarations since October 2017 remain subject to review by the Social Security authorities. Any additional liabilities depend on the outcome of such reviews.

44. CAPITAL MANAGEMENT

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

The following are the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
As at December 31, 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%
As at December 31, 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5%	7.00%	8.50%	10.50%

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

Key regulatory changes:	
<p>Increasing the regulatory ECL on Lebanese government bonds in foreign currency from 9.45% to 45% and allowing the constitution of the regulatory ECL progressively over a period of five years starting from 2020, noting that the BDL Central Council may accept to extend the term to ten years for banks that manage to complete the 20% cash contribution to capital before December 31, 2020.</p> <p>Regulatory ECL for other exposures remain unchanged, i.e. exposures in foreign currency with BDL 1.89%; exposures in Lebanese Pounds with BDL and Lebanese treasury bills in Lebanese Pounds 0%.</p>	<p>The Bank applied the following ECL levels on exposures to Lebanese sovereign and Central Bank in these financial statements as at December 31, 2020:</p> <ul style="list-style-type: none"> - Central Bank exposures in foreign currencies: 1.89% over 10 years. - Central Bank exposures in Lebanese Pound: 0%. - Sovereign exposures in foreign currencies: 45% over 5 to 10 years. - Sovereign exposures in Lebanese Pound: 0%.
<p>By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018 through issuing new foreign currency capital instruments as well as other approaches that meet the criteria for inclusion as regulatory capital. The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these a liquidated within 5 years</p>	<p>As discussed in Note 23, the Bank's Extraordinary General Assembly of shareholders held on January 30, 2020 called additional cash contribution from shareholders in the amount of USD93.86million. Up to December 31, 2020, the Bank's shareholders settled USD 45.96 million (LBP69.29billion) in the form of cash contribution. The remaining balance of USD47.9million (LBP72.2billion) was settled in the subsequent period.</p>
<p>Banks can include the revaluation surplus of real estate properties in Common Equity Tier I capital instead of 50% in Tier II, subject to BDL approval on the revaluation. The deadline set by the regulator for the revaluation of real estate is December 31, 2021.</p>	
<p>Banks should refrain from dividend distribution, should capital adequacy ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio. Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022 years according to an approved plan by the Banking Control Commission of Lebanon.</p>	<p>The Group did not draw down its capital conservation buffer as at December 31, 2020.</p>
<p>Banks should refrain from dividend distribution, should capital adequacy ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio. Also, banks are prohibited from distributing dividends on common shares for the years 2019 and 2020.</p>	<p>No dividends were distributed during the year.</p>
<p>As exceptional measures, 100% of ECL on Stage 1 and Stage 2 exposures (except those against sovereign and BDL exposures in local and foreign currency), may be added to common equity Tier I capital. These will be gradually amortized to 75% in 2022, 50% in 2023 and 25% in 2024</p>	<p>The Group's levels of Common Equity Tier I and Tier II, increased by LBP 47.146 Billion and increased by LBP 3.573 Billion as at December 31, 2020 compared to December 31, 2019.</p>

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

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
	<u>LBP Million</u>	<u>LBP Million</u>
Common Equity Tier I	663,677	365,759
Additional Tier I capital	<u>152,787</u>	<u>152,787</u>
	816,464	518,546
Tier II capital	<u>3,998</u>	<u>57,255</u>
Total regulatory capital	<u>820,462</u>	<u>575,801</u>
Credit risk	4,698,985	5,303,935
Market risk	27,616	57,220
Operational risk	<u>316,351</u>	<u>319,843</u>
Risk-weighted assets and risk-weighted off-balance sheet items	<u>5,042,952</u>	<u>5,680,998</u>
Equity Tier I ratio	13.16%	6.44%
Tier I capital ratio	16.19%	9.13%
Risk based capital ratio - Tier I and Tier II capital	16.27%	10.14%

The Group's capital adequacy ratio as at December 31, 2020 and 2019, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties discussed under Note 1.3 once these uncertainties become reasonably quantifiable. Due to the high levels of these uncertainties, management is unable to estimate in a reasonable manner, the impact of these matters on the Group's capital adequacy and the recapitalization needs that may arise once the necessary adjustments are determined and recorded.

45. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group determines 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.

As a result of the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector in Lebanon, is experiencing, as described in Note 1, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

46. RELATED PARTY TRANSACTIONS

Related parties represent the Parent Bank, subsidiaries, key management personnel and their close family members, and entities controlled or jointly controlled by them. In the normal course of business, the Group has dealings at market rates, or on terms agreed by the management of the Group with related parties.

Below are balances and transactions with related parties included in these financial statements:

	<u>2020</u>	<u>2019</u>
	LBP'000	LBP'000
Deposits with banks	77,624,981	3,067,894
Loans and advances to key management personnel	5,185,619	7,105,483
Deposits from banks	100,729,196	31,550,000
Customers' deposits	55,742,974	56,579,733

Remuneration to executive management paid during 2020 amounted to LBP1.2billion (LBP3.7billion in 2019).

47. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2020 were approved by the Board of Directors in its meeting held on August 5, 2021.

