

# **BLOM BANK SAL**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2021**



**Building a better  
working world**

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL**

### **Adverse opinion**

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

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

### **Basis for adverse opinion**

1. As disclosed in note 2.1 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29") in the accompanying consolidated financial statements for the year ended 31 December 2021. Had the Group applied the requirements of IAS 29, many elements and disclosures in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2020, would have been materially different. The effects on the consolidated financial statements from this departure have not been determined. Our opinion for the year ended 31 December 2020 was also modified for the same reason explained above.
2. The Group translated its assets and liabilities, denominated in foreign currencies, as at 31 December 2021 and all transactions in foreign currencies that occurred during the year then ended, using the official published exchange rates as disclosed in note 1 to the consolidated financial statements. However, during the year, other exchange rates were introduced through legal exchange mechanisms, and several exchange rates became available, depending on the source and nature of the operation or balance. As per IAS 21, when several exchange rates are available, the rate to be used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. Due to the uncertainties disclosed in note 1 to the consolidated financial statements, management did not use the rate at which the future cash flows could have been settled. Had the Group used the rate at which the future cashflows could have been settled, many accounts and disclosures in the consolidated financial statements would have been materially different. The effects on the consolidated financial statements from the departure of IAS 21 and the uncertainties relating to the appropriate exchange rates have not been determined.

**Basis for adverse opinion (continued)**

3. As disclosed in note 47.3 to the consolidated financial statements, as at 31 December 2021, the Group held balances with the Central Bank of Lebanon amounting to LL 24,986 billion (2020: LL 25,844 billion), a portfolio of Lebanese government treasury securities and Certificates of deposits (under financial assets at amortized costs) totaling LL 4,430 billion (2020: LL 4,719 billion), a portfolio of loans to the private sector amounting to LL 1,798 billion (2020: LL 2,935 billion) and other balances with Lebanese Banks and other financial assets amounting to LL 72 billion (2020: LL 131 billion) concentrated in Lebanon which represents 78% of the Group's total assets as at 31 December 2021 (2020: 75%). Furthermore, the Group did not assess whether the modified financial assets resulting from the exchange of placements with the Central Bank of Lebanon with same maturities but at lower interest rates have changed substantially, in order to determine whether it should be accounted for as a modification resulting in derecognition or no derecognition. Also, the Group did not calculate and account for the impact of such modification, which constitutes a departure from the requirements of IFRS 9.

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

Also, as disclosed in note 42, management did not produce the information about the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures in compliance with IFRS 13 – Fair Value Measurement.

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

4. As at 31 December 2021, provision for retirement benefits obligation of employees in Lebanon is carried in the consolidated statement of financial position at LL 31 billion. The Group did not estimate the provision for retirement benefits obligations in accordance with IAS 19 - Employee Benefits. Consequently, we were unable to determine whether any adjustments to these amounts, and related income statements accounts were necessary.
5. The events, conditions and practices that would not qualify as normal course of business in a non-crisis environment described in note 1 and the matters described in paragraphs 1, 2 and 3 above affect the financial position, liquidity, solvency and profitability of the Group, expose the Group to increased litigation and regulatory risks. Significant uncertainty exists in relation to the outcome of the litigations and claims raised against the Group and the negative impact that they might have on the Group's offshore liquidity, foreign assets and foreign currency exposure as disclosed in notes 1, 48 and 51. These events and conditions cast significant doubts on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern. Our opinion for the year ended 31 December 2020 was also modified for the same reasons explained above.

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

**Emphasis of matter**

We draw attention to note 54 to the consolidated financial statements, which describes the uncertainties surrounding the legal actions undertaken by the prosecutor of the court of appeal in Mount Lebanon, subsequent to the balance sheet date, on the Bank and some members of its Board of Directors.

### **Key audit matters**

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

### **Other information included in the Group’s 2021 annual report**

Other information consists of the information included in the Group’s Annual Report other than the consolidated financial statements and our auditors’ report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. As described in the “*Basis for Adverse Opinion*” section of our report, the consolidated financial statements do not include adjustments arising from the matters set out therein. We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group’s 2021 Annual Report affected by matters reported in the Basis for Adverse Opinion.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

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

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

### **Auditors’ responsibilities for the audit of the consolidated financial statements**

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

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

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

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

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

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

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

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



Ernst & Young

20 April 2022  
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

# BLOM Bank SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 <i>LL million</i>	2020 <i>LL million</i>
<b>CONTINUING OPERATIONS</b>			
Interest and similar income	6	2,597,702	3,018,940
Interest and similar expense	7	(352,081)	(1,250,804)
<b>Net interest income</b>		<b>2,245,621</b>	1,768,136
Fee and commission income		177,624	187,881
Fee and commission expense		(423,551)	(40,775)
<b>Net fee and commission (expense) income</b>	8	<b>(245,927)</b>	147,106
Net loss from financial assets at fair value through profit or loss	9	(751,445)	(92,529)
Net loss from derecognition of financial assets at amortized cost	10	(104)	(73,387)
Non-interest revenues from financial assets at fair value through other comprehensive income		867	633
Other operating income	11	46,511	12,731
<b>Total operating income</b>		<b>1,295,523</b>	1,762,690
Net impairment loss on financial assets	12	(688,126)	(1,089,065)
Discounts on loans		(43,985)	(58,430)
<b>Net operating income</b>		<b>563,412</b>	615,195
Personnel expenses	13	(250,821)	(225,518)
Other operating expenses	14	(180,640)	(169,203)
Depreciation of property, equipment and right-of-use assets	24	(29,831)	(31,485)
Amortization of intangible assets	25	(1,818)	(2,234)
<b>Total operating expenses</b>		<b>(463,110)</b>	(428,440)
<b>Operating profit</b>		<b>100,302</b>	186,755
Net gain on disposal of property and equipment		157	4,361
<b>Profit before tax from continuing operations</b>		<b>100,459</b>	191,116
Income tax expense	15	(244,652)	(251,128)
<b>Loss for the year from continuing operations</b>		<b>(144,193)</b>	(60,012)
<b>DISCONTINUED OPERATIONS</b>			
Profit for the year, from discontinued operations, net of tax	41	16,694	63,938
Profit from sale of a subsidiary	41	134,157	-
<b>Total profit from discontinued operations</b>		<b>150,851</b>	63,938
<b>Profit for the year</b>		<b>6,658</b>	3,926
<b>Attributable to:</b>			
<b>Equity holders of the parent</b>			
Loss for the year from continuing operations		-	2,020
Profit for the year from discontinued operations		(150,851)	(61,547)
<b>Non-controlling interests</b>		<b>6,658</b>	1,906
Profit for the year from continuing operations		6,658	1,535
Profit for the year from discontinued operations		-	371
		<b>6,658</b>	3,926
<b>Basic earnings per share attributable to equity holders of the parent for the year</b>			
Basic earnings per share	16	-	9
Basic loss per share from continuing operations	16	(703)	(287)
Basic earnings per share from discontinuing operations	16	703	296

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

# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 <i>LL million</i>	2020 <i>LL million</i>
<b>Loss for the year from continuing operations</b>	<b>(10,036)</b>	(60,012)
<b>Profit for the year from discontinuing operations</b>	<b>16,694</b>	63,938
<b>Other comprehensive (loss) income that will be reclassified to the consolidated income statement in subsequent periods from continuing operations:</b>		
Exchange differences on translation of foreign operations	(35,590)	42,645
<b>Total other comprehensive (loss) income that will be reclassified to the consolidated income statement in subsequent periods from continuing operations</b>	<b>(35,590)</b>	42,645
<b>Other comprehensive income that will not to be reclassified to the consolidated income statement in subsequent periods from continuing operations:</b>		
Net unrealized gain from financial assets at fair value through other comprehensive income	11,909	1,214
<b>Total other comprehensive income that will not be reclassified to the consolidated income statement in subsequent periods from continuing operations</b>	<b>11,909</b>	1,214
<b>Other comprehensive (loss) income for the year from continuing operations, net of tax</b>	<b>(23,681)</b>	43,859
<b>Other comprehensive (loss) income for the year from discontinuing operations, net of tax</b>	<b>(6,086)</b>	14,998
<b>Total comprehensive (loss) income for the year from continuing operations, net of tax</b>	<b>(33,717)</b>	(16,153)
<b>Total comprehensive income for the year from discontinuing operations, net of tax</b>	<b>10,608</b>	78,936
<b>Total comprehensive (loss) income for the year, net of tax</b>	<b>(23,109)</b>	62,783
<b>Attributable to:</b>		
Equity holders of the parent	(31,956)	60,461
Non-controlling interests	8,847	2,322
	<b>(23,109)</b>	62,783

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



# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 LL million	2020 LL million
<b>Assets</b>			
Cash and balances with Central Banks	17	27,678,591	27,736,020
Due from banks and financial institutions	18	1,873,164	1,526,445
Derivative financial instruments	19	4,351	1,644
Financial assets at fair value through profit or loss	20	478,934	229,987
Net loans and advances to customers at amortized cost	21	3,370,460	4,691,604
Net loans and advances to related parties at amortized cost	45	8,870	13,218
Debtors by acceptances		5,409	10,790
Financial assets at amortized cost	22	5,411,444	5,312,911
Financial assets at fair value through other comprehensive income	23	64,265	46,374
Property, equipment and right-of-use assets	24	754,082	752,678
Intangible assets	25	3,079	4,231
Assets obtained in settlements of debt	26	46,862	52,041
Other assets	27	199,945	236,429
Goodwill	28	2,078	2,131
Assets held for sale	41	-	4,181,183
<b>Total assets</b>		<b>39,901,534</b>	<b>44,797,686</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Due to central banks	29	2,872,037	2,915,248
Due to banks and financial institutions	30	226,769	345,284
Derivative financial instruments	19	7,868	10,873
Customers' deposits at amortized cost	31	30,587,056	31,641,051
Deposits from related parties at amortized cost	45	98,905	113,114
Debt issued and other borrowed funds	32	38,183	38,168
Engagements by acceptances		5,418	10,874
Other liabilities	33	970,755	967,917
Provisions for risks and charges	34	288,329	221,048
Loans from banks and financial institutions		9,588	-
Liabilities related to non-current assets held for sale	41	-	3,732,079
<b>Total liabilities</b>		<b>35,104,908</b>	<b>39,995,656</b>
<b>Equity</b>			
Share capital – common shares	35	322,500	322,500
Share premium on common shares	35	374,059	374,059
Non-distributable reserves	36	1,839,387	1,655,491
Distributable reserves		533,717	685,918
Treasury shares	37	(4,434)	(4,434)
Retained earnings		1,815,776	1,963,760
Revaluation reserve of real estate	24	14,727	14,727
Change in fair value of financial assets at fair value through other comprehensive income	38	3,566	456
Foreign currency translation reserve		(205,357)	(22,201)
Reserves related to assets held for sale	41	-	(275,457)
Result of the year		-	2,020
<b>Equity attributable to equity holders of the parent</b>		<b>4,693,941</b>	<b>4,716,839</b>
Non-controlling interests		102,685	85,191
<b>Total equity</b>		<b>4,796,626</b>	<b>4,802,030</b>
<b>Total liabilities and equity</b>		<b>39,901,534</b>	<b>44,797,686</b>

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 12 April 2022:

  
Saad Azhari  
Chairman and General Manager

  
Talal Baba  
Chief Financial Officer

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



# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	<i>Attributable to equity holders of the parent</i>													
	<i>Share capital- common shares</i>	<i>Share premium on common shares</i>	<i>Non-distributable reserves</i>	<i>Distributable reserves</i>	<i>Treasury shares</i>	<i>Retained earnings</i>	<i>Revaluation reserve of real estate</i>	<i>Change in fair value of financial assets at fair value through other comprehensive income</i>	<i>Foreign currency translation reserve</i>	<i>Reserves related to assets held for sale</i>	<i>Profit for the year</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balance at 1 January 2021	322,500	374,059	1,655,491	685,918	(4,434)	1,963,760	14,727	456	(22,201)	(275,457)	2,020	4,716,839	85,191	4,802,030
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	6,658	6,658
Other comprehensive (loss) income	-	-	-	-	-	-	-	3,010	(34,966)	-	-	(31,956)	2,189	(29,767)
Total comprehensive (loss) income	-	-	-	-	-	-	-	3,010	(34,966)	-	-	(31,956)	8,847	(23,109)
Transfer from non-distributable reserves to retained earnings	-	-	(38,001)	-	-	38,001	-	-	-	-	-	-	-	-
Dividends distributions from subsidiaries	-	-	-	-	-	(152)	-	-	-	-	-	(152)	(1,970)	(2,122)
Appropriation of 2020 profits	-	-	(231,928)	(149,907)	-	318,855	-	-	-	-	62,980	-	-	-
Change in non-controlling interests	-	-	(45,300)	(2,296)	-	(267,551)	-	(17,075)	(314)	-	(65,000)	(397,536)	13,339	(384,197)
Sale of Blom Bank Egypt SAE	-	-	401,874	(1)	-	(139,677)	-	17,175	(147,876)	275,457	-	406,952	(2,725)	404,227
Other transfers	-	-	97,251	3	-	(97,460)	-	-	-	-	-	(206)	3	(203)
<b>Balance at 31 December 2021</b>	<b>322,500</b>	<b>374,059</b>	<b>1,839,387</b>	<b>533,717</b>	<b>(4,434)</b>	<b>1,815,776</b>	<b>14,727</b>	<b>3,566</b>	<b>(205,357)</b>	<b>-</b>	<b>-</b>	<b>4,693,941</b>	<b>102,685</b>	<b>4,796,626</b>
Balance at 1 January 2020	322,500	374,059	1,612,192	682,894	(13,531)	1,870,434	14,727	9,928	(365,409)	-	165,178	4,672,972	84,646	4,757,618
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,020	2,020	1,906	3,926
Other comprehensive income	-	-	-	-	-	-	-	7,858	50,583	-	-	58,441	416	58,857
Total comprehensive income	-	-	-	-	-	-	-	7,858	50,583	-	2,020	60,461	2,322	62,783
Transfer from non-distributable reserves to retained earnings	-	-	(10,649)	-	-	10,649	-	-	-	-	-	-	-	-
Transfer from distributable reserves to non-distributable reserves	-	-	44,524	(44,524)	-	-	-	-	-	-	-	-	-	-
Dividends distributions from subsidiaries	-	-	-	(17,607)	-	(145)	-	-	-	-	-	(17,752)	(1,974)	(19,726)
Appropriation of 2019 profits	-	-	17,158	65,046	-	82,904	-	-	-	-	(165,108)	-	-	-
Discontinued operations	-	-	-	-	-	-	-	(17,174)	292,631	(275,457)	-	-	-	-
Sale of treasury shares (note 37)	-	-	-	-	9,097	-	-	-	-	-	-	9,097	-	9,097
Net loss on sale of treasury shares (note 37)	-	-	(7,926)	-	-	-	-	-	-	-	-	(7,926)	-	(7,926)
Other adjustments	-	-	192	109	-	(82)	-	(156)	(6)	-	(70)	(13)	197	184
<b>Balance at 31 December 2020</b>	<b>322,500</b>	<b>374,059</b>	<b>1,655,491</b>	<b>685,918</b>	<b>(4,434)</b>	<b>1,963,760</b>	<b>14,727</b>	<b>456</b>	<b>(22,201)</b>	<b>(275,457)</b>	<b>2,020</b>	<b>4,716,839</b>	<b>85,191</b>	<b>4,802,030</b>

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

# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 LL million	2020 LL million
<b>OPERATING ACTIVITIES</b>			
Profit for the year before income tax from continuing operations		100,459	191,116
Profit for the year before income tax from discontinuing operations		-	89,676
Adjustments for non-cash items:			
Depreciation of property, equipment and right-of-use assets	24	29,831	37,872
Amortization of intangible assets	25	1,818	2,234
Gain on disposal of property and equipment		(157)	(4,482)
Interest on lease liabilities		294	345
(Write-back) provision for risks and charges		(10,504)	21,551
Net impairment loss on financial assets	12	688,126	1,104,344
Provision for impairment of assets obtained in settlement of debt	26	-	421
Write-back of provision on assets obtained in settlement of debt	26	(371)	(202)
Provision for foreign currency fluctuation		108,969	-
Loss on disposal of assets obtained in settlement of debt		-	(1,922)
Net loss from derecognition of financial assets at amortized cost	10	104	73,387
Unrealized loss from revaluation of financial assets at fair value through profit or loss	9	(18,837)	2,370
Profit from sale of a subsidiary		(134,157)	-
		<u>765,575</u>	<u>1,516,710</u>
Changes in operating assets and liabilities:			
Balances with central banks		1,095,127	2,088,147
Due from banks and financial institutions		(161,283)	(451,868)
Loans to banks and financial institutions		-	24,157
Derivative financial instruments – debit		(2,707)	26,342
Financial assets at fair value through profit or loss		(230,110)	241,407
Net loans and advances to customers at amortized cost		1,311,123	2,556,197
Net loans and advances to related parties at amortized cost		4,348	4,791
Debtors by acceptances		(73)	(1,910)
Other assets		36,421	(66,146)
Due to banks and financial institutions		8,553	(36,505)
Derivative financial instruments – credit		(3,005)	(19,677)
Customers' deposits at amortized cost		(1,053,995)	(4,135,902)
Deposits from related parties at amortized cost		(14,209)	(39)
Other liabilities		(68,638)	88,162
Provisions for risks and charges		80,350	63,795
Loans from banks and financial institutions		9,588	-
Cash from operations		<u>1,777,065</u>	<u>1,897,661</u>
Taxes paid		(178,781)	(45,411)
Provisions for risks and charges paid		(3,534)	(5,435)
<b>Net cash from operating activities</b>		<u>1,594,750</u>	<u>1,846,815</u>
<b>INVESTING ACTIVITIES</b>			
Financial assets at amortized cost		(98,706)	290,986
Financial assets at fair value through other comprehensive income		(27,453)	(678,994)
Assets obtained in settlement of debt		5,547	7,320
Purchase of property and equipment	24	(37,504)	(18,315)
Purchase of intangible assets	25	(839)	(1,349)
Transfer of property and equipment and intangible assets		3	145
Cash proceeds from the sale of property and equipment and intangible assets		395	9,261
Cash proceeds from the sale of Blom Bank Egypt SAE		631,428	-
<b>Net cash from (used in) investing activities</b>		<u>472,871</u>	<u>(390,946)</u>
<b>FINANCING ACTIVITIES</b>			
Sale of treasury shares – net		-	9,097
Net loss on sale of treasury shares		-	(7,926)
Dividends paid to non-controlling interests in a subsidiary company		(1,970)	(1,974)
Debt issued and other borrowed funds		15	(418,377)
Lease liability payments		(1,071)	(1,086)
<b>Net cash used in financing activities</b>		<u>(3,026)</u>	<u>(420,266)</u>
<b>Net foreign exchange difference in respect of cash and cash equivalents</b>		<u>7,529</u>	<u>18,078</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>2,072,124</u>	<u>1,053,681</u>
Cash and cash equivalents at 1 January		4,326,420	3,272,739
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	39	<u>6,398,544</u>	<u>4,326,420</u>
<b>Operational cash flows from interest and dividends</b>			
Interest paid		(384,162)	(1,403,090)
Interest received		2,578,954	3,197,076
Dividends received		6,908	1,057

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

### 1 CORPORATE INFORMATION

BLOM Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Verdun, Rashid Karamah Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and Luxembourg Stock Exchange. On 23 October 2020, the Bank announced that it has applied for the withdrawal of its Global Depositary Shares (GDS) from trading on the EUROMTF and the Official List of Luxembourg Stock Exchange with effect from 24 November 2020. Moreover, the GDSs and its underlying shares will continue to trade on the Beirut Stock Exchange. Noting that the Global Depositary receipt programme (GDR) will continue to operate and all GDSs will remain outstanding. During 2022, the Central Bank of Lebanon asked from the Group to close its branch in Cyprus within six months. In its meeting held on 12 April 2022, the Board of Directors decided to close its branch operations in Cyprus.

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of retail, commercial, investment and private banking activities, insurance and brokerage services through its headquarter as well as its branches in Lebanon and its presence in Europe, the Middle East and North Africa. Further information on the Group's structure is provided in note 3.

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 12 April 2022.

#### 1.1 Macroeconomic environment

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

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

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

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

- (a) Subsidized imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 US\$/LL (the official exchange rate). During 2021, this subsidy was lifted.
- (b) Introduced the Platform Rate, currently at 3,900 US\$ / LL, to be used only in specific circumstances.
- (c) Subsidized imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate. During 2021, this subsidy was lifted.
- (d) Introduced exceptional measures for bank depositors to withdraw small amounts of cash in LL from their "local" foreign currency bank accounts at the Platform Rate, but up to limits set by the Bank.

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

**1 CORPORATE INFORMATION (continued)**

**1.1 Macroeconomic environment (continued)**

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

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

*Lebanese Government’s Financial Recovery Plan*

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

*Restructuring of the Banking Sector*

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

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

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

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

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

*Alternative Plan submitted by the Association of Banks in Lebanon*

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

**1 CORPORATE INFORMATION (continued)**

**1.1 Macroeconomic environment (continued)**

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

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

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

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

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

*International Monetary Fund (IMF) response*

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

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

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

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

**1 CORPORATE INFORMATION (continued)**

**1.1 Macroeconomic environment (continued)**

*International Monetary Fund (IMF) response (continued)*

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

***Beirut Port Explosion***

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

***COVID-19***

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

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

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

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

**1.2 Regulatory environment**

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

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

**1 CORPORATE INFORMATION (continued)**

**1.2 Regulatory environment (continued)**

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



**1 CORPORATE INFORMATION (continued)**

**1.2 Regulatory environment (continued)**

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

**1 CORPORATE INFORMATION (continued)**

**1.2 Regulatory environment (continued)**

- Basic Circular 157 issued on 10 May 2021 and setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LL, as well as operations from/to foreign currencies external accounts against LL. Banks are required to properly document each transaction and should not collect commission margins between buy and sell operations exceeding 1%.
- Basic Circular 158 issued on 8 June 2021 and defining the mechanism for the gradual settlement of foreign currency deposits up to an amount equivalent to US\$ 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met.  
Eligible funds will be transferred to a subaccount over which banking secrecy will be lifted vis-à-vis BDL and BCC before being gradually withdrawn and remitted to the customer on a monthly basis. Customers' monthly entitlements are (i) an amount of US\$ 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LL equivalent to US\$ 400 and converted at a rate US\$/LL 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.  
  
The financing of the aforementioned process will be secured equally through (i) BDL reduction of compulsory reserves requirements from 15% to 14% as per BDL Intermediary Circular 586 and (ii) the Bank's offshore liquidity. To that end, the Bank can use its foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition it reconstitutes it by 31 December 2022.
- Basic Circular 159 issued on 17 August 2021 preventing banks from processing foreign currency funds received from customers whether in the form of cash or through offshore transfers at a value other than its face value, with the exception of transactions pertaining to the settlement of loans. It also prevented banks from purchasing foreign currencies at parallel rate with the exception of the purchase foreign currencies duly recorded on the electronic platform and resulting from offshore incoming transfers with the purpose of (i) enhancing liquidity, (ii) engaging in medium or long term investments, (iii) settling international commitments. Finally the circular prevented banks from purchasing bankers' checks and other bank's accounts in foreign currencies whether directly or indirectly.
- Intermediate Circular 600 issued on 3 November 2021 requires banks to record existing and future provisions for expected credit losses in the same currency as the related assets and off-balance sheet exposures. Banks are also required to set in place necessary measures to manage their FX position resulting from provisions recorded in foreign currencies.
- Intermediate Circular 601 issued on 8 December 2021 is an amendment to the provisions of Basic Circular 151. The circular stipulates that the Platform Rate to be applied for withdrawal cash from foreign currencies accounts is LL 8,000 US\$/LL up to a maximum limit of US\$ 3,000 per month.
- Basic Circular 161 issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return banks will provide the total amount to their customers at the same Sayrafa rate against LL at limits set by the bank until 30 April 2022.
- Intermediate Circular 614 issued on 21 February 2022 allowing non-banking institutions engaged in overseas cash transfers by electronic means to apply for a license from the Central Bank of Lebanon to perform foreign exchange operations subject to certain conditions.
- Intermediate Circular 616 issued on 5 March 2022 prohibiting banks from distributing dividends to ordinary shareholders from the results of financial years 2019, 2020 and 2021.

At 31 December 2021

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

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

	<b>2021</b>		<b>2020</b>	
	<i>Rate as at 31 December LL</i>	<i>Average rate for the year ended 31 December LL</i>	<i>Rate as at 31 December LL</i>	<i>Average rate for the year ended 31 December LL</i>
US Dollar	<b>1,507.5</b>	<b>1,507.5</b>	1,507.5	1,507.5
Euro	<b>1,701.52</b>	<b>1,783.97</b>	1,851.21	1,720.19
Swiss Franc	<b>1,647.00</b>	<b>1,649.62</b>	1,713.77	1,607.13
Jordanian Dinar	<b>2,126.23</b>	<b>2,126.23</b>	2,126.23	2,126.23
Egyptian Pound	<b>95.88</b>	<b>96.03</b>	95.78	95.32
Saudi Riyal	<b>401.53</b>	<b>401.91</b>	401.79	401.71
Qatari Riyal	<b>414.03</b>	<b>412.43</b>	414.03	413.71
British Pound	<b>2,024.94</b>	<b>2,074.72</b>	2,059.12	1,934.44
Romanian Leu	<b>343.87</b>	<b>362.54</b>	380.17	355.55
Arab Emirates Dirham	<b>409.02</b>	<b>410.57</b>	410.73	410.34
Iraqi Dinar	<b>1.03</b>	<b>1.03</b>	1.03	1.03

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

- On 21 April 2020, the Central Bank of Lebanon issued Basic Circular 151 concerning depositors who wish to withdraw amounts of cash from their "local" foreign currencies accounts as per the Platform Rate up to limits set by their bank. The limits set by the banks in Lebanon had monthly averages of US\$ 3,000 per bank account. The "Platform Rate" was 1 US\$ / LL 3,900 throughout the period from the issuance of the circular. During December 2021, it was increased to 1 US\$ / LL 8,000.
- On 10 May 2021, the Central Bank of Lebanon issued Basic Circular 157 setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LL, as well as operations from/to foreign currencies external accounts against LL. The Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon. Foreign currency operations were executed on the Sayrafa platform at the following exchange rates:

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

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

**1 CORPORATE INFORMATION (continued)**

**1.3 Particular situation of the Group (continued)**

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

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment and management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Group uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the consolidated financial statements. We are unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official published exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese government. Foreign currency mismatch is detailed in note 48A to these consolidated financial statements.

As at 31 December 2021, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost are recorded in these consolidated financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to the Group's exposures to the Central Bank of Lebanon and Lebanese sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit loss model.

The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognised loss allowances, as well as their staging are detailed in note 47 to these consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. The deterioration was further aggravated by the effects of the COVID-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese crisis, the Group has been implementing a de-risking strategy by considerably reducing its assets size, specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralised and specialised remedial function to proactively review and manage the quality of its various portfolios. The Group has recorded significant amounts of expected credit losses during the last quarter of 2019 and during 2020. Loss allowances on the Group's portfolio of these private loans have been estimated based on the best available information at the reporting date about past events, current conditions and forecasts of economic conditions combined with expert judgement. Maximum exposures to the credit risk of the Group's portfolio of private loans and the recognised loss allowances, as well as their staging, are detailed in note 47 to these consolidated financial statements.

**1 CORPORATE INFORMATION (continued)**

**1.3 Particular situation of the Group (continued)**

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

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

*Litigations and claims*

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case by case basis when they occur. The Group has been subject to increased litigations as a result of these restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Liras. Management is carefully considering the impact of these existing litigations and claims. There are still uncertainties related to the consequences of these restrictive measures based on the current available information and the prevailing laws and local banking practices. Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group, however due to recent development and the increasing trend in judgments ruled in favour of the plaintiffs during 2021, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch (refer to note 48A). The amount cannot be determined presently.

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

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

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

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

The measures that will be taken to attract foreign liquidity or "fresh funds" and to cover liquidity onshore and offshore commitments.

## 1 CORPORATE INFORMATION (continued)

### 1.3 Particular situation of the Group (continued)

The roadmap was submitted to the Central Bank of Lebanon on 4 December 2020 including a number of assumptions that remain highly susceptible to material change depending on the evolution of the financial, monetary and operating conditions in Lebanon. However, a reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

The Bank's key strategic objectives during this challenging period focused on the consolidation and de-risking of the domestic franchise and operations, and the ring-fencing of foreign entities and branches from Lebanon spill-over effects: 1- Strengthening the Bank's foreign currency liquidity metrics; 2- Maintaining sufficient capital buffers over the minimum regulatory capital adequacy levels; 3- Improving asset quality by (i) closely monitoring the lending portfolios, taking early remedial actions on problematic files and maintaining adequate provisioning coverage and (ii) significantly reducing sovereign debt exposure; especially in foreign currency; 4-Ensuring that foreign entities continue to provide the Group with diversified income generation capacity; 5-Targeting a lean organizational structure by improving operational efficiency and optimizing cost structure.

Management has been focusing on six main pillars to face the current financial and economic environment. These pillars are: 1-Asset Quality; 2-Quality of Earnings; 3-Liquidity and ALM; 4-Solvency; 5-Operational and other Non-financial Risks and 6- Governance. The roadmap details the key actions related to each specific pillar.

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

- Distribution of exceptional dividends in the first quarter of 2020 from BANQUE BANORIENT France SA to BLOM Bank Lebanon for the value of EUR 94.5 million (equivalent to LL 157,328 million);
- Revaluation of foreign subsidiaries by performing a voluntary change in accounting policy to measure the Bank's subsidiaries using the equity method instead of the cost method and which should have a cumulative positive impact on the Bank's Tier 1 capital as at 31 December 2021 and 2020; and
- Sale of Blom Bank Egypt SAE during 2021.

On 7 May 2021, the Bank obtained the Central Bank of Lebanon approval on the above three points.

All of these measures have helped to strengthen the Bank's financial position, including international liquidity and solvency metrics. As at December 2021, consolidated capital adequacy ratios stood at 12.5%, 12.5% and 12.54% for CET1, Tier 1 and Total CAR respectively, above the minimum required levels of 4.5%, 6% and 8% for 2020-2021 and 7%, 8.5% and 10.5% (including 2.5% capital conservation buffer) required by 2024.

The Bank has also prepared financial projections covering future years until 2024, taking into account various additional planned actions, including:

- Strengthening its financial condition by using all of its future consolidated profits for that purpose.
- Continuing to deleverage of its loan portfolio booked in Lebanon during 2021.
- Increasing significantly its international foreign currency liquidity position.

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

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

## 1 CORPORATE INFORMATION (continued)

### 1.3 Particular situation of the Group (continued)

The Lebanese crisis, which was set off during the last quarter of 2019, has imposed severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar, resulted into several practices and transactions that would not qualify as normal course of business in a non-crisis environment, and for which there are no directly observable prices or a governing legal/regulatory framework.

Such practices and transactions expose the Bank to increased litigation and regulatory risks and negatively impact the financial position of the Bank, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the Group's financial position, future cash flows, results of operations, regulatory ratios and covenants. The Group's realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million, except when otherwise indicated.

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

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

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

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

- (a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.
- (b) In summary, the restatement method under IAS 29 is as follows:
  - i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.



**2 ACCOUNTING POLICIES (continued)**

**2.1 Basis of preparation (continued)**

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

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

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

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

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

## 2 ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

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

### 2.2 Basis of consolidation

The accompanying consolidated financial statements comprise the financial statements of BLOM Bank SAL and its subsidiaries as at 31 December 2021. Details of the principal subsidiaries are given in note 3.

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

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control and continued to be consolidated until the date when such control ceases.

### Non-controlling interests

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

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

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

### 2.3 New and amended standards and interpretations

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

***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***  
IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place.

**2 ACCOUNTING POLICIES (continued)**

**2.3 New and amended standards and interpretations (continued)**

***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (continued)***

For the retrospective assessment of hedge effectiveness, the Group may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives.

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

This interpretation did not have a significant impact on the Group's consolidated financial statements. The Group intends to use the practical expedients in future periods if they become applicable.

**2.4 Standards issued but not yet effective**

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

The most significant of these new standards, amendments and interpretations are as follows:

**IFRS 17 Insurance Contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it.
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have an impact on the Bank.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Standards issued but not yet effective (continued)**

**IFRS 17 Insurance Contracts (continued)**

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract. Issuers of such loans have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have an impact on the Group.

**IFRS 9 Financial Instruments – Fees in the “10 per Cent” Test for Derecognition of Financial Liabilities**

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

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

**Definition of Accounting Estimates – Amendments to IAS 8**

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

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

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

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

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

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

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The amendments are not expected to have a material impact on the Group.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Standards issued but not yet effective (continued)

#### **Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2**

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgments, in which it provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim at helping entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies” with a requirement to disclose their “material” accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The amendments are not expected to have a material impact on the Bank.

### 2.5 Summary of significant accounting policies

#### **Business combinations and Goodwill**

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

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

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

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

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

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

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

**Foreign currencies**

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

**(i) Transactions and balances**

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

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

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

**(ii) Group companies**

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognized in OCI. On disposal of a foreign entity, the deferred cumulative amount recognized in OCI relating to that particular foreign operation is recognized in the consolidated income statement. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date.

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

	2021		2020	
	Year-end rate LL	Average rate LL	Year-end rate LL	Average rate LL
US Dollar	1,507.50	1,507.50	1,507.50	1,507.50
Euro	1,701.52	1,783.97	1,851.21	1,720.19
Swiss Franc	1,647.00	1,649.62	1,713.77	1,607.13
Jordanian Dinar	2,126.23	2,126.23	2,126.23	2,126.23
Egyptian Pound	95.88	96.03	95.78	95.32
Saudi Riyal	401.53	401.91	401.79	401.71
Qatari Riyal	414.03	412.43	414.03	413.67
Iraqi Dinar	1.03	1.03	1.03	1.03

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments – initial recognition**

**(i) Date of recognition**

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

**(ii) Initial measurement of financial instruments**

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

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

**(iii) Day 1 profit or loss**

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

**Financial assets – classification and measurement**

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

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

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

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

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

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

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



**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial assets – classification and measurement (continued)**

***Business model***

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

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

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

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

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

***The SPPI test***

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial assets – classification and measurement (continued)**

***Financial assets at amortized cost***

*Balances with central banks, Due from banks and financial institutions, Loans to banks and financial institutions, Net loans and advances to customers and related parties at amortized cost and Financial assets at amortized cost*

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

***Financial assets at fair value through other comprehensive income***

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

***Equity instruments at fair value through other comprehensive income***

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

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

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

***Financial assets at fair value through profit or loss***

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial assets – classification and measurement (continued)**

*Financial assets at fair value through profit or loss (continued)*

*Debt instruments at fair value through profit or loss*

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

*Equity instruments at fair value through profit or loss*

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

**Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – classification and measurement**

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

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

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

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

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

Financial liabilities at fair value through profit and loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit and loss due to changes in the Group’s own credit risk. Such changes in fair value are recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – classification and measurement (continued)**

Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

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

*Debt issued and other borrowed funds*

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under “Debt issued and other borrowed funds” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

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

*Due to central banks, Banks and financial institutions and Customers’ and related parties’ deposits*

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

**Derivatives recorded at fair value through profit or loss**

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

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

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, forward foreign exchange contracts, equity swaps and options and currency options.

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Embedded derivatives**

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

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

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

**Financial guarantees, letters of credit and undrawn loan commitments**

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

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

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

**Reclassification of financial assets**

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Derecognition of financial assets and financial liabilities**

*Financial assets*

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

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

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

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

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

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

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

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

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Derecognition of financial assets and financial liabilities (continued)**

***Financial assets (continued)***

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

A transfer only qualifies for derecognition if either:

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

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

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

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

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

***Financial liabilities***

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

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

**Repurchase and reverse repurchase agreements**

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



## 2 ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

#### Repurchase and reverse repurchase agreements (continued)

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net (loss) gain from financial assets at fair value through profit or loss" in the consolidated income statement.

#### Impairment of financial assets

##### (i) Overview of the ECL principles

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

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

##### (ii) Measurement of ECLs

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

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

The key inputs into the measurements of ECL are:

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

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

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

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

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

**(iii) Forborne and modified loans**

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

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

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

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

**(iv) Credit-impaired financial assets**

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Impairment of financial assets (continued)**

**(v) Write offs**

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

**(vi) Debt instruments at fair value through other comprehensive income**

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

**(vii) Collateral repossessed**

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

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under “other operating income” or “other operating expenses”. Gains resulting from the sale of repossessed assets are transferred to “Reserve appropriated for increase of share capital” in the following financial year.

**Fair value measurement**

The Group measures financial instruments, such as, derivatives, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each consolidated statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the notes.

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

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Fair value measurement (continued)**

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

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

For assets and liabilities that are recognized in the consolidated 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.

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

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

**Hedge accounting**

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

*Setting the risk management strategy and objectives*

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

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

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

*Qualifying hedging relationships*

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Hedge accounting (continued)**

*Qualifying hedging relationships (continued)*

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

A hedge is expected to be highly effective if:

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Hedge Accounting (continued)**

*Qualifying hedging relationships (continued)*

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

*(i) Fair value hedges*

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

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated.

If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

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

*(ii) Cash flow hedges*

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Hedge accounting (continued)**

*Qualifying hedging relationships (continued)*

*(ii) Cash flow hedges (continued)*

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

*(iii) Hedge of net investments*

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

**Leases**

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

*Group as a lessee*

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

*(i) Right-of-use assets*

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

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

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

*(ii) Lease liabilities*

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Leases (continued)**

*Group as a lessee (continued)*

*(ii) Lease liabilities (continued)*

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

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

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

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

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

*Group as a lessor*

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

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**Revenue recognition**

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

*(i) Interest and similar income and expense*

*The effective interest rate*

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

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



**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Revenue recognition (continued)**

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

*The effective interest rate (continued)*

For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

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

*Interest income and interest expense*

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

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

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

*Presentation*

Interest income on financial assets at amortized cost calculated using the effective interest method is presented in the consolidated income statement under "Interest and similar income". Interest expense on financial assets at amortized cost is presented in the consolidated income statement under "Interest and similar expense".

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

**(ii) Fee and commission income**

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

*Fee income earned from services that are provided over a certain period of time*

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

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

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Revenue recognition (continued)****(ii) Fee and commission income (continued)***Fee income from providing transaction services*

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

**(iii) Dividend income**

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

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

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

**(v) Insurance revenue**

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporize method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage. If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

**Cash and cash equivalents**

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

**Property and equipment**

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

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

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

Buildings	50 years
Furniture, office installations and computer equipment	(2– 16.67) years
Vehicles	6.67 years

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Property and equipment (continued)**

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

The asset's residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

**Intangible assets**

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.

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

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

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

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

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

- Key money lower of lease period or 5 years
- Computer software 2.5 years

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

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

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Assets obtained in settlement of debt, assets held for sale and discontinued operations (continued)**

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

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

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

**Impairment of non-financial assets**

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

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Such reversal is recognized in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

**Provisions for risks and charges**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Provisions for risks and charges (continued)**

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

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

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

**Employees' retirement benefits obligation**

For the Group and its subsidiaries operating in Lebanon, retirement benefits obligation subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final retirement benefits obligation due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Group is liable to pay to the NSSF the difference between the subscriptions paid and the final retirement benefits obligation due to employees. The Group provides for retirement benefits obligation on that basis.

Retirement benefits obligation for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

**Taxes**

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

**(i) Current tax**

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

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

**(ii) Deferred tax**

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Taxes (continued)**

**(ii) Deferred tax (continued)**

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

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

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

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

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

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

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

**Treasury shares**

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Dividends on common shares**

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

**Assets held in custody and under administration**

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

**Customers' acceptances**

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

**Segment reporting**

The Group's segmental reporting is based on the following operating segments: retail banking, corporate banking, treasury, money and capital markets and asset management and private banking.

**2.6 Significant accounting estimates and judgements**

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

**Judgements**

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

*Going concern*

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

*Impairment of goodwill*

Management judgement is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects.

*Business model*

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Significant accounting estimates and judgements (continued)**

**Judgements (continued)**

*Contractual cash flows of financial assets*

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

*Deferred tax assets*

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

*Hedge accounting*

The Group's hedge accounting policies include an element of judgement and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Group's hedge accounting policies and the sensitivities most relevant to risks are disclosed in notes.

*Determining the lease term of contracts with renewal and termination options*

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

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

The Group included the renewal period as part of the lease term for leases of head office and branches due to the significance of these assets to its operations. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

**Estimates and assumptions**

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

*Fair value of financial instruments*

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



**2 ACCOUNTING POLICIES (continued)**

**2.6 Significant accounting estimates and judgements (continued)**

**Estimates and assumptions (continued)**

*Impairment loss on financial instruments*

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

Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

During 2021, the key areas that involved a higher degree of judgment and where significant assumptions were made in the estimation of expected credit losses are described in note 1.

*Impairment of non-financial assets*

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

*Pensions obligation*

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

# BLOM Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

### 3 GROUP INFORMATION

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

Name	Country of incorporation	Activities	Functional currency	% effective equity interest	
				31 December 2021	31 December 2020
				%	%
BANQUE BANORIENT France SA	France	Banking activities	EUR	99.998	99.998
BANQUE BANORIENT (Switzerland) SA	Switzerland	Banking activities	CHF	99.998	99.998
BLOMInvest Bank SAL	Lebanon	Banking activities	LL	99.915	99.925
BLOM Development Bank SAL	Lebanon	Islamic banking activities	LL	99.898	99.904
Arope Insurance SAL	Lebanon	Insurance activities	LL	89.048	89.048
BLOM Bank Egypt SAE	Egypt	Banking activities	EGP	-	99.419
BLOM Egypt Securities SAE	Egypt	Brokerage activities	EGP	50.957	99.667
BLOMInvest – Saudi Arabia	Saudi Arabia	Financial institution	SAR	59.96	59.96
BLOM Bank Qatar LLC	Qatar	Banking activities	QAR	99.75	99.75
Arope Life Insurance Egypt SAE	Egypt	Insurance activities	EGP	71.366	91.123
Arope Insurance of Properties and Responsibilities Egypt SAE	Egypt	Insurance activities	EGP	53.556	93.197
BLOM Securities	Jordan	Financial institution	JOD	100	100
BLOM Asset Management Company SAL	Lebanon	Investment activities	LL	99.997	99.997
BLOM Egypt Investments SAE	Egypt	Investment activities	EGP	51.466	99.679
BLOM SPV Ltd	Cayman Island	Investment activities	US\$	100	100

### 4 MATERIAL PARTLY – OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests are provided below:

#### Proportion of equity interests held by non-controlling interests:

Name	2021	2020
	%	%
BLOMInvest – Saudi Arabia	40.04	40.04
Arope Insurance SAL	10.952	10.952

#### Profit allocated to material non-controlling interests:

	2021	2020
	LL million	LL million
BLOMInvest – Saudi Arabia	4,725	1,240
Arope Insurance SAL	-	-

The summarized financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations:

#### Summarized statement of comprehensive income

	BLOMInvest – Saudi Arabia		Arope Insurance SAL	
	2021	2020	2021	2020
	LL million	LL million	LL million	LL million
Net interest income	207	245	13,509	19,457
Net fee and commission income	16,436	6,494	8,808	35,275
Net gain (loss) from financial instruments at fair value through profit or loss	7,678	3,636	(294)	937
Revenue from financial assets at fair value through other comprehensive income	645	447	-	-
Other operating income	-	-	15,685	2,865
<b>Total operating income</b>	<b>24,966</b>	<b>10,822</b>	<b>37,708</b>	<b>58,534</b>

**4 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)**

**Summarized statement of comprehensive income (continued)**

	<i>BLOMInvest – Saudi Arabia</i>		<i>Arope Insurance SAL</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Net impairment loss on financial assets	-	(1)	(12,123)	(2,000)
Total operating expenses	(10,126)	(8,064)	(23,342)	(54,494)
Net gain on disposal of other assets	-	433	-	-
<b>Profit before tax</b>	<b>14,840</b>	<b>3,190</b>	<b>2,243</b>	<b>2,040</b>
Income tax expense	(3,038)	(94)	(2,243)	(2,040)
<b>Profit for the year</b>	<b>11,802</b>	<b>3,096</b>	<b>-</b>	<b>-</b>
Attributable to non-controlling interests	4,725	1,240	-	-

**Summarized statement of financial position**

	<i>BLOMInvest – Saudi Arabia</i>		<i>Arope Insurance SAL</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
<b>Assets</b>				
Cash and balances with banks	-	-	7,744	4,161
Due from banks and financial institutions	1,032	17,551	8,105	8,402
Due from head office and sister banks	48	1,036	412,283	471,929
Financial assets at fair value through profit or loss	79,955	53,820	2,723	2,694
Net loans and advances at amortized cost	-	-	34,138	20,512
Financial assets at amortized cost	6,289	7,518	4,415	4,477
Financial assets at fair value through other comprehensive income	17,582	16,872	-	-
Investments in subsidiaries and associates	-	-	36,542	36,542
Property, equipment and right-of-use assets	12,064	11,776	38,916	22,487
Intangible assets	43	54	546	725
Other assets	47,288	39,939	83,825	117,161
<b>Total assets</b>	<b>164,301</b>	<b>148,566</b>	<b>629,237</b>	<b>689,090</b>
<b>Liabilities</b>				
Other liabilities	14,648	11,845	255,381	272,502
Provisions for risks and charges	1,321	1,052	130,238	172,970
<b>Total liabilities</b>	<b>15,969</b>	<b>12,897</b>	<b>385,619</b>	<b>445,472</b>
<b>Total shareholders' equity</b>	<b>148,332</b>	<b>135,669</b>	<b>243,618</b>	<b>243,618</b>
<i>Attributable to non-controlling interests</i>	<i>59,354</i>	<i>54,282</i>	<i>26,680</i>	<i>26,680</i>
<b>Total liabilities and shareholders' equity</b>	<b>164,301</b>	<b>148,566</b>	<b>629,237</b>	<b>689,090</b>

**Summarized cash flow information**

Type of activities	<i>BLOMInvest – Saudi Arabia</i>		<i>Arope Insurance SAL</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Operating	3,409	4,803	(33,135)	(8,341)
Investing	(15,603)	12,912	174,950	(187,617)
Financing	(5,300)	(5,272)	-	-
	<b>(17,494)</b>	<b>12,443</b>	<b>141,815</b>	<b>(195,958)</b>

## 5 SEGMENT REPORTING

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

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

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

### A) *Business segments*

The Group operates in four major business segments: treasury, corporate banking, retail banking and asset management and private banking.

**Treasury** is mostly responsible for the liquidity management and market risk of the Group as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investments products and services to investors and other institutional customers.

**Corporate banking** provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

**Retail banking** provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, fund transfers, foreign exchange and other branch related services.

**Asset management and private banking** provides investment products and services to institutional investors and intermediaries.

The following tables present net operating income, total assets and total liabilities information in respect of the Group's reportable segments.

### (i) *Net operating income information*

	2021					Total LL million
	<i>Treasury</i> LL million	<i>Corporate banking</i> LL million	<i>Retail banking</i> LL million	<i>Asset management and private banking</i> LL million	<i>Unallocated (*)</i> LL million	
Net interest income	2,027,322	89,196	128,814	289	-	2,245,621
Net fee and commission (expense) income	(283,035)	(40,776)	58,138	23,060	(3,314)	(245,927)
Net loss from financial instruments at fair value through profit or loss	28,775	-	(780,220)	-	-	(751,445)
Net loss from derecognition of financial assets at amortized cost	(104)	-	-	-	-	(104)
Revenue from financial assets at fair value through other comprehensive income	867	-	-	-	-	867
Other operating income	-	-	46,511	-	-	46,511
Net impairment loss on financial assets	(678,639)	60,971	(70,458)	-	-	(688,126)
Discount on loans	-	(11,042)	(32,943)	-	-	(43,985)
<b>Net operating income</b>	<b>1,095,186</b>	<b>98,349</b>	<b>(650,158)</b>	<b>23,349</b>	<b>(3,314)</b>	<b>563,412</b>

At 31 December 2021

**5 SEGMENT REPORTING (continued)****A) Business segments (continued)****(i) Net operating income information (continued)**

	2020					Total LL million
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Unallocated (*) LL million	
Net interest income	1,537,966	86,681	143,342	147	-	1,768,136
Net fee and commission income	44,625	19,651	40,316	19,243	23,271	147,106
Net loss from financial instruments at fair value through profit or loss	(61,251)	-	(31,278)	-	-	(92,529)
Net loss from derecognition of financial assets at amortized cost	(73,387)	-	-	-	-	(73,387)
Revenue from financial assets at fair value through other comprehensive income	633	-	-	-	-	633
Other operating income	-	-	12,731	-	-	12,731
Net impairment loss on financial assets	(843,039)	(49,335)	(196,691)	-	-	(1,089,065)
Discount on loans	-	(27,930)	(30,500)	-	-	(58,430)
Net operating income	605,547	29,067	(62,080)	19,390	23,271	615,195

(\*) "Unallocated" includes insurance premiums' commissions from insurance subsidiaries.

**(ii) Financial Position Information**

	2021					Total LL million
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Other (**) LL million	
<b>Total assets</b>	<b>35,510,749</b>	<b>1,707,137</b>	<b>1,675,867</b>	<b>1,751</b>	<b>1,006,030</b>	<b>39,901,534</b>
<b>Total liabilities</b>	<b>30,900,501</b>	<b>1,485,504</b>	<b>1,458,294</b>	<b>3,537</b>	<b>1,257,072</b>	<b>35,104,908</b>

  

	2020					Total LL million
	Treasury LL million	Corporate banking LL million	Retail banking LL million	Asset management and private banking LL million	Other (**) LL million	
Total assets	34,853,382	2,118,259	2,589,188	8,203	5,228,654	44,797,686
Total liabilities	30,894,585	1,877,658	2,295,097	24,032	4,904,284	39,995,656

(\*\*) "Other" includes activities related to property, equipment and right-of-use assets, intangible assets, assets obtained in settlement of debt, non-current assets held for sale, other assets and goodwill.

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to LL 2,555,870 million for the year ended 31 December 2021 (2020: LL 2,869,935 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group.

**5 SEGMENT REPORTING (continued)**

**A) Business segments (continued)**

**(ii) Financial Position Information (continued)**

The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	<b>2021</b>	<b>2020</b>
	<b>LL million</b>	<b>LL million</b>
<b>Interest and similar income</b>		
Central Bank of Lebanon (note 6)	<b>2,370,936</b>	2,669,143
Lebanese sovereign (notes 6 and 9)	<b>184,934</b>	200,792
	<b>2,555,870</b>	2,869,935

**B) Geographical segments**

The Group operates in two geographic markets based on the location of its markets and customers. The domestic market represents the Lebanese market, and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income and non-current assets.

	<b>2021</b>		
	<b>Domestic</b>	<b>International</b>	<b>Total</b>
	<b>LL million</b>	<b>LL million</b>	<b>LL million</b>
Total operating income	<b>1,133,866</b>	<b>161,657</b>	<b>1,295,523</b>
Net impairment loss on financial assets	<b>(663,375)</b>	<b>(24,751)</b>	<b>(688,126)</b>
Discounts on loans	<b>(43,985)</b>	-	<b>(43,985)</b>
<b>Net operating income<sup>1</sup></b>	<b>426,506</b>	<b>136,906</b>	<b>563,412</b>
<b>Non-current assets<sup>2</sup></b>	<b>567,693</b>	<b>238,408</b>	<b>806,101</b>
	<b>2020</b>		
	<b>Domestic</b>	<b>International</b>	<b>Total</b>
	<b>LL million</b>	<b>LL million</b>	<b>LL million</b>
Total operating income	1,701,554	61,136	1,762,690
Net impairment loss on financial assets	(1,088,740)	(325)	(1,089,065)
Discounts on loans	(54,555)	(3,875)	(58,430)
<b>Net operating income<sup>1</sup></b>	<b>558,259</b>	<b>56,936</b>	<b>615,195</b>
<b>Non-current assets<sup>2</sup></b>	<b>586,417</b>	<b>4,405,847</b>	<b>4,992,264</b>

<sup>1</sup> Net operating income is attributed to the geographical segment based on the location where the income is generated.

<sup>2</sup> Non-current assets consist of property, equipment and right-of-use assets, intangible assets, assets obtained in settlement of debt, non-current assets held for sale and goodwill.

**6 INTEREST AND SIMILAR INCOME**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Balances with Central Banks (a)	<b>2,254,539</b>	2,553,086
Due from banks and financial institutions	<b>10,999</b>	20,806
Loans and advances to customers at amortized cost	<b>248,408</b>	378,514
Loans and advances to related parties at amortized cost	<b>530</b>	722
Financial assets at amortized cost (b)	<b>340,796</b>	355,670
Financial assets at fair value through OCI	<b>1,046</b>	62
Less: tax on interest income (c)	<b>(258,616)</b>	(289,920)
	<b>2,597,702</b>	3,018,940

(a) Included under interest and similar income from balances with central banks, an amount of LL 2,255,335 million (2020: LL 2,553,534 million) from balances with the Central Bank of Lebanon.

(b) Included under interest and similar income from financial assets at amortized cost, an amount of LL 115,601 million and LL 184,912 million (2020: LL 115,609 million and LL 197,843 million) from Lebanese government certificate of deposits and Lebanese treasury bills respectively.

(c) Tax on interest income for the years ended 31 December 2021 and 2020 are as follows:

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Balances with Central Banks	<b>225,879</b>	255,927
Due from banks and financial institutions	<b>2,413</b>	2,334
Loans and advances to customers at amortized cost	<b>-</b>	1
Financial assets at amortized cost	<b>30,324</b>	31,658
	<b>258,616</b>	289,920

**7 INTEREST AND SIMILAR EXPENSE**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Due to Central Banks	<b>162,830</b>	377,391
Due to banks and financial institutions	<b>9,639</b>	13,550
Customers' deposits at amortized cost	<b>175,734</b>	826,412
Deposits from related parties at amortized cost	<b>757</b>	1,939
Debt issued and other borrowed funds	<b>2,827</b>	31,167
Lease liabilities	<b>294</b>	345
	<b>352,081</b>	1,250,804

**8 NET FEE AND COMMISSION (EXPENSE) INCOME**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
<b>Fee and commission income</b>		
General banking income	<b>47,897</b>	49,959
Credit-related fees and commissions	<b>22,720</b>	20,308
Insurance brokerage income	<b>13,278</b>	38,228
Trade finance	<b>7,770</b>	8,405
Brokerage and custody income	<b>14,355</b>	13,221
Electronic banking	<b>39,258</b>	31,500
Asset management and private banking	<b>10,197</b>	7,871
Trust and fiduciary activities	<b>429</b>	1,815
Other fees and commissions	<b>21,720</b>	16,574
	<b>177,624</b>	187,881
<b>Fee and commission expense</b>		
Mark-up commission (*)	<b>(380,211)</b>	-
General banking expenses	<b>(8,084)</b>	(7,148)
Credit-related fees and commissions	<b>(22)</b>	(41)
Insurance brokerage fees	<b>(16,592)</b>	(14,958)
Brokerage and custody fees	<b>(1,549)</b>	(1,977)
Electronic banking	<b>(14,727)</b>	(14,429)
Other fees and commissions	<b>(2,366)</b>	(2,222)
	<b>(423,551)</b>	(40,775)
	<b>(245,927)</b>	147,106

(\*) During 2021, the Group introduced the “multiplier factor” which entails inciting depositors of foreign currency international liquidity, cash deposited or incoming border transfers to convert these funds into local foreign currency deposits after the application of multiplier factors. Book losses from these transactions amounted to LL 332,071 million for the year ended 31 December 2021. In addition, included under mark-up commission for the year ended 31 December 2021, an amount of LL 48,140 million paid as a premium for banknotes shortages.



**9 NET LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Corporate debt securities	<b>803</b>	-
- Funds	<b>501</b>	552
- Treasury bills	<b>22</b>	2,949
	<u><b>1,326</b></u>	<u>3,501</u>
Net gain (loss) from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Funds	<b>1,881</b>	1,008
- Equity instruments	<b>658</b>	1,665
- Corporate debt securities	<b>30</b>	-
- Treasury bills and bonds	-	(67,244)
- Options	-	(1)
	<u><b>2,569</b></u>	<u>(64,572)</u>
Net unrealized gain (loss) from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Corporate debt securities	<b>(1,719)</b>	(1)
- Treasury bills and bonds	<b>(18)</b>	(416)
- Equity instruments	<b>14,812</b>	(887)
- Funds	<b>4,835</b>	(329)
- Other	<b>927</b>	1,029
	<u><b>18,837</b></u>	<u>(604)</u>
Net gain from sale of debt instruments and other financial assets at amortized cost:		
- Treasury bills	<b>2</b>	-
	<u><b>2</b></u>	<u>-</u>
Net gain from sale of debt instruments and other financial assets through other comprehensive income:		
- Equity instruments	<b>1</b>	-
	<u><b>1</b></u>	<u>-</u>
Dividend income		
- Equity instruments	<b>5,818</b>	147
- Funds	<b>223</b>	277
	<u><b>6,041</b></u>	<u>424</u>
Foreign exchange loss	<u><b>(780,221)</b></u>	<u>(31,278)</u>
	<u><b>(751,445)</b></u>	<u>(92,529)</u>

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



**12 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
<i>Re-measurements:</i>		
Balances with Central Banks	<b>676,598</b>	844,093
Banks and financial institutions	<b>1,972</b>	24
Loans and advances to customers at amortized cost- Commercial loans	<b>98,871</b>	305,000
Loans and advances to customers at amortized cost- Consumer loans	<b>215,622</b>	219,695
Loans and advances to related parties at amortized cost	<b>11</b>	-
Debtors by acceptances	-	521
Financial assets at amortized cost	<b>170</b>	2,640
Financial guarantees and commitments	<b>120</b>	1,125
	<b>993,364</b>	1,373,098
Provision of sundry debtors (note 27)	<b>63</b>	2,426
	<b>993,427</b>	1,375,524
<i>Recoveries:</i>		
Banks and financial institutions	<b>(1)</b>	(457)
Loans and advances to customers at amortized cost- Commercial loans	<b>(146,462)</b>	(250,256)
Loans and advances to customers at amortized cost- Consumer loans	<b>(145,176)</b>	(23,006)
Loans and advances to related parties at amortized cost	-	(2)
Financial assets at amortized cost	<b>(101)</b>	(3,261)
Debtors by acceptances	<b>(2)</b>	(393)
Financial guarantees and commitments	<b>(716)</b>	(377)
	<b>(292,458)</b>	(277,752)
Recoveries of debts previously written off	<b>(12,834)</b>	(8,707)
Recoveries of Sundry Debtors (note 27)	<b>(9)</b>	-
	<b>688,126</b>	1,089,065

**13 PERSONNEL EXPENSES**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Salaries and related charges	<b>134,506</b>	140,416
Social security contributions	<b>26,602</b>	26,230
Retirement benefits obligation (note 34)	<b>7,437</b>	(10,939)
Additional allowances	<b>44,760</b>	38,339
Bonuses	<b>37,516</b>	31,472
	<b>250,821</b>	225,518

**14 OTHER OPERATING EXPENSES**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Maintenance and repairs	<b>32,060</b>	20,001
Professional fees	<b>28,797</b>	20,197
Electricity and fuel	<b>20,331</b>	4,447
Rent and related charges	<b>12,320</b>	7,269
Stationary and printings	<b>11,944</b>	4,636
Fee for guarantee of deposits	<b>11,845</b>	13,869
Marketing and advertising	<b>10,254</b>	8,610
Postage and telecommunications	<b>8,180</b>	7,837
Information technology	<b>7,289</b>	6,715
Gifts and donations	<b>5,941</b>	4,793
Taxes and fees	<b>5,465</b>	6,349
Guarding and transportation expenses	<b>4,871</b>	4,008
Subscriptions	<b>4,828</b>	5,159
Board of directors' attendance fees	<b>3,422</b>	2,165
Insurance	<b>1,326</b>	1,535
Fiscal stamps	<b>891</b>	1,140
Travel expenses	<b>618</b>	641
Card expenses	<b>446</b>	3,237
Entertainment expenses	<b>152</b>	150
Provision for risks and charges (note 34 (ii))	-	33,428
Impairment of assets obtained in settlement of debt (note 26)	-	421
Others	<b>9,660</b>	12,596
	<b>180,640</b>	169,203

**15 INCOME TAX EXPENSE**

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

Income tax expense for the years ended 31 December 2021 and 2020 was as follows:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
<b>Current tax</b>		
Income tax expense – other operating results	<b>244,652</b>	174,916
Other taxes treated as income tax (*)	-	76,212
Income tax expense	<b>244,652</b>	251,128

(\*) During 2020, other taxes treated as income tax include an amount of LL 76,212 million representing 2% on 2019 turnover as per Article No 20 of the Budget Law 6/2020.

At 31 December 2021

**15 INCOME TAX EXPENSE (continued)****Reconciliation of total tax charge**

The relationship between taxable profit and accounting profit is as follow:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Profit before income tax from continuing operations	<b>100,459</b>	191,116
Less: Results of the subsidiary insurance company located in Lebanon	<b>(2,243)</b>	(2,040)
Accounting profit before income tax	<b>98,216</b>	189,076
Add:		
Non-tax deductible provisions	<b>875,032</b>	871,387
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	-	-
Other non-tax deductible charges	<b>394,651</b>	66,893
	<b>1,367,899</b>	1,127,356
Less:		
Dividends received and previously subject to income tax	<b>(6)</b>	(38)
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	<b>(47,430)</b>	(250,468)
Remunerations already taxed	<b>(23,900)</b>	(25,424)
4% of a subsidiary's capital eligible to be tax deductible	<b>(400)</b>	(400)
Release of provisions previously subject to income tax	<b>(100,208)</b>	(145,796)
Net gain on disposal of fixed assets	<b>(134,086)</b>	(3,915)
Other non-taxable income	<b>(2,319)</b>	(3,099)
Other taxes treated as income tax	-	(76,212)
Other deductions	-	(25,871)
Taxable profit	<b>1,059,550</b>	596,133
<b>Income tax expense in the consolidated income statement</b>	<b>244,652</b>	174,916

**16 EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares outstanding during the year. The Bank does not have arrangements that might result in dilutive shares.

The following table shows the income and share data used to calculate earnings per share:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Profit attributable to equity holders of the Bank from continuing and discontinued operations	-	2,020
Loss attributable to equity holders of the Bank from continuing Operations	<b>(150,851)</b>	(61,547)
Profit attributable to equity holders of the Bank from discontinued operations	<b>150,851</b>	63,567
Weighted average number of shares outstanding	<b>214,724,336</b>	214,492,451

**16 EARNINGS PER SHARE (continued)**

	<b>2021</b>	2020
	<i>LL</i>	<i>LL</i>
Basic earnings per share	-	9
Basic (loss) earnings per share from continuing operations	<b>(703)</b>	(287)
Basic earnings per share from discontinued operations	<b>703</b>	296

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

**17 CASH AND BALANCES WITH CENTRAL BANKS**

	<b>2021</b>	2020
	<i>LL million</i>	<i>LL million</i>
<b><i>Cash on hand</i></b>	<b>953,939</b>	242,923
<b><i>Central Bank of Lebanon</i></b>		
Current accounts	<b>1,449,256</b>	166,178
Time deposits (*)	<b>24,943,588</b>	26,415,461
Accrued interest	<b>503,665</b>	487,641
	<b>26,896,509</b>	27,069,280
<b><i>Other Central Banks</i></b>		
Current accounts	<b>1,237,913</b>	1,376,752
Time deposits	<b>494,695</b>	276,565
	<b>1,732,608</b>	1,653,317
	<b>29,583,056</b>	28,965,520
Less: Allowance for expected credit losses (note 47.2.10)	<b>(1,904,465)</b>	(1,229,500)
	<b>27,678,591</b>	27,736,020

(\*) At 31 December 2021, time deposits with the Central Bank of Lebanon amounting to LL 5,370,819 million and maturing in 2028 and 2029 were blocked against term borrowings granted by the Central bank of Lebanon with the same value and maturing in 2028 and 2029 (2020: LL 5,723,853 maturing in 2028 and 2029) (note 29). During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2021, time deposits with the Central Bank of Lebanon amounting to LL 5,370,819 million (2020: LL 5,723,853 million) and term borrowings from the Central Bank of Lebanon (note 29) are reported on a net basis on the consolidated statement of financial position.

During 2021, financial assets and financial liabilities that were settled on a net basis amounted to LL 353,034 million (2020: LL 1,655,388 million) (note 29).



**19 DERIVATIVE FINANCIAL INSTRUMENTS**

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of neither the market risk nor the credit risk.

**Forwards and futures**

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

**Options**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

**Swaps**

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index.

Interest rate swaps relate to contracts taken out by the Group with other counterparties (customers and financial institutions) in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

The Group has positions in the following types of derivatives:

	2021			2020		
	Assets LL million	Liabilities LL million	Total notional amount LL million	Assets LL million	Liabilities LL million	Total notional amount LL million
<b>Derivatives held-for-trading</b>						
Forward foreign exchange contracts	2,765	1,825	515,193	115	158	147,573
Equity swaps and options	369	369	312,900	150	150	41,446
Currency swaps	1,217	5,674	760,575	1,379	10,565	1,065,991
Interest rate swaps	-	-	-	-	-	36,180
	<u>4,351</u>	<u>7,868</u>	<u>1,588,668</u>	<u>1,644</u>	<u>10,873</u>	<u>1,291,190</u>

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.



**19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)****Derivative financial instruments held-for-trading purposes**

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for hedging purposes which do not meet the IFRS 9 hedge accounting criteria.

**Derivative financial instruments held for hedging purposes**

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

**20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Treasury bills and bonds	<b>456</b>	473
<i>Private sector and other securities</i>		
Corporate debt instruments	<b>211,501</b>	3,070
Equity instruments	<b>132,724</b>	123,700
Funds	<b>132,661</b>	102,744
Structured product	<b>1,592</b>	-
	<b>478,478</b>	229,514
	<b>478,934</b>	229,987

**21 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Commercial loans	<b>2,196,064</b>	2,633,288
Consumer loans	<b>2,038,608</b>	2,947,944
	<b>4,234,672</b>	5,581,232
Less: Allowance for expected credit losses (note 47.2.10)	<b>(864,212)</b>	(889,628)
	<b>3,370,460</b>	4,691,604

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 1,124,940 million as of 31 December 2021 (2020: LL 987,854 million).

The fair value of collateral that the Group holds relating to loans and advances to commercial customers individually determined to be impaired amounts to LL 650,561 million as of 31 December 2021 (2020: LL 603,806 million). The collateral consists of cash, securities, letters of guarantee and properties.

**22 FINANCIAL ASSETS AT AMORTIZED COST**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
<b>Lebanese sovereign and Central Bank of Lebanon</b>		
Treasury bills and bonds (*)	<b>2,647,985</b>	2,779,139
Certificates of deposits	<b>1,815,187</b>	1,815,182
	<b>4,463,172</b>	4,594,321
<b>Other sovereign and Central Banks</b>		
Treasury bills and bonds	<b>568,648</b>	454,339
<b>Private sector and other securities</b>		
Corporate debt instruments	<b>421,661</b>	306,806
Less: Allowance for expected credit losses	<b>(42,037)</b>	(42,555)
	<b>5,411,444</b>	5,312,911

The table for the movement in allowances for expected credit losses of Lebanese sovereign and Central Bank of Lebanon financial instruments under IFRS 9 is presented in the Credit Risk section (note 47.2.10).

(\*) As at 31 December 2021, Lebanese treasury bills amounting to LL 2,321,271 million with maturities ranging between 2022 and 2033 were pledged against term borrowing granted from the Central Bank of Lebanon with the same value (2020: LL 2,321,271 million maturing between 2022 and 2033) (note 29).

**23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
<b>Private sector and other securities</b>		
Corporate debt securities	<b>40,779</b>	25,790
Equity instruments (a)	<b>23,486</b>	20,584
	<b>64,265</b>	46,374

(a) During the year ended 31 December 2021, dividend income from equity instruments amounted to LL 866 million (2020: LL 632 million).

**24 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS**

	<i>Freehold land and buildings LL million</i>	<i>Vehicles LL million</i>	<i>Furniture, office installations and computer equipment LL million</i>	<i>Advances on acquisition of fixed assets and construction in progress LL million</i>	<i>Right-of-use LL million</i>	<i>Total LL million</i>
<b>Cost:</b>						
At 1 January 2021	656,967	6,759	341,052	92,555	4,224	1,101,557
Additions	20,044	503	8,489	3,722	923	33,681
Disposals	-	(705)	(3,256)	-	-	(3,961)
Transfers	2,380	-	3,412	(5,795)	-	(3)
Write-off	-	-	(351)	-	-	(351)
Lease termination	-	-	-	-	(292)	(292)
Others	3,823	-	-	-	-	3,823
Translation difference	(6,806)	(44)	(895)	-	(1)	(7,746)
At 31 December 2021	676,408	6,513	348,451	90,482	4,854	1,126,708
<b>Depreciation:</b>						
At 1 January 2021	105,519	5,087	236,964	-	1,309	348,879
Charge for the year	11,501	914	16,605	-	811	29,831
Relating to disposals	-	(648)	(3,217)	-	-	(3,865)
Transfers	-	-	(3)	-	-	(3)
Related to lease termination	-	-	-	-	(292)	(292)
Relating to write-off	-	-	(209)	-	-	(209)
Translation difference	(801)	(38)	(875)	-	(1)	(1,715)
At 31 December 2021	116,219	5,315	249,265	-	1,827	372,626
<b>Net carrying value:</b>						
<b>At 31 December 2021</b>	<b>560,189</b>	<b>1,198</b>	<b>99,186</b>	<b>90,482</b>	<b>3,027</b>	<b>754,082</b>

  

	<i>Freehold land and buildings LL million</i>	<i>Vehicles LL million</i>	<i>Furniture, office installations and computer equipment LL million</i>	<i>Advances on acquisition of fixed assets and construction in progress LL million</i>	<i>Right-of-use LL million</i>	<i>Total LL million</i>
<b>Cost:</b>						
At 1 January 2020	691,550	9,038	376,071	103,341	3,911	1,183,911
Additions	1,028	74	8,658	8,244	311	18,315
Disposals	(5,834)	(845)	(902)	(52)	-	(7,633)
Transfers	246	-	12,167	(13,078)	-	(665)
Transfers to assets held for sale	(39,126)	(1,562)	(55,731)	(6,023)	-	(102,442)
Write-off	-	-	(46)	-	-	(46)
Translation difference	9,103	54	835	123	2	10,117
At 31 December 2020	656,967	6,759	341,052	92,555	4,224	1,101,557
<b>Depreciation:</b>						
At 1 January 2020	106,466	5,601	252,072	-	483	364,622
Charge for the year related to continuing operations	11,289	1,089	18,281	-	826	31,485
Charge for the year related to discontinuing operations	1,731	246	4,410	-	-	6,387
Relating to disposals	(1,154)	(845)	(855)	-	-	(2,854)
Transfers to assets held for sale	(14,415)	(1,031)	(36,678)	-	-	(52,124)
Transfers	419	-	(445)	-	-	(26)
Relating to write-off	-	-	(46)	-	-	(46)
Translation difference	1,183	27	225	-	-	1,435
At 31 December 2020	105,519	5,087	236,964	-	1,309	348,879
<b>Net carrying value:</b>						
<b>At 31 December 2020</b>	<b>551,448</b>	<b>1,672</b>	<b>104,088</b>	<b>92,555</b>	<b>2,915</b>	<b>752,678</b>

Certain freehold land and buildings purchased prior to 1 January 1999 were restated in previous years for the changes in the general purchasing power of the Lebanese Lira giving rise to a net surplus amounting to LL 14,727 million, which was credited to equity under “revaluation reserve of real estate”.

**25 INTANGIBLE ASSETS**

	<i>Computer software LL million</i>	<i>Key money LL million</i>	<i>Advances on acquisition of intangible assets LL million</i>	<i>Total LL million</i>
<b>Cost</b>				
At 1 January 2021	33,651	3,662	37	37,350
Additions	-	966	48	1,014
Disposals	-	(198)	-	(198)
Transfers	-	37	(37)	-
Translation difference	(154)	(375)	-	(529)
At 31 December 2021	33,497	4,092	48	37,637
<b>Amortization</b>				
At 1 January 2021	29,457	3,662	-	33,119
Charge for the year	-	1,818	-	1,818
Relating to disposals	-	(23)	-	(23)
Translation difference	(154)	(202)	-	(356)
At 31 December 2021	29,303	5,255	-	34,558
Net carrying value				
<b>At 31 December 2021</b>	<b>4,194</b>	<b>(1,163)</b>	<b>48</b>	<b>3,079</b>
<b>Cost</b>				
At 1 January 2020	31,271	3,493	20	34,784
Additions	1,281	-	68	1,349
Transfers	571	-	(51)	520
Translation difference	528	169	-	697
At 31 December 2020	33,651	3,662	37	37,350
<b>Amortization</b>				
At 1 January 2020	26,852	3,493	-	30,345
Charge for the year	2,234	-	-	2,234
Translation difference	371	169	-	540
At 31 December 2020	29,457	3,662	-	33,119
Net carrying value				
<b>At 31 December 2020</b>	<b>4,194</b>	<b>-</b>	<b>37</b>	<b>4,231</b>

At 31 December 2021

**26 ASSET OBTAINED IN SETTLEMENT OF DEBT**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Cost:		
At 1 January	<b>58,716</b>	68,653
Additions	<b>9,090</b>	12,818
Disposals	<b>(14,637)</b>	(20,138)
Transfer to assets held for sale	-	(2,715)
Translation difference	<b>(3)</b>	98
At 31 December	<b>53,166</b>	58,716
Impairment:		
At 1 January	<b>(6,675)</b>	(8,530)
Charge for the year (note 14)	-	(421)
Write-back (note 11)	<b>371</b>	202
Related to disposals	-	2,093
Translation difference	-	(19)
At 31 December	<b>(6,304)</b>	(6,675)
Net carrying value:		
<b>At 31 December</b>	<b>46,862</b>	52,041

**27 OTHER ASSETS**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Reinsurer's share of technical reserves	<b>62,994</b>	92,896
Sundry debtors (i)	<b>23,757</b>	30,477
Prepaid expenses	<b>22,391</b>	25,966
Insurer deferred acquisition cost	<b>6,861</b>	9,497
Compulsory deposits (ii)	<b>6,161</b>	6,173
Other revenues to be collected	<b>4,542</b>	4,818
Precious metals and stamps	<b>1,102</b>	927
Customers' transactions between head office and branches	<b>370</b>	2,337
Other assets	<b>71,767</b>	63,338
	<b>199,945</b>	236,429

(i) Sundry debtors

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Sundry debtors	<b>28,472</b>	35,288
Less: Provision against sundry debtors	<b>(4,715)</b>	(4,811)
	<b>23,757</b>	30,477

**27 OTHER ASSETS (continued)**

(i) Sundry debtors (continued)

The movement of provision against sundry debtors is summarized as follows:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Balance at 1 January	<b>4,811</b>	2,381
Provisions (note 12)	<b>63</b>	2,426
Write off of provision during the year	<b>(150)</b>	-
Write back during the year (note 12)	<b>(9)</b>	-
Translation difference	-	4
Balance at 31 December	<b>4,715</b>	4,811

(ii) Compulsory deposits represent amounts deposited with local authorities based on local regulations of the countries in which the subsidiaries are located, and are detailed as follows:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
BLOM Invest Bank SAL	<b>1,500</b>	1,500
BLOM Development Bank SAL	<b>4,500</b>	4,500
BANQUE BANORIENT France SA	<b>108</b>	120
BLOM Securities	<b>53</b>	53
	<b>6,161</b>	6,173

**28 GOODWILL**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Cost:		
At 1 January	<b>111,266</b>	111,139
Translation difference	<b>(53)</b>	127
At 31 December	<b>111,213</b>	111,266
Impairment:		
At 1 January / 31 December	<b>(109,135)</b>	(109,135)
Net book value:		
At 31 December	<b>2,078</b>	2,131

**28 GOODWILL (continued)**

**Impairment testing of goodwill**

Goodwill acquired through business combinations has been allocated to group of cash-generating units, which are also reportable segments, for impairment testing as follows:

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Asset management and private banking - Switzerland	<b>1,308</b>	1,361
BLOM Securities - Jordan	<b>770</b>	770
	<u><b>2,078</b></u>	<u>2,131</u>

**29 DUE TO CENTRAL BANKS**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Central Bank of Lebanon (a)	<b>385,886</b>	473,701
Term borrowings under leverage arrangements (b)	<b>2,321,271</b>	2,321,271
Central Bank of Jordan	<b>130,834</b>	85,157
Accrued interest payable	<b>34,046</b>	35,119
	<u><b>2,872,037</b></u>	<u>2,915,248</u>

(a) Following the Central Bank of Lebanon issued Intermediary Circulars, the Central Bank of Lebanon offered the commercial banks facilities up to a ceiling of LL 1,500 billion to be granted to customers and with a time limit ending on 15 October 2017. Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis with the first payment due on 2 January 2018.

(b) Term borrowings under leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in Lebanese Lira, bearing an interest rate of 2% per annum and having maturities ranging between 2022 and 2033, fully invested in pledged Lebanese treasury bills and blocked term placements with Central Bank of Lebanon in Lebanese Lira earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously the Group has further deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in Lebanese Lira at 10.5% per annum carrying the same maturities. During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement with the Central Bank of Lebanon in Lebanese Lira. This agreement qualifies for netting under the requirements of IAS 32.

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

**29 DUE TO CENTRAL BANKS (continued)**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Leverage arrangements		
Gross amounts	<b>7,692,090</b>	8,045,124
Amounts offset against <sup>(1)</sup>		
Placements with the Central Bank of Lebanon (note 17)	<b>(5,370,819)</b>	(5,723,853)
	<hr/>	<hr/>
Net amounts reported on the consolidated balance sheet	<b>2,321,271</b>	2,321,271
	<hr/>	<hr/>
<b><i>Financial collateral</i></b>		
Lebanese treasury bills (note 22)	<b>2,321,271</b>	2,321,271
	<hr/>	<hr/>
	<b>2,321,271</b>	2,321,271
	<hr/>	<hr/>

<sup>(1)</sup> Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon have also been reported on the balance sheet net of the amounts above.

During 2021, financial assets and financial liabilities that were settled on a net basis amounted to LL 353,034 million (2020: LL 1,655,388 million) (note 17).

**30 DUE TO BANKS AND FINANCIAL INSTITUTIONS**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Current accounts	<b>158,465</b>	232,763
Time deposits	<b>68,304</b>	112,521
	<hr/>	<hr/>
	<b>226,769</b>	345,284
	<hr/>	<hr/>

**31 CUSTOMERS' DEPOSITS AT AMORTIZED COST**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Sight deposits	<b>12,150,389</b>	10,273,498
Time deposits	<b>9,554,582</b>	11,906,205
Saving accounts	<b>8,691,480</b>	9,185,554
Credit accounts and deposits against debit accounts	<b>180,999</b>	265,213
Margins on letters of credit	<b>9,606</b>	10,581
	<hr/>	<hr/>
	<b>30,587,056</b>	31,641,051
	<hr/>	<hr/>

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 39,703 million as of 31 December 2021 (2020: LL 51,517 million).



**32 DEBT ISSUED AND OTHER BORROWED FUNDS**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Certificates of deposits issued by the Group	<b>37,688</b>	37,688
Accrued interest	<b>495</b>	480
	<u><b>38,183</b></u>	<u>38,168</u>

During 2020, the Group issued new certificates of deposits at par amounting to US\$ 25 million (equivalent to LL 37,688 million) subject to a fixed rate which matures after 30 months from the issuance date.

**33 OTHER LIABILITIES**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Current tax liabilities	<b>424,009</b>	308,060
Unearned premiums and liability related to insurance contracts	<b>239,021</b>	257,565
Sundry creditors	<b>91,030</b>	82,315
Accrued expenses	<b>78,576</b>	68,017
Other taxes due	<b>72,660</b>	147,742
Regularization accounts	<b>5,305</b>	9,097
Lease liabilities (a)	<b>3,594</b>	3,450
Dividends payable	<b>590</b>	590
Other liabilities (b)	<b>55,970</b>	91,081
	<u><b>970,755</b></u>	<u>967,917</u>

(a) Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2021:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Balance at 1 January	<b>3,450</b>	4,191
Additions	<b>570</b>	-
Interest expense	<b>294</b>	345
Paid during the year	<b>(1,071)</b>	(1,086)
Reassessment during the year	<b>353</b>	-
Translation difference	<b>(2)</b>	-
	<u><b>3,594</b></u>	<u>3,450</u>

(b) Other liabilities include unclaimed balances on early redemption of certificates of deposit amounting to LL 46,061 million as of 31 December 2021 (2020: LL 75,773 million).

**34 PROVISIONS FOR RISKS AND CHARGES**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Provision for foreign currency fluctuation	<b>110,771</b>	1,802
Provision for outstanding claims and IBNR reserves related to subsidiary- insurance companies (i)	<b>99,028</b>	123,521
Provision for risks and charges (ii)	<b>36,553</b>	54,514
Retirement benefits obligation (iii)	<b>39,075</b>	35,390
Provisions for ECL on financial guarantees and commitments	<b>1,606</b>	2,247
Provision on commitment by signature	<b>26</b>	56
Other provisions	<b>1,270</b>	3,518
	<b>288,329</b>	221,048

**(i) Provision for outstanding claims and IBNR reserves related to subsidiary- insurance companies**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Balance at 1 January	<b>123,521</b>	49,249
Charge for the year	<b>2,675</b>	76,491
Recoveries	<b>(27,174)</b>	(2,318)
Exchange difference	<b>6</b>	99
Balance at 31 December	<b>99,028</b>	123,521

**(ii) Provision for risks and charges**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Balance at 1 January	<b>54,514</b>	30,756
Charge for the year related to continued operations (note 14)	-	33,428
Charge for the year related to discontinued operations	-	668
Provisions written-back during the year related to continued operations (note 11)	<b>(15,089)</b>	(2,814)
Provisions written-back during the year related to discontinued operations	-	(1,634)
Provisions paid during the year	<b>(19)</b>	(219)
Net transfer to expected credit losses on financial assets	<b>(1)</b>	30
Provisions written-off during the year	<b>(2,852)</b>	(574)
Transfers to assets held for sale	-	(5,616)
Exchange difference	-	489
Balance at 31 December	<b>36,553</b>	54,514

**34 PROVISIONS FOR RISKS AND CHARGES (continued)****(iii) Retirement benefits obligation**

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	<b>35,390</b>	56,970
Charge for the year related to discontinued operations	-	3,416
Provision (write back) during the year (note 13)	<b>7,437</b>	(10,939)
Benefits paid	<b>(3,515)</b>	(5,216)
Transfers to assets held for sale	-	(9,033)
Exchange difference	<b>(237)</b>	192
	<hr/>	<hr/>
Balance at 31 December	<b>39,075</b>	35,390
	<hr/> <hr/>	<hr/> <hr/>

**35 SHARE CAPITAL AND PREMIUM**

	<i>2021</i>		<i>2020</i>	
	<i>Share capital LL million</i>	<i>Share premium LL million</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>
<b>Common shares – Authorized, issued and fully paid</b>				
215,000,000 shares at LL 1,500 per share as of 31 December 2021 (31 December 2020: 215,000,000 shares at LL 1,500 per share)	<b>322,500</b>	<b>374,059</b>	322,500	374,059
	<hr/>	<hr/>	<hr/>	<hr/>

All of the Bank's common shares are listed in the Beirut Stock Exchange starting 20 June 2008. Out of the total common shares, 73,896,010 shares are listed as Global Depository Receipts (GDRs) in the Luxembourg Stock Exchange. On 23 October 2020, the Bank announced that it has applied for the withdrawal of its Global Depository Shares from trading on the EUROMTF and the Official List of Luxembourg Stock Exchange with effect from 24 November 2020. Moreover, the GDSs and its underlying shares will continue to trade on the Beirut Stock Exchange. Noting that the Global Depository receipt programme (GDR) will continue to operate and all GDSs will remain outstanding.

In accordance with the Central Bank of Lebanon Intermediate Circular 616, no dividends were distributed from 2019, 2020 and 2021 profits.

**36 NON-DISTRIBUTABLE RESERVES**

	<i>Non-distributable general reserves</i> <i>LL million</i>	<i>Reserve for general banking risks</i> <i>LL million</i>	<i>Legal reserve</i> <i>LL million</i>	<i>Reserve appropriated for capital increase</i> <i>LL million</i>	<i>Other reserves</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
At 1 January 2020	708,178	11,796	744,086	148,132	-	1,612,192
Transfer from non-distributable reserves to retained earnings	(10,649)	-	-	-	-	(10,649)
Transfer from distributable reserves to non-distributable reserves	-	-	-	-	44,524	44,524
Appropriation of 2019 profits	309	-	11,780	5,069	-	17,158
Net loss on sale of treasury shares	-	-	-	(7,926)	-	(7,926)
Other adjustments	1	-	182	1	8	192
<b>At 31 December 2020</b>	<b>697,839</b>	<b>11,796</b>	<b>756,048</b>	<b>145,276</b>	<b>44,532</b>	<b>1,655,491</b>
Transfer from non-distributable reserves to retained earnings	(38,001)	-	-	-	-	(38,001)
Appropriation of 2020 profits	(239,815)	-	678	7,209	-	(231,928)
Change in non-controlling interests	(4,266)	-	(41,032)	(2)	-	(45,300)
Sale of Blom Bank Egypt SAE	402,114	-	(240)	-	-	401,874
Other adjustments	97,244	-	-	-	7	97,251
<b>At 31 December 2021</b>	<b>915,115</b>	<b>11,796</b>	<b>715,454</b>	<b>152,483</b>	<b>44,539</b>	<b>1,839,387</b>

**Non-distributable general reserves**

According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to “Non-distributable general reserves”, the balance of “Reserve for general banking risks” and “Reserve for retail loans” previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Group’s equity and is not available for distribution.

**Legal reserve**

According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2021, the Group appropriated LL 678 million from 2020 profits to the legal reserve in accordance with the General Assembly of Shareholders’ resolution (2020: LL 11,780 million).

**Reserve appropriated for capital increase**

During 2021, the Group appropriated LL 7,209 million from 2020 profits to the reserve appropriated for capital increase in accordance with the General Assembly of Shareholders’ resolution (2020: LL 5,069 million).

Details of the reserve for increase of share capital are as follows:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Recoveries of provisions for doubtful debts and reserves for assets taken in recovery of debts	<b>123,643</b>	116,434
Gain on sale of treasury shares	<b>28,070</b>	28,070
Revaluation reserves for fixed assets sold	<b>668</b>	668
Transfer from other reserves	<b>102</b>	102
Other adjustments	-	2
	<b>152,483</b>	145,276

At 31 December 2021

**37 TREASURY SHARES**

Movement of treasury shares recognized in the consolidated statement of financial position is as follows:

	<i>2021</i>		<i>2020</i>	
	<i>Number of shares</i>	<i>Cost LL million</i>	<i>Number of shares</i>	<i>Cost LL million</i>
Balance at 1 January	<b>8,333,732</b>	<b>4,434</b>	8,851,048	13,531
Sale of treasury shares	-	-	(517,316)	(9,097)
Balance at 31 December	<b>8,333,732</b>	<b>4,434</b>	8,333,732	4,434

The treasury shares represent 560,869 Global Depository Receipts (GDR) and 7,772,863 ordinary shares owned by the Group as at 31 December 2021 (2020: 560,869 Global Depository Receipts (GDR) and 7,772,863 ordinary shares). The market value of one GDR and one ordinary share were US\$ 3.31 and US\$ 3.75 respectively as of 31 December 2021 (2020: US\$ 2.20 and US\$ 2.07 respectively).

The Group realized a loss of LL 7,926 million from the sale of treasury shares during the year 2020. Gains and losses are reflected in the “Non-distributable reserves”.

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

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

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
At 1 January	<b>456</b>	9,928
Net changes in fair values during the year	<b>3,010</b>	698
Related to discontinued operations	-	7,004
Other	<b>100</b>	-
Transfer related to assets held for sale	-	(17,174)
Balance at 31 December	<b>3,566</b>	456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2021

**39 CASH AND CASH EQUIVALENTS**

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Cash and balances with central banks	<b>5,001,034</b>	3,259,787
Treasury bills held not for trading (whose original maturities are less than 3 months)	<b>142</b>	-
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	<b>1,634,455</b>	1,447,048
	<b>6,635,631</b>	4,706,835
Less:		
Due to central banks	<b>(78,025)</b>	(94,285)
Due to banks and financial institutions (whose original maturities are less than 3 months)	<b>(159,062)</b>	(286,130)
	<b>6,398,544</b>	4,326,420

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

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Cash and balances with central banks	<b>3,378,473</b>	1,648,614
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	<b>62,044</b>	125,662
	<b>3,440,517</b>	1,774,276
Less:		
Due to central banks	<b>(41,674)</b>	(41,453)
Due to banks and financial institutions (whose original maturities are less than 3 months)	<b>(29,860)</b>	(72,738)
	<b>(71,534)</b>	(114,191)
	<b>3,368,983</b>	1,660,085

**40 DIVIDENDS DECLARED AND PAID**

In accordance with the Central Bank of Lebanon intermediary circular 616, the Board of Directors did not propose the payment of any dividends for the years ended on 31 December 2020 and 2021.

**41 ASSETS AND LIABILITIES HELD FOR SALE**

***BLOM Bank - Egypt***

On 15 January 2021, the Bank signed a shares purchase agreement for the sale of 298,260,000 ordinary shares in BLOM Bank Egypt SAE, comprising 99.42% of the total issued share capital of the BLOM Bank Egypt SAE. The completion of the sale is conditional upon precedent conditions being satisfied. The parties agreed on a purchase price for the shares less reductions (if any) made pursuant to the contract. No impairment for BLOM Bank Egypt SAE has been recognized under IFRS 5 as at 31 December 2020. Impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration potential reductions to be made pursuant to the contract. The fair value less disposal costs and the expected contribution exceeds the net asset value as at 31 December 2020. The Bank obtained the required approvals during 2021 and the closing of the transaction took place during 2021. Net profit from the sale amounted to LL 134,157 million recorded under profit from sale of a subsidiary in the consolidated income statement for the year ended 31 December 2021.

Assets and liabilities included in disposal groups classified as held for sale:

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Cash and balances with Central Banks	-	906,998
Due from banks and financial institutions	-	448,110
Loans to banks and financial institutions	-	22,413
Financial assets at fair value through profit or loss	-	8,390
Loans and advances to customers at amortised cost	-	1,240,147
Loans and advances to related parties at amortised cost	-	248
Debtors by acceptances	-	7,066
Financial assets at amortised cost	-	200,014
Financial assets at fair value through other comprehensive income	-	1,286,965
Property and equipment and right-of-use assets	-	50,318
Assets obtained in settlement of debt	-	2,715
Other assets	-	7,799
<b>Total assets classified as held for sale</b>	<b>-</b>	<b>4,181,183</b>
Due to Central Banks	-	31,526
Due to banks and financial institutions	-	11,130
Customers' deposits	-	3,544,940
Deposits from related parties	-	156
Engagements by acceptances	-	7,066
Other liabilities	-	117,444
Provisions for risks and charges	-	19,817
<b>Total liabilities classified as held for sale</b>	<b>-</b>	<b>3,732,079</b>
<b>Net assets classified as held for sale</b>	<b>-</b>	<b>449,104</b>
<b>Reserves related to assets held for sale:</b>		
Cumulative changes in fair value	-	17,174
Foreign currency translation reserve	-	292,631
	-	(275,457)

**41 ASSETS AND LIABILITIES HELD FOR SALE (continued)**

The carrying value of the disposal group is stated after the elimination of internal balances between BLOM Bank Egypt SAE and the remaining entities within the Group. Internal balances have been considered in determining the carrying value of the disposal group held for sale for the purposes of measuring the disposal group at the lower of carrying amount and fair value less costs to sell.

The disposal group above meets the requirements for presentation as a discontinued operation. As such, the results, which have been presented as the profit after tax and non-controlling interest in respect of the discontinued operation on the face of the Group income statement, are analyzed in the income statement below. The income statement and statement of comprehensive income below represent three months of results as discontinued operations until 31 July 2021 compared to full year ended 31 December 2021.

	<i>For the period ended 31 July 2021 LL million</i>	<i>For the year ended 31 December 2020 LL million</i>
Interest and similar income	<b>243,023</b>	397,817
Interest and similar expense	<b>(148,256)</b>	(242,854)
<b>Net interest income</b>	<b>94,767</b>	154,963
Fee and commission income	<b>10,304</b>	19,526
Fee and commission expense	<b>(3,823)</b>	(6,495)
<b>Net fee and commission income</b>	<b>6,481</b>	13,031
Net gain from financial assets at fair value through profit or loss	<b>1,266</b>	3,194
Non-interest revenues from financial assets at fair value through other comprehensive income	<b>618</b>	269
Other operating income	<b>757</b>	3,003
<b>Total operating income</b>	<b>103,889</b>	174,460
Net impairment loss on financial assets	<b>(15,491)</b>	(15,279)
<b>Net operating income</b>	<b>88,398</b>	159,181
Personnel expenses	<b>(32,815)</b>	(40,409)
Other operating expenses	<b>(13,083)</b>	(22,830)
Depreciation of property, equipment and right-of-use assets	<b>(4,035)</b>	(6,387)
<b>Total operating expenses</b>	<b>(49,933)</b>	(69,626)
<b>Operating profit</b>	<b>38,465</b>	89,555
Net gain on disposal of property and equipment	<b>4</b>	121
<b>Profit before tax</b>	<b>38,469</b>	89,676
Income tax expense	<b>(21,775)</b>	(25,738)
<b>Profit for the year from discontinued operations</b>	<b>16,694</b>	63,938



**41 ASSETS AND LIABILITIES HELD FOR SALE (continued)**

Other comprehensive income relating to discontinued operations is as follows:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
<b>Profit for the year</b>	<b>16,694</b>	63,938
<b>Other comprehensive income that will be reclassified to the consolidated income statement in subsequent periods:</b>		
Exchange differences on translation of foreign operations	<b>464</b>	7,994
<b>Total other comprehensive income that will be reclassified to the consolidated income statement in subsequent periods</b>	<b>464</b>	7,994
<b>Other comprehensive (loss) income that will not be reclassified to the consolidated income statement in subsequent periods:</b>		
Net unrealized (loss) gain from financial assets at fair value through other comprehensive income	<b>(6,550)</b>	7,004
<b>Total other comprehensive (loss) income that will not be reclassified to the consolidated income statement in subsequent periods</b>	<b>(6,550)</b>	7,004
<b>Other comprehensive (loss) income for the year, net of tax</b>	<b>(6,550)</b>	14,998
<b>Total comprehensive income for the year, net of tax</b>	<b>10,608</b>	78,936
<b>Attributable to:</b>		
Equity holders of the parent	<b>10,608</b>	78,849
Non-controlling interests	-	87
	<b>10,608</b>	78,936

The cash flows attributed to the discontinued operations are as follows:

	<i>2020</i> <i>LL million</i>
Net cash flows from operating activities	123,098
Net cash flows from investing activities	137,528
Net cash flows from financing activities	(11,815)
Net increase in cash and cash equivalents	248,811

**42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS**

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

**42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)****Quoted market prices – Level 1**

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

**Valuation technique using observable inputs – Level 2**

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

**Valuation technique using significant unobservable inputs – Level 3**

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

**Effects of exchange rates on the fair value measurements:**

The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Lira in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Lira at the official published exchange rate as discussed in Note 1. However, in light of the high deviation between the parallel market rate, the Sayrafa rates and the official exchange rates, Management estimates that the amounts reported in this note in LL do not reflect a reasonable estimate of expected cash flows in Lebanese Lira that would have to be generated from the realisation of such assets or the payment of such liabilities at the date of the consolidated financial statements and Management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2. Classification within Levels 1 and 2 do not take into consideration the "lack of observability" of the exchange rate.

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

	<i>2021</i>			<i>Total</i> <i>LL million</i>
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	
<b>Financial assets:</b>				
Derivative financial instruments:				
Forward foreign exchange contracts	-	2,765	-	2,765
Equity swaps and options	-	369	-	369
Currency swaps	-	1,217	-	1,217
Financial assets at fair value through profit or loss:				
Treasury Bills and bonds	141	315	-	456
Corporate debt instruments	208,432	3,069	-	211,501
Equity instruments	115,222	17,502	-	132,724
Funds	48,350	-	84,311	132,661
Financial assets at fair value through other comprehensive income:				
Corporate debt instruments	40,779	-	-	40,779
Equity instruments	18,394	5,092	-	23,486

**42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)**

	2021			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
<b>Financial liabilities:</b>				
Derivative financial instruments:				
Forward foreign exchange contracts	-	1,825	-	1,825
Equity swaps and options	-	369	-	369
Currency swaps	-	5,674	-	5,674
	2020			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Financial assets:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	115	-	115
Equity swaps and options	-	150	-	150
Currency swaps	-	1,379	-	1,379
Financial assets at fair value through profit or loss:				
Treasury bills and bonds	176	297	-	473
Corporate debt instruments	-	3,070	-	3,070
Equity instruments	104,878	18,822	-	123,700
Funds	33,204	-	69,540	102,744
Financial assets at fair value through other comprehensive income:				
Corporate debt instruments	25,790	-	-	25,790
Equity instruments	17,684	2,900	-	20,584
	2020			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Financial liabilities:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	158	-	158
Equity swaps and options	-	150	-	150
Currency swaps	-	10,565	-	10,565

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

**Valuation techniques used for material classes of financial assets and liabilities categorized within Level 2 and Level 3:**

***Derivatives***

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

***Funds and Equity Shares of Non-listed Entities***

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

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

At 31 December 2021

**42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)****Comparison of carrying and fair values for financial assets and liabilities not held at fair value:**

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

**Financial assets and liabilities concentrated in Lebanon**

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

**Financial assets and liabilities not concentrated in Lebanon**

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

**31 December 2021**

	Carrying Value LL million	Fair Value			
		Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
<b>FINANCIAL ASSETS</b>					
Cash and balances with central banks	1,754,288	-	1,754,288	-	1,754,288
Due from banks and financial institutions	1,807,402	-	1,806,618	-	1,806,618
Net loans and advances to customers at amortized cost	1,483,597	-	-	1,487,521	1,487,521
Net loans and advances to related parties at amortized cost	4,556	-	-	4,551	4,551
Debtors by acceptances	5,409	-	-	5,409	5,409
Financial assets at amortized cost	981,843	371,777	607,530	-	979,307
Treasury bills and bonds	560,475	-	559,200	-	559,200
Corporate debt securities	421,368	371,777	48,330	-	420,107
<b>FINANCIAL LIABILITIES</b>					
Due to central banks	131,192	-	131,192	-	131,192
Due to banks and financial institutions	196,908	-	196,908	-	196,908
Customers' deposits at amortized cost	4,584,758	-	4,584,758	-	4,584,758
Deposits from related parties at amortized cost	28,836	-	28,836	-	28,836
Engagements by acceptances	5,409	-	-	5,409	5,409

**31 December 2020**

	Carrying Value LL million	Fair Value			
		Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
<b>FINANCIAL ASSETS</b>					
Cash and balances with central banks	1,683,070	29,753	1,653,317	-	1,683,070
Due from banks and financial institutions	1,400,026	-	1,400,018	-	1,400,018
Net loans and advances to customers at amortized cost	1,696,308	-	-	1,703,633	1,703,633
Net loans and advances to related parties at amortized cost	9,058	-	-	9,118	9,118
Debtors by acceptances	10,719	-	-	10,719	10,719
Financial assets at amortized cost	751,938	328,237	429,593	-	757,830
Treasury bills and bonds	445,493	65,558	379,734	-	445,292
Corporate debt securities	306,445	262,679	49,859	-	312,538
<b>FINANCIAL LIABILITIES</b>					
Due to central banks	85,419	-	85,419	-	85,419
Due to banks and financial institutions	283,723	-	283,723	-	283,723
Customers' deposits at amortized cost	4,547,355	-	4,547,814	-	4,547,814
Deposits from related parties at amortized cost	37,697	-	37,699	-	37,699
Engagements by acceptances	10,719	-	-	10,719	10,719

**42 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)****Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)**

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), the Group assumed that the carrying values approximate the fair values. This assumption is also applied to demand deposits which have no specific maturity and financial instruments with variable rates.

**Deposits with banks and loans and advances to banks**

For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

**Government bonds, certificates of deposit and other debt securities**

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest and credit spreads.

**Loans and advances to customers**

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during the year with similar remaining maturities and to counterparties with similar credit quality.

**Deposits from banks and customers**

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities.

**43 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS****Credit – related commitments and contingent liabilities**

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

	<u>2021</u>		
	<i>Banks</i>	<i>Customers</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Guarantees issued	34,192	376,105	410,297
<b>Commitments</b>			
Documentary credits	17,848	-	17,848
Loan commitments	-	478,293	478,293
<i>Of which revocable</i>	-	305,466	305,466
<i>Of which irrevocable</i>	-	172,827	172,827
Securities pledged with the Central Bank of Lebanon	2,342,765	-	2,342,765
Other commitments	650	9,008	9,658
	<u>2,395,455</u>	<u>863,406</u>	<u>3,258,861</u>

### 43 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

#### Credit – related commitments and contingent liabilities (continued)

	2020		
	<i>Banks</i> <i>LL million</i>	<i>Customers</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Guarantees issued	55,310	425,501	480,811
Commitments			
Documentary credits	24,900	-	24,900
Loan commitments	-	527,445	527,445
<i>Of which revocable</i>	-	355,606	355,606
<i>Of which irrevocable</i>	-	171,839	171,839
Securities pledged with the Central Bank of Lebanon	2,342,765	-	2,342,765
Other commitments	650	19,574	20,224
	2,423,625	972,520	3,396,145

#### *Guarantees issued*

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

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

#### *Documentary credits*

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

#### *Loan commitments*

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

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

#### **Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims including those relating to the restrictive measures and unofficial capital controls in place. Based on advice from legal counsel, and despite the novelty of the certain claims and the uncertainties inherent in their unique situation management believes that legal claims will not result in any significant financial loss to the Group, except as provided for in note 51.

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**43 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS  
(continued)****Operating lease and capital expenditure commitments**

Capital expenditures and lease payments that were not provided for as of the consolidated statement of financial position date are as follows:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
<b>Capital commitments</b>		
Property and equipment	<b>4,919</b>	5,141

**Other commitments and contingencies**

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities.

The Bank's books in Lebanon for the years 2015 to 2017 (inclusive) are currently under the review of the tax authorities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the years 2018 to 2021 (inclusive). The books of HSBC Bank Middle East Limited – Lebanon Branch were reviewed by the tax authorities from the years 2015 till 31 October 2017 (inclusive). The tax authorities have issued a preliminary report on 2 March 2022 resulting in additional taxes of LL 10,401 million.

The books of the Head Office and Lebanese branches of the Bank were reviewed by the National Social Security Fund (NSSF) and were subject to a discharge for the period from 1 October 2014 until 30 September 2020. The Bank's books in Lebanon remain subject to the review by the NSSF for the period from 1 October 2020 to 31 December 2021.

In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate.

Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

**44 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION**

Assets held in custody and under administration include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Assets held in custody and under administration	<b>6,569,905</b>	5,433,621

The Group provides safekeeping and servicing activities on behalf of clients, in addition to various support functions including the valuation of portfolios of securities and other financial assets, which complements the custody business.

**45 RELATED PARTY TRANSACTIONS**

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

**45 RELATED PARTY TRANSACTIONS (Continued)**

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

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

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

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

	<i>2021</i>			
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Expected credit loss</i>	<i>Total</i>
	<i>Outstanding balance LL million</i>	<i>Outstanding balance LL million</i>	<i>Outstanding balance LL million</i>	<i>Outstanding balance LL million</i>
Deposits	34,812	64,093	-	98,905
Net loans and advances	5,979	2,906	(15)	8,870
Guarantees given	8	1,824	-	1,832

  

	<i>2020</i>			
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Expected credit loss</i>	<i>Total</i>
	<i>Outstanding balance LL million</i>	<i>Outstanding balance LL million</i>	<i>Outstanding balance LL million</i>	<i>Outstanding balance LL million</i>
Deposits	47,967	65,147	-	113,114
Net loans and advances	9,637	3,585	(4)	13,218
Guarantees given	8	1,823	-	1,831

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

	<i>2021</i>		
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Interest paid on deposits	148	609	757
Interest received from net loans and advances	466	64	530
Rent expense	-	614	614

  

	<i>2020</i>		
	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Interest paid on deposits	472	1,467	1,939
Interest received from net loans and advances	534	188	722
Rent expense	-	614	614



**45 RELATED PARTY TRANSACTIONS (continued)**

**Key management personnel**

Total remuneration awarded to key management personnel represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest pay round decisions. Figures are provided for the period that individuals met the definition of key management personnel.

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Short-term benefits	<b>30,355</b>	36,146
Post-employment benefits charged for the year, net	<b>843</b>	3,239

Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other benefits.

**46 RISK MANAGEMENT**

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

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

The Group manages its business activities within risk management guidelines as set by the Group’s “Risk Management Policy” approved by the Board of Directors. The Group recognizes the role of the Board of Directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board of Directors as does the establishing of the Group’s risk appetite and tolerance levels. The Board of Directors delegates through its Risk Management Committee the day-to-day responsibility for establishment and monitoring of risk management process across the Group’s group to the Group Chief Risk Officer, who is directly appointed by the Board of Directors, in coordination with executive management at BLOM Bank SAL.

The Board’s Risk Management Committee has the mission to periodically (1) review and assess the risk management function of the Group, (2) review the adequacy of the Group’s capital and its allocation within the Group, and (3) review risk limits and reports and make recommendations to the Board.

The Group Chief Risk Officer undertakes his responsibilities through the “Group Risk Management Division” in Beirut which also acts as Group Risk Management, overseeing and monitoring risk management activities throughout the Group. The Group Chief Risk Officer is responsible for establishing the function of Risk Management and its employees across the Group.

BLOM Bank’s Risk Management aids executive management in monitoring, controlling and actively managing and mitigating the Group’s overall risk. The Division mainly ensures that:

- Risk practices are fit for purpose and aligned with best practices as far as practicable.
- Risk policies and methodologies are consistent with the Group’s risk appetite.
- Limits and risk across banking activities are monitored and managed throughout the Group.

#### 46 RISK MANAGEMENT (continued)

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Group's "Risk Management Policies". Any discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

In addition to the Group's Risk Management in Lebanon, risk managers and / or risk officers were assigned within the Group's foreign subsidiaries or branches to report to the Group Risk Management and executive senior management in a manner that ensures:

- Standardization of risk management functions and systems developed across the Group.
- Regional consistency of conducted business in line with the board's approved risk appetite.

The major objective of risk management is the implementation of sound risk management practices and the Basel frameworks as well as all related regulatory requirements within the Group. The Group has documented a Board approved Disclosure Policy.

#### 47 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

##### 47.1 Credit risk management

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Group's credit risk department, which is responsible for assisting the Group in establishing a credit risk management culture that promotes good analysis, judgements, flexibility and balance between risk and reward.

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

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

Starting 2019, the economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its assets size, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified Stage 3.

**47 CREDIT RISK (continued)****47.2 Expected credit losses (ECL)****47.2.1 Governance and oversight of expected credit losses**

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

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

ECL is estimated using a model that takes into account borrowers' exposure, internal risk rating, facility characteristic macroeconomy, and collateral information among others. Models are, by their nature, relying on minimal required historical data as well as incorporating expert opinion are subject to biased output thus, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. Models are statistically validated by a qualified independent party to the model development unit, before first use and at a minimum annually thereafter. Each model is designated an owner who is responsible for:

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

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

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

**47.2.2 Definition of default and cure**

The Group considers a financial instrument defaulted for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group;
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specific period of time and after obtaining the approval of the Credit Committee. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is dependent on the absence of SICR criteria compared to initial recognition and is examined on a case by case basis. In case of forbearance under Stage 2, the borrower remains in this stage until all the following conditions have been met: i) at least a 12-month probation period has passed, ii) three consecutive payments under the new repayment schedule have been made, iii) the borrower has no past dues under any obligation to the Group, and iv) all the terms and conditions agreed to as part of the restructuring have been met.

**47 CREDIT RISK (continued)****47.2 Expected credit losses (ECL) (continued)****47.2.2 Definition of default and cure (continued)**

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

**47.2.3 The Group's internal rating and PD estimation process***Central Banks, Sovereigns and Financial Institutions*

For central banks, sovereigns and financial institutions' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. With respect to exposures to the Central Bank of Lebanon and Lebanese sovereign, Intermediate Circular 567 modified the regulatory ECLs levels, previously set in its Intermediate Circular 543 issued on 3 February 2020. Regulatory ECL on exposures to Lebanese sovereign bonds in foreign currency was increased from 9.45% to 45%, while regulatory ECLs on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currency and exposures to the Central Bank of Lebanon in local currency remained unchanged (0%, 1.89% and 0% respectively). This circular however changed the requirement for the recognition of ECL in the banks' financial statements from a "Maximum" level to a "Minimum" one. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Group was unable to estimate in a reasonable manner ECL on this exposure and accordingly, as applicable, the loss rate mentioned in Intermediate Circular 567 was adopted as a minimum with the Group actually taking higher provisions than implied by this circular. To note that the Group disposed of the majority of its holding of Lebanese Sovereign Bonds in foreign currency during 2020.

*Non-consumer loans*

The Credit Risk function, which is independent from business lines, is responsible for the development of internal rating models, and for the estimation of Probability of Default (PD) and Loss Given Default (LGD). The Group uses an internal rating scale comprised of 10 performing grades and 3 non-performing grades. The grades generated by internal rating models are mapped to PDs using historical default observations. The mapping of rating to PD, which is done initially on a through-the-cycle basis is then adjusted to a point-in-time basis in line with IFRS 9 requirements.

These internal rating models for the Group's key lending portfolios including Corporate and SME obligors incorporate both qualitative and quantitative criteria such as:

- Historical and projected financial information including debt service coverage, operations, liquidity and capital structure;
- Account behavior, repayment history (factoring in any COVID-19 related regulatory forbearance measure where applicable) and outside and other non-financial information such as management quality, company standing and industry risk;
- Moody's Rating Agency publicly available information related to the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports and other market disclosures; and
- Any other objectively supportable information on the obligor's willingness and capacity of repayment.

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

**47 CREDIT RISK (continued)**

**47.2 Expected credit losses (ECL) (continued)**

**47.2.3 The Group's internal rating and PD estimation process (continued)**

*Consumer loans*

Consumer lending comprises mainly of personal loans, credit cards, car loans and housing loans. These products are rated by an automated scorecard tool primarily driven by days past due. The Group also relies on account behavior to predict the probability of default within a specific timeframe. This is primarily based on the repayment history of consumer borrowers.

For the estimation of expected losses for consumer products, the Group uses currently the loss rate approach by product based on the net flow of exposures from one days-past-due bucket to another (factoring in any COVID-19 related regulatory forbearance measure where applicable). This estimation incorporates by a forward-looking component in line with the IFRS9 standard.

**47.2.4 Exposure at default**

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

**47.2.5 Loss given default**

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

**47.2.6 Significant increase in credit risk**

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

*Non-Consumer loans*

Migration of obligor risk rating by a certain number of notches from origination to reporting date as a key indicator of the change in the risk of default at origination with the risk of default at reporting date.

*Consumer loans*

Thresholds have been based on historical default rates and historical payment behavior to determine significant increase in credit risk.

*Qualitative criteria*

For non-Consumer loans, the Group also considers in its assessment of significant increase in credit risk, various qualitative factors including significant adverse changes in the business condition, restructuring due to credit quality weakness during the past 12-months, classification of an exposure under the "Follow-up and arrange" supervisory classification. For Consumer loans, the Group considers specific events that might be indicative of a significant increase in credit risk such as the event of restructuring.

A financial instrument considered to have experienced a significant increase in credit risk if the instruments is more than 90 days past due on its contractual payments. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired at the reporting date. As noted in section "47.2.2. Definition of default and cure" and in response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both consumer and non-consumer borrowers under market-wide programs.

**47 CREDIT RISK (continued)**

**47.2 Expected credit losses (ECL) (continued)**

**47.2.7 Expected life**

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

**47.2.8 Forward looking information**

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

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

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

The Group seeks the highest correlation between macro-economic variables and historical PDs for each portfolio to identify the key drivers for Point in Time Probability of default which is translated into the ECL. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The ECL estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios.

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

**47.2.9 Modified and forbore loans**

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

**47 CREDIT RISK (continued)**

**47.2 Expected credit losses (ECL) (continued)**

**47.2.9 Modified and forborne loans (continued)**

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

	<i>2021</i>	<i>2020</i>
	<i>LL million</i>	<i>LL million</i>
Amortized costs of financial assets modified during the period	<b>28,281</b>	47,238

There are no previously modified financial assets for which loss allowance has changed to 12mECL measurement as at 31 December 2021 and 31 December 2020. There are no previously modified financial assets for which loss allowance had changed to 12mECL measurement and reverted to LTECL as at 31 December 2021 and 31 December 2020.

47 CREDIT RISK (continued)

47.2 Expected credit losses (ECL) (continued)

47.2.10 Financial assets and ECLs by stage

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

	<i>Gross exposure</i>				<i>Impairment allowance</i>				<i>Net exposure</i> <i>LL million</i>
	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	
<b>31 December 2021</b>									
Cash and balances with central banks	2,686,547	26,896,509	-	29,583,056	-	(1,904,465)	-	(1,904,465)	27,678,591
Due from banks and financial institutions	1,875,153	-	1,232	1,876,385	(1,989)	-	(1,232)	(3,221)	1,873,164
Loans and advances to customers at amortized cost	3,094,553	274,724	865,395	4,234,672	(139,903)	(41,157)	(683,152)	(864,212)	3,370,460
<i>Commercial loans</i>	1,470,606	185,663	539,795	2,196,064	(52,100)	(27,431)	(418,160)	(497,691)	1,698,373
<i>Consumer loans</i>	1,623,947	89,061	325,600	2,038,608	(87,803)	(13,726)	(264,992)	(366,521)	1,672,087
Loans and advances to related parties at amortized cost	8,885	-	-	8,885	(15)	-	-	(15)	8,870
Debtors by acceptances	5,418	-	-	5,418	(9)	-	-	(9)	5,409
Financial assets at amortized cost	966,552	4,478,554	8,375	5,453,481	(736)	(33,307)	(7,994)	(42,037)	5,411,444
Financial guarantees and other commitments	892,915	12,687	835	906,437	(1,407)	(133)	(66)	(1,606)	904,831
<b>Total</b>	<b>9,530,023</b>	<b>31,662,474</b>	<b>875,837</b>	<b>42,068,334</b>	<b>(144,059)</b>	<b>(1,979,062)</b>	<b>(692,444)</b>	<b>(2,815,565)</b>	<b>39,252,769</b>
	<i>Gross exposure</i>				<i>Impairment allowance</i>				<i>Net exposure</i> <i>LL million</i>
	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	
31 December 2020									
Cash and balances with central banks	1,896,240	27,069,280	-	28,965,520	-	(1,229,500)	-	(1,229,500)	27,736,020
Due from banks and financial institutions	1,526,482	-	1,232	1,527,714	(38)	-	(1,231)	(1,269)	1,526,445
Loans and advances to customers at amortized cost	3,931,517	460,540	1,189,175	5,581,232	(109,063)	(51,185)	(729,380)	(889,628)	4,691,604
<i>Commercial loans</i>	1,637,519	283,373	712,396	2,633,288	(19,355)	(44,066)	(463,212)	(526,633)	2,106,655
<i>Consumer loans</i>	2,293,998	177,167	476,779	2,947,944	(89,708)	(7,119)	(266,168)	(362,995)	2,584,949
Loans and advances to related parties at amortized cost	13,222	-	-	13,222	(4)	-	-	(4)	13,218
Debtors by acceptances	10,873	2	-	10,875	(84)	(1)	-	(85)	10,790
Financial assets at amortized cost	737,012	4,609,608	8,846	5,355,466	(200)	(33,957)	(8,398)	(42,555)	5,312,911
Financial guarantees and other commitments	1,006,752	25,252	1,152	1,033,156	(1,412)	(229)	(606)	(2,247)	1,030,909
<b>Total</b>	<b>9,122,098</b>	<b>32,164,682</b>	<b>1,200,405</b>	<b>42,487,185</b>	<b>(110,801)</b>	<b>(1,314,872)</b>	<b>(739,615)</b>	<b>(2,165,288)</b>	<b>40,321,897</b>



**47 CREDIT RISK (continued)**

**47.2 Expected credit losses (ECL) (continued)**

**47.2.10 Financial assets and ECLs by stage (continued)**

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

	<i>2021</i>			
	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	<i>Total LL million</i>
Balance as of 1 January	109,063	51,185	729,380	889,628
Impairment loss for the year related to continued operations (note 12)	90,210	14,198	210,085	314,493
Recoveries related to continued operations (note 12)	(78,741)	(4,545)	(208,352)	(291,638)
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges") due to business activity and exposure changes	24,220	(24,197)	-	23
Net transfers between stages	(4,819)	4,819	-	-
Unrealized interest for the year	-	-	48,890	48,890
Transfer to off-financial position	-	-	(79,650)	(79,650)
Direct write-offs	-	(299)	(16,453)	(16,752)
Foreign exchange difference	(30)	(4)	(748)	(782)
<b>At 31 December</b>	<b>139,903</b>	<b>41,157</b>	<b>683,152</b>	<b>864,212</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	<i>2020</i>			
	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	<i>Total LL million</i>
Balance as of 1 January	103,590	172,513	432,915	709,018
Impairment loss for the year related to continued operations (note 12)	45,730	6,119	472,846	524,695
Impairment loss for the year related to discontinued operations	8,905	-	13,663	22,568
Recoveries related to continued operations (note 12)	(13,270)	(138,562)	(121,430)	(273,262)
Recoveries related to discontinued operations	(5,963)	-	(736)	(6,699)
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges") due to business activity and exposure changes	9,067	(4,465)	(297)	4,305
Net transfers between stages	(27,861)	29,026	(1,165)	-
Unrealized interest for the year	-	-	46,332	46,332
Transfer to off-financial position	-	-	(68,710)	(68,710)
Direct write-offs	-	-	(14,976)	(14,976)
Other adjustments	(2)	(1)	1,124	1,121
Transfer to assets held for sale	(11,405)	(13,505)	(34,062)	(58,972)
Foreign exchange difference	272	60	3,876	4,208
<b>At 31 December</b>	<b>109,063</b>	<b>51,185</b>	<b>729,380</b>	<b>889,628</b>
	<hr/>	<hr/>	<hr/>	<hr/>

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

At 31 December 2021

**47 CREDIT RISK (continued)****47.2 Expected credit losses (ECL) (continued)****47.2.10 Financial assets and ECLs by stage (continued)**

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of balances with the Central Bank of Lebanon:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Balance as of 1 January	<b>1,229,500</b>	382,181
Impairment loss for the year (note 12)	<b>676,598</b>	844,093
Charge for the year (transfer from (to) excess provisions under “Provisions for risks and charges”) due to business activity and exposure changes	-	3,226
Other	<b>(1,633)</b>	-
<b>At 31 December</b>	<b>1,904,465</b>	1,229,500

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of Lebanese sovereign treasury bills and bonds and Certificates of Deposits issued by the Central Bank of Lebanon:

	<i>2021</i> <i>LL million</i>	<i>2020</i> <i>LL million</i>
Balance as of 1 January	<b>36,418</b>	33,997
Impairment loss for the year	<b>60</b>	2,593
Recoveries	<b>(44)</b>	(172)
<b>At 31 December</b>	<b>36,434</b>	36,418

**47.3 Analysis of risk concentration****Geographical location analysis**

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

	<i>2021</i>		
	<i>Lebanon</i> <i>LL million</i>	<i>Others</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
<b>Financial assets</b>			
Balances with central banks	24,985,531	1,739,121	26,724,652
Due from banks and financial institutions	65,762	1,807,402	1,873,164
Derivative financial instruments	1,356	2,995	4,351
Financial assets at fair value through profit or loss	456	213,093	213,549
<i>Treasury bills and bonds</i>	456	-	456
<i>Corporate debt securities</i>	-	211,501	211,501
<i>Structured products</i>	-	1,592	1,592
Net loans and advances to customers at amortized cost	1,798,338	1,572,122	3,370,460
<i>Commercial loans</i>	547,760	1,150,613	1,698,373
<i>Consumer loans</i>	1,250,578	421,509	1,672,087
Net loans and advances to related parties at amortized cost	4,074	4,796	8,870
Debtors by acceptances	-	5,409	5,409
Financial assets at amortized cost	4,429,551	981,893	5,411,444
<i>Treasury bills and bonds</i>	2,647,671	560,525	3,208,196
<i>Certificates of deposit – Central Bank of Lebanon</i>	1,781,880	-	1,781,880
<i>Corporate debt securities</i>	-	421,368	421,368
Financial assets at fair value through other comprehensive income	2	64,263	64,265
	<b>31,285,070</b>	<b>6,391,094</b>	<b>37,676,164</b>

**47 CREDIT RISK (continued)**

**47.3 Analysis of risk concentration (continued)**

	2020		
	<i>Lebanon</i> <i>LL million</i>	<i>Others</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Financial assets			
Cash and balances with central banks	25,843,654	1,892,366	27,736,020
Due from banks and financial institutions	126,419	1,400,026	1,526,445
Derivative financial instruments	2	1,642	1,644
Financial assets at fair value through profit or loss	473	3,070	3,543
<i>Treasury bills and bonds</i>	473	-	473
<i>Corporate debt securities</i>	-	3,070	3,070
Net loans and advances to customers at amortized cost	2,934,955	1,756,649	4,691,604
<i>Commercial loans</i>	905,447	1,201,208	2,106,655
<i>Consumer loans</i>	2,029,508	555,441	2,584,949
Net loans and advances to related parties at amortized cost	3,856	9,362	13,218
Debtors by acceptances	71	10,719	10,790
Financial assets at amortized cost	4,719,285	593,626	5,312,911
<i>Treasury bills and bonds</i>	2,937,410	287,181	3,224,591
<i>Certificates of deposit – Central Bank of Lebanon</i>	1,781,875	-	1,781,875
<i>Corporate debt securities</i>	-	306,445	306,445
Financial assets at fair value through other comprehensive income	-	46,374	46,374
	33,628,715	5,713,834	39,342,549

**47.4 Credit quality**

The Group assesses the quality of its credit portfolio using the following credit rating methodologies:

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing.
- (iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision-making process.
- (iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and arrange* includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit. (d) *Substandard* loans include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful* loans where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, (f) *Bad* loans with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

Sovereign

Sovereign default rates are extracted from Moody's Investors Service annual data report. The starting point of the interpolation of default rates is based on ordering the ratings. The interpolation is done for the missing values (subgrades) in order to get the final PDs for all the ratings. A forward-looking adjustment is performed on PDs via regression by considering the relevant macro-economic factors as published by International data sources. The resulting PiT and forward-looking PDs are then used in the ECL calculation under the base case. The Group then projects these factors under a lower and upper scenario. In 2019, and in compliance with the Central Bank of Lebanon Intermediary Circular 543, the Group applied the regulatory ECL's ceiling for sovereign exposures (i.e. ECL of 1.89% for Central Bank of Lebanon exposures in foreign currencies and ECL of 0% for sovereign and Central Bank of Lebanon exposures in local currency).

**47 CREDIT RISK (continued)**

Banks and financial institutions

The Group considers that the credit spread above a given LIBOR rate is a reflective rate for expected credit loss. The cost of risk is considered as a proxy for PD and LGD.

Debt securities

The Group assigns the second lowest rating amongst the three rating agencies (Moody's, Standard & Poor's and Fitch) for each instrument. The Group also segregates the country of issuance of these debt securities between Emerging and Advanced Economies based on the International data sources studies. The Group then conducts a correlation analysis per rating grade for each of the considered group of Advanced Economies and Emerging Economies. The resulting PDs are PiT and forward looking. The Group then generated scenarios at the PD level.

Commercial loans

In accordance to the Group's policy, default is defined when the borrower is 90 days' past due, along with other qualitative indicators on a case-by-case basis. The default definition is reflected in the collection of the default rates on a yearly basis, to be used in the calibration stage of the PD calculation.

Consumer loans

For the purpose of the loss rate calculation, the Group segregates its Consumer loans portfolio by product and displays the portfolio breakdown by DPD bucket. The Group adopts this approach for its Consumer facilities for all stages. The Group then analyzes monthly net flow rates whereby the loss rate for each delinquency bucket is computed by considering the flow into the designated loss bucket at which write-off is assumed to occur. Forward looking loss rate is then projected through analysis of correlation with macro-economic factors and regressed under lower, base and upper scenarios.

The table below shows the credit quality of the Group's financial assets and Contingent liabilities based on internal credit ratings and stage classification. The amounts presented are gross of impairment allowances.

	<i>2021</i>			<i>Total LL million</i>
	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	
<b>Financial assets</b>				
Cash and balances with central banks	2,686,547	26,896,509	-	29,583,056
Due from banks and financial institutions	1,875,153	-	1,232	1,876,385
Loans and advances to customers at amortized cost	3,094,553	274,724	865,395	4,234,672
<i>Commercial loans</i>	1,470,606	185,663	539,795	2,196,064
<i>Consumer loans</i>	1,623,947	89,061	325,600	2,038,608
Loans and advances to related parties at amortized cost	8,885	-	-	8,885
Debtors by acceptances	5,418	-	-	5,418
Financial assets at amortized cost	966,552	4,478,554	8,375	5,453,481
<i>Treasury bills and bonds</i>	544,891	2,663,366	8,375	3,216,632
<i>Certificates of deposit – central banks</i>	-	1,815,188	-	1,815,188
<i>Corporate debt securities</i>	421,661	-	-	421,661
	<b>8,637,108</b>	<b>31,649,787</b>	<b>875,002</b>	<b>41,161,897</b>
<b>Contingent liabilities</b>				
Financial guarantees	406,522	2,939	835	410,296
Documentary credits	17,505	343	-	17,848
Loan commitments	468,888	9,405	-	478,293
<b>Total</b>	<b>892,915</b>	<b>12,687</b>	<b>835</b>	<b>906,437</b>

47 CREDIT RISK (continued)

47.4 Credit quality (continued)

	2020			
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million
Financial assets				
Cash and balances with central banks	1,896,240	27,069,280	-	28,965,520
Due from banks and financial institutions	1,526,482	-	1,232	1,527,714
Loans and advances to customers at amortized cost	3,931,517	460,540	1,189,175	5,581,232
Commercial loans	1,637,519	283,373	712,396	2,633,288
Consumer loans	2,293,998	177,167	476,779	2,947,944
Loans and advances to related parties at amortized cost	13,222	-	-	13,222
Debtors by acceptances	10,873	2	-	10,875
Financial assets at amortized cost	737,012	4,609,608	8,846	5,355,466
Treasury bills and bonds	430,206	2,794,426	8,846	3,233,478
Certificates of deposit – central banks	-	1,815,182	-	1,815,182
Corporate debt securities	306,806	-	-	306,806
	8,115,346	32,139,430	1,199,253	41,454,029
Contingent liabilities				
Financial guarantees	477,117	2,542	1,152	480,811
Documentary credits	24,899	1	-	24,900
Loan commitments	504,736	22,709	-	527,445
Total	1,006,752	25,252	1,152	1,033,156

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

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

	2021							
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Other LL million	Net credit exposure LL million	Associated ECL LL million
Balances with central banks	27,678,591	-	2,342,765	-	-	-	25,335,826	1,904,465
Due from banks and financial institutions	1,873,164	-	-	-	-	-	1,873,164	3,221
Derivative financial instruments	4,351	-	-	-	-	-	4,351	-
Financial assets at fair value through profit or loss	478,934	-	-	-	-	-	478,934	-
Net loans and advances to customers at amortized cost:	3,370,460	401,864	21,125	17,759	1,959,682	655,556	314,474	864,212
Commercial loans	1,698,373	401,809	21,125	17,759	615,600	273,366	368,714	497,691
Consumer loans	1,672,087	55	-	-	1,344,082	382,190	(54,240)	366,521
Net loans and advances to related parties at amortized cost	8,870	126	740	-	3,834	470	3,700	15
Debtors by acceptances	5,409	-	-	-	-	-	5,409	9
Financial assets at amortized cost	5,411,444	-	-	-	-	-	5,411,444	42,037
Financial assets at fair value through other comprehensive income	64,265	-	-	-	-	-	64,265	-
	38,895,488	401,990	2,364,630	17,759	1,963,516	656,026	33,491,567	2,813,959
<b>Guarantees received</b>								
Utilized collateral		401,990	2,364,630	17,759	1,963,516	656,026	5,403,921	
Surplus of collateral before undrawn credit lines		156,975	197,010	130,509	4,383,136	8,329,463	13,197,093	
		558,965	2,561,640	148,268	6,346,652	8,985,489	18,601,014	

**47 CREDIT RISK (continued)**

**47.5 Maximum exposure to credit risk and collateral and other credit enhancements (continued)**

	2020							
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Other LL million	Net credit exposure LL million	Associated ECL LL million
Balances with central banks	27,736,020	-	2,342,765	-	-	-	25,393,255	1,229,500
Due from banks and financial institutions	1,526,445	-	-	-	-	-	1,526,445	1,269
Loans to banks and financial institutions	-	-	-	-	-	-	-	-
Derivative financial instruments	1,644	-	-	-	-	-	1,644	-
Financial assets at fair value through profit or loss	229,987	-	-	-	-	-	229,987	-
Net loans and advances to customers at amortized cost:	4,691,604	471,210	42,053	37,518	2,624,408	793,144	723,271	889,628
Commercial loans	2,106,655	470,859	42,053	37,518	741,654	237,601	576,970	526,633
Consumer loans	2,584,949	351	-	-	1,882,754	555,543	146,301	362,995
Net loans and advances to related parties at amortized cost	13,218	4,067	86	-	4,370	591	4,104	4
Debtors by acceptances	10,790	-	-	-	-	-	10,790	85
Financial assets at amortized cost	5,312,911	-	-	-	-	-	5,312,911	42,555
Financial assets at fair value through other comprehensive income	46,374	-	-	-	-	-	46,374	-
	<u>39,568,993</u>	<u>475,277</u>	<u>2,384,904</u>	<u>37,518</u>	<u>2,628,778</u>	<u>793,735</u>	<u>33,248,781</u>	<u>2,163,041</u>
Guarantees received								
Utilized collateral		475,277	2,384,904	37,518	2,628,778	793,735	6,320,212	
Surplus of collateral before undrawn credit lines		190,530	26,800	141,571	5,311,236	5,895,487	11,565,624	
		<u>665,807</u>	<u>2,411,704</u>	<u>179,089</u>	<u>7,940,014</u>	<u>6,689,222</u>	<u>17,885,836</u>	

The schedules shown above exclude the undrawn commitments to lend of LL 478,293 million for the year ended 31 December 2021 (2020: LL 527,445 million).

**Collateral and other credit enhancements**

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

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

The main types of collateral obtained are as follows:

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

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

**48 MARKET RISK**

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

Bank Risk Management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters. The Group's Asset and Liability Management (ALM) policy assigns authority for its formulation, revision and administration to the Asset / Liability Committee (ALCO) of BLOM Bank SAL. Bank Risk Management is responsible for monitoring compliance with all limits set in the ALM Policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits. The Group has an Asset and Liability Management system "Focus ALM" that automates the risk measurement of the Group's assets and liabilities including stress testing and extensive scenario analysis.

**A. CURRENCY RISK**

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices, fluctuations in interest rates, and exchange rate volatility in general. The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Lira. Most of these financial assets and liabilities are in US Dollars and Euros.

As disclosed in note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency market, this does not always represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or at the date of the consolidated financial statements. Management is unable 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 consolidated financial statements once the change in the official exchange rate and /or a legal exchange mechanism is implemented by the Lebanese Government.

The following tables present the breakdown of assets and liabilities by currency as of 31 December. Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset.

	2021					Total LL million
	Foreign currencies in Lebanese Lira				Total foreign currencies LL million	
	LL LL million	US\$ LL million	EUR LL million	Other foreign currencies LL million		
<b>ASSETS</b>						
Cash and balances with central banks	7,229,057	17,541,310	2,386,111	522,113	20,449,534	27,678,591
Due from banks and financial institutions	40,865	1,213,486	136,054	482,759	1,832,299	1,873,164
Derivative financial instruments	1,356	1,853	131	1,011	2,995	4,351
Financial assets at fair value through profit or loss	15,614	379,886	159	83,275	463,320	478,934
Net loans and advances to customers at amortized cost	1,238,712	814,866	203,817	1,113,065	2,131,748	3,370,460
Net loans and advances to related parties at amortized cost	2,875	1,238	3,067	1,690	5,995	8,870
Debtors by acceptances	-	2,178	1,876	1,355	5,409	5,409
Financial assets at amortized cost	2,688,906	2,183,647	51	538,840	2,722,538	5,411,444
Financial assets at fair value through other comprehensive income	-	40,749	26	23,490	64,265	64,265
Property, equipment and right-of-use assets	550,070	72	43,796	160,144	204,012	754,082
Intangible assets	820	88	113	2,058	2,259	3,079
Assets obtained in settlement of debt	(151)	37,979	-	9,034	47,013	46,862
Other assets	91,671	28,408	10,721	69,145	108,274	199,945
Goodwill	1,065	(1,065)	-	2,078	1,013	2,078
<b>TOTAL ASSETS</b>	<b>11,860,860</b>	<b>22,244,695</b>	<b>2,785,922</b>	<b>3,010,057</b>	<b>28,040,674</b>	<b>39,901,534</b>
<b>LIABILITIES</b>						
Due to central banks	2,683,448	57,397	-	131,192	188,589	2,872,037
Due to banks and financial institutions	3,419	107,834	13,230	102,286	223,350	226,769
Derivative financial instruments	1,366	637	74	5,791	6,502	7,868
Customers' deposits at amortized cost	3,981,119	22,423,838	2,084,618	2,097,481	26,605,937	30,587,056
Deposits from related parties at amortized cost	3,090	89,867	3,696	2,252	95,815	98,905
Debt issued and other borrowed funds	-	38,183	-	-	38,183	38,183
Engagements by acceptances	-	2,178	1,876	1,364	5,418	5,418
Other liabilities	647,032	232,555	10,392	80,776	323,723	970,755
Provisions for risks and charges	271,738	3,409	592	12,590	16,591	288,329
Loans from banks and financial institutions	-	-	-	9,588	9,588	9,588
<b>TOTAL LIABILITIES</b>	<b>7,591,212</b>	<b>22,955,898</b>	<b>2,114,478</b>	<b>2,443,320</b>	<b>27,513,696</b>	<b>35,104,908</b>
<b>NET EXPOSURE</b>	<b>4,269,648</b>	<b>(711,203)</b>	<b>671,444</b>	<b>566,737</b>	<b>526,978</b>	<b>4,796,626</b>

**48 MARKET RISK (continued)**

**A. CURRENCY RISK (continued)**

	2020					
	Foreign currencies in Lebanese Lira					Total LL million
	LL LL million	US\$ LL million	EUR LL million	Other foreign currencies LL million	Total foreign currencies LL million	
<b>ASSETS</b>						
Cash and balances with central banks	5,896,670	18,100,370	2,497,976	1,241,004	21,839,350	27,736,020
Due from banks and financial institutions	42,179	866,807	164,273	453,186	1,484,266	1,526,445
Derivative financial instruments	2	720	48	874	1,642	1,644
Financial assets at fair value through profit or loss	15,982	158,170	322	55,513	214,005	229,987
Net loans and advances to customers at amortized cost	1,623,745	1,525,446	257,414	1,284,999	3,067,859	4,691,604
Net loans and advances to related parties at amortized cost	3,020	846	4,938	4,414	10,198	13,218
Debtors by acceptances	-	4,791	1,575	4,424	10,790	10,790
Financial assets at amortized cost	2,786,705	2,097,263	55	428,888	2,526,206	5,312,911
Financial assets at fair value through other comprehensive income	-	25,760	28	20,586	46,374	46,374
Property, equipment and right-of-use assets	546,176	268	48,981	157,253	206,502	752,678
Intangible assets	1,530	109	99	2,493	2,701	4,231
Assets obtained in settlement of debt	(157)	38,851	-	13,347	52,198	52,041
Other assets	122,833	38,308	10,444	64,844	113,596	236,429
Goodwill	(88,655)	88,655	-	2,131	90,786	2,131
Assets held for sale	-	558,849	65,251	3,557,083	4,181,183	4,181,183
<b>TOTAL ASSETS</b>	<b>10,950,030</b>	<b>23,505,213</b>	<b>3,051,404</b>	<b>7,291,039</b>	<b>33,847,656</b>	<b>44,797,686</b>
<b>LIABILITIES</b>						
Due to central banks	2,754,484	75,345	-	85,419	160,764	2,915,248
Due to banks and financial institutions	2,062	141,736	62,554	138,932	343,222	345,284
Derivative financial instruments	11	2	542	10,318	10,862	10,873
Customers' deposits at amortized cost	4,081,964	23,430,397	2,192,992	1,935,698	27,559,087	31,641,051
Deposits from related parties at amortized cost	1,317	103,759	5,275	2,763	111,797	113,114
Debt issued and other borrowed funds	-	38,168	-	-	38,168	38,168
Engagements by acceptances	-	4,865	1,575	4,434	10,874	10,874
Other liabilities	597,272	279,106	15,441	76,098	370,645	967,917
Provisions for risks and charges	200,694	5,882	634	13,838	20,354	221,048
Liabilities held for sale	-	563,329	60,586	3,108,164	3,732,079	3,732,079
<b>TOTAL LIABILITIES</b>	<b>7,637,804</b>	<b>24,642,589</b>	<b>2,339,599</b>	<b>5,375,664</b>	<b>32,357,852</b>	<b>39,995,656</b>
<b>NET EXPOSURE</b>	<b>3,312,226</b>	<b>(1,137,376)</b>	<b>711,805</b>	<b>1,915,375</b>	<b>1,489,804</b>	<b>4,802,030</b>

**The Group's exposure to currency risk**

Assets and liabilities in foreign currencies presented in the tables above include onshore assets and liabilities in foreign currencies, that are subject to unofficial capital controls, which is further explained in note 1. These are held by entities operating in Lebanon and will be realized / settled without recourse to foreign currency cash and/or foreign bank accounts outside Lebanon ("fresh funds"). Hence these cannot be perceived to have an economic value equivalent to that of offshore foreign currency assets and liabilities and should be viewed and managed separately. In relation to the Bank and following the Central Bank of Lebanon intermediate circular number 600, dated November 2021, provisioning on the Central Bank of Lebanon foreign currency exposure are to be recorded in the currency of the exposure which is in foreign currency. This has led to the creation of a significant FX open position of around US\$ 936 million for the Bank by 31 December 2021. As at 31 December 2021, ECL on foreign currency coverage for the Central Bank of Lebanon (including CDs) was recorded at 8.69% (although this is predominantly with LL provisions for US\$ exposure converted at the current official exchange rate). The tables below detail onshore assets and liabilities in foreign currencies:

	2021			
	US\$ LL Million	EUR LL Million	Other LL Million	Total LL Million
<b>Assets</b>				
Cash and balances with central banks	16,760,666	1,931,264	3,315	18,695,245
Due from banks and financial institutions	25,783	4	1	25,788
Financial assets at fair value through profit or loss	57,763	135	-	57,898
Net loans and advances to customers at amortized cost	546,072	12,051	282	558,405
Net loans and advances to related parties at amortized cost	1,440	-	-	1,440
Debtors by acceptances	2	-	-	2
Financial assets at amortized cost	1,740,643	-	-	1,740,643
Assets obtained in settlement of debt	16,938	-	-	16,938
Other assets	23,741	23	367	24,131
<b>Total assets</b>	<b>19,173,048</b>	<b>1,943,477</b>	<b>3,965</b>	<b>21,120,490</b>
<b>Liabilities</b>				
Due to central banks	57,397	-	-	57,397
Due to banks and financial institutions	19,071	1,336	6,111	26,518
Other liabilities	230,940	1,807	1,075	233,822
Provisions for risks and charges	32,744	-	-	32,744
<b>Total liabilities</b>	<b>340,152</b>	<b>3,143</b>	<b>7,186</b>	<b>350,481</b>



At 31 December 2021

**48 MARKET RISK (continued)****A. CURRENCY RISK (continued)****The Group's exposure to currency risk (continued)**

	2020			
	US\$ LL Million	EUR LL Million	Other LL Million	Total LL Million
<b>Assets</b>				
Cash and balances with central banks	18,063,310	2,090,288	2,681	20,156,279
Due from banks and financial institutions	80,193	4,034	12	84,239
Financial assets at fair value through profit or loss	51,300	79	-	51,379
Net loans and advances to customers at amortized cost	1,163,500	24,768	13,370	1,201,638
Net loans and advances to related parties at amortized cost	835	-	-	835
Debtors by acceptances	72	-	-	72
Financial assets at amortized cost	1,774,010	-	-	1,774,010
Assets obtained in settlement of debt	38,851	-	-	38,851
Other assets	24,967	1,319	378	26,664
Goodwill	88,655	-	-	88,655
<b>Total assets</b>	<b>21,285,693</b>	<b>2,120,488</b>	<b>16,441</b>	<b>23,422,622</b>
<b>Liabilities</b>				
Due to central banks	75,345	-	-	75,345
Due to banks and financial institutions	64,334	91	6,213	70,638
Engagements by acceptances	345	431	-	776
Other liabilities	271,053	2,492	855	274,400
Provisions for risks and charges	1,167	-	471	1,638
<b>Total liabilities</b>	<b>412,244</b>	<b>3,014</b>	<b>7,539</b>	<b>422,797</b>

**B. INTEREST RATE RISK**

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

**Interest rate sensitivity**

The table below shows the sensitivity of interest income to basis points changes in interest rates, all other variables held constant. Given the novel and prolonged nature of current economic crisis and the high levels of uncertainties, interest rates moved markedly lower during 2021, a situation expected to continue in 2022. The Central Bank of Lebanon has already decreased interest rates through issuance of Intermediary Circulars 536 and 544 (refer to note 1). The Group is unable to determine what would be a reasonable possible change in interest rates; however, the Group has a sensitivity analysis based on a decrease in 100 basis points.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rate financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2021 and 2020.

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

**48 MARKET RISK (continued)**

**B. INTEREST RATE RISK (continued)**

**Interest rate sensitivity(continued)**

The sensitivity of equity was calculated for a decrease in basis points whereby a similar decrease has an equal and offsetting effect on net interest income.

	Decrease in Basis Points	Sensitivity of Net Interest Income	
		2021 LL million	2020 LL million
Lebanese Lira	(100)	7,702	3,696
United States Dollar	(100)	59,824	57,842
Euro	(100)	8,620	9,212

**Interest sensitivity gap**

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

	2021							
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 - 2) years LL million	(2 - 5) years LL million	More than 5 years LL million	Non-interest sensitive LL million	Total LL million
<b>ASSETS</b>								
Cash and balances with central banks	1,656,856	1,266,602	1,072,336	1,127,231	2,712,691	17,256,014	2,586,861	27,678,591
Due from banks and financial institutions	719,249	335,773	82,010	-	38,234	-	697,898	1,873,164
Derivative financial instruments	-	-	-	-	-	-	4,351	4,351
Financial assets at fair value through profit or loss	-	-	-	-	119,290	90,245	269,399	478,934
Net loans and advances to customers at amortized cost	1,180,565	823,224	1,017,247	258,833	66,571	1,097	22,923	3,370,460
Net loans and advances to related parties at amortized cost	5,162	-	-	-	-	-	3,723	8,870
Debtors by acceptances	-	-	-	-	-	-	5,409	5,409
Financial assets at amortized cost	277,449	132,223	1,266,820	780,006	1,441,667	1,466,498	46,781	5,411,444
Financial assets at fair value through other comprehensive income	-	-	-	-	35,864	4,733	23,668	64,265
<b>Total assets</b>	<b>3,839,281</b>	<b>2,557,822</b>	<b>3,438,413</b>	<b>2,166,070</b>	<b>4,414,317</b>	<b>18,822,310</b>	<b>3,657,275</b>	<b>38,895,488</b>
<b>LIABILITIES</b>								
Due to central banks	36,523	16,905	746,140	534,904	861,856	606,744	68,965	2,872,037
Due to banks and financial institutions	15,948	31,893	-	19,791	-	-	159,137	226,769
Derivative financial instruments	-	-	-	-	-	-	7,868	7,868
Customers' deposits at amortized cost	9,757,560	1,086,239	551,802	(124,953)	-	-	19,316,408	30,587,056
Deposits from related parties at amortized cost	97,688	441	776	-	-	-	-	98,905
Debt issued and other borrowed funds	-	-	-	37,688	-	-	495	38,183
Engagements by acceptances	-	-	-	-	-	-	5,418	5,418
Loans from banks and financial institutions	-	-	-	-	5,753	3,835	-	9,588
<b>Total liabilities</b>	<b>9,907,719</b>	<b>1,135,478</b>	<b>1,298,718</b>	<b>467,430</b>	<b>867,609</b>	<b>610,579</b>	<b>19,558,291</b>	<b>33,845,824</b>
<b>Total interest rate sensitivity gap</b>	<b>(6,068,438)</b>	<b>1,422,344</b>	<b>2,139,695</b>	<b>1,698,640</b>	<b>3,546,708</b>	<b>18,211,731</b>	<b>(15,901,016)</b>	<b>5,049,664</b>
	2020							
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 - 2) years LL million	(2 - 5) years LL million	More than 5 years LL million	Non- interest sensitive LL million	Total LL million
<b>ASSETS</b>								
Cash and balances with central banks	2,500,549	2,015,528	72,197	571,192	3,671,308	17,678,547	1,226,699	27,736,020
Due from banks and financial institutions	520,773	173,985	47,812	-	-	378	783,497	1,526,445
Derivative financial instruments	-	-	-	-	-	-	1,644	1,644
Financial assets at fair value through profit or loss	-	-	-	1	459	3,016	226,511	229,987
Net loans and advances to customers at amortized cost	1,452,227	930,935	1,317,419	413,853	144,401	11,177	421,592	4,691,604
Net loans and advances to related parties at amortized cost	9,088	-	-	-	-	-	4,134	13,218
Debtors by acceptances	-	-	-	-	-	-	10,790	10,790
Financial assets at amortized cost	44,986	107,730	299,895	1,486,968	2,077,811	1,255,647	39,874	5,312,911
Financial assets at fair value through other comprehensive income	-	-	25,664	-	-	-	20,710	46,374
<b>Total assets</b>	<b>4,527,623</b>	<b>3,228,178</b>	<b>1,762,987</b>	<b>2,472,014</b>	<b>5,893,979</b>	<b>18,952,899</b>	<b>2,731,313</b>	<b>39,568,993</b>
<b>LIABILITIES</b>								
Due to central banks	54,339	21,447	29,051	713,207	1,388,522	637,191	71,491	2,915,248
Due to banks and financial institutions	73,567	46,766	-	-	-	-	224,951	345,284
Derivative financial instruments	-	-	-	-	-	-	10,873	10,873
Customers' deposits at amortized cost	16,756,225	1,534,547	1,301,845	8,272	210	-	12,039,952	31,641,051
Deposits from related parties at amortized cost	104,251	948	1,826	-	-	-	6,089	113,114
Debt issued and other borrowed funds	-	-	-	-	37,688	-	480	38,168
Engagements by acceptances	-	-	-	-	-	-	10,874	10,874
<b>Total liabilities</b>	<b>16,988,382</b>	<b>1,603,708</b>	<b>1,332,722</b>	<b>721,479</b>	<b>1,426,420</b>	<b>637,191</b>	<b>12,364,710</b>	<b>35,074,612</b>
<b>Total interest rate sensitivity gap</b>	<b>(12,460,759)</b>	<b>1,624,470</b>	<b>430,265</b>	<b>1,750,535</b>	<b>4,467,559</b>	<b>18,315,708</b>	<b>(9,633,397)</b>	<b>4,494,381</b>

**48 MARKET RISK (continued)**

**C. EQUITY PRICE RISK**

Equity price risk is the risk that the fair value of equities decreases as the result of a change in stock prices. Equity price risk exposure arises from equity securities classified at fair value through profit or loss. A 5 percent increase in the value of the Group's equities at 31 December 2021 would have increased net income by LL 6,636 million (2020: LL 6,185 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

**D. PREPAYMENT RISK**

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

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

**49 LIQUIDITY RISK**

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

**Monitoring process**

*Daily*

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

*Weekly*

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

*Monthly*

The Group Market Risk Management prepares tables indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO.

*Quarterly*

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

*Periodic*

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

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan, which sets out a response in the event of liquidity difficulties.

The plan sets out a series of possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval.

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

**49 LIQUIDITY RISK (continued)**

**Liquidity ratios**

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The ratio of FC liquid assets to FC total deposits and other liabilities falling due in the next month is prepared monthly by GMRM and monitored by ALCO. FC liquid assets are defined as FC bonds and placements with banks maturing within thirty days.

The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio.

**Sources of funding**

Customer deposits were the main funding source of the Group as at 31 December 2021 and 2020. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

The Group stresses the importance of customers' deposits as sources of funds to finance its lending activities. This is monitored by using the advances to deposit ratio, which compares loans and advances to customers as a percentage of clients' deposits.

	<i>Lebanese Lira</i>		<i>Foreign currencies</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
<b>Loans to deposits ratio</b>				
Year-end	<b>31.16</b>	39.84	<b>7.99</b>	11.11
Average	<b>35.64</b>	37.59	<b>9.08</b>	15.01
Maximum	<b>38.89</b>	39.84	<b>10.65</b>	18.02
Minimum	<b>31.16</b>	36.51	<b>7.99</b>	11.11

**Analysis of financial assets and liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Group's financial assets and liabilities as at 31 December based on their contractual undiscounted cash flows. The contractual maturities were determined based on the period remaining to each maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were being given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	<i>31 December 2021</i>					<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
<b>Financial assets</b>						
Cash and balances with central banks	5,465,952	811,676	761,439	10,704,205	23,269,905	41,013,177
Due from banks and financial institutions	1,429,898	325,329	81,593	39,900	170	1,876,890
Derivative financial instruments	3,864	291	196	-	-	4,351
Financial assets at fair value through profit or loss	1,939	1,992	85,471	145,583	276,830	511,815
Net loans and advances to customers at amortized cost	960,834	417,006	1,049,540	804,900	391,592	3,623,872
Net loans and advances to related parties at amortized cost	3,080	139	540	2,482	4,181	10,422
Debtors by acceptances	3,226	1,341	842	-	-	5,409
Financial assets classified at amortized cost	324,897	156,998	1,471,673	2,847,889	1,748,297	6,549,754
Financial assets at fair value through other comprehensive income	385	254	837	55,843	10,691	68,010
<b>Total undiscounted financial assets</b>	<b>8,194,075</b>	<b>1,715,026</b>	<b>3,452,131</b>	<b>14,600,802</b>	<b>25,701,666</b>	<b>53,663,700</b>
<b>Financial liabilities</b>						
Due to central banks	63,052	46,205	816,124	1,453,487	629,283	3,008,151
Due to banks and financial institutions	158,672	16,505	1,540	52,565	-	229,282
Derivative financial instruments	4,447	1,678	1,742	-	-	7,867
Customers' deposits at amortized cost	23,401,946	5,978,177	1,118,050	108,674	836	30,607,683
Deposits from related parties at amortized cost	97,589	831	1,308	608	-	100,336
Debt issued and other borrowed funds	235	471	2,118	39,195	-	42,019
Engagements by acceptances	3,154	1,342	922	-	-	5,418
Loans from banks and financial institutions	65	130	585	8,076	4,095	12,951
<b>Total undiscounted financial liabilities</b>	<b>23,729,160</b>	<b>6,045,339</b>	<b>1,942,389</b>	<b>1,662,605</b>	<b>634,214</b>	<b>34,013,707</b>
<b>Net undiscounted financial assets (liabilities)</b>	<b>(15,535,085)</b>	<b>(4,330,313)</b>	<b>1,509,742</b>	<b>12,938,197</b>	<b>25,067,452</b>	<b>19,649,993</b>

**49 LIQUIDITY RISK (continued)**

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

	31 December 2020					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
<b>Financial assets</b>						
Cash and balances with central banks	3,411,868	988,541	339,414	13,060,347	25,234,336	43,034,506
Due from banks and financial institutions	1,304,037	174,163	47,844	11	563	1,526,618
Derivative financial instruments	798	768	77	-	-	1,643
Financial assets at fair value through profit or loss	30	92	53,988	3,211	173,833	231,154
Net loans and advances to customers at amortized cost	1,167,995	604,611	1,433,376	1,192,469	775,186	5,173,637
Net loans and advances to related parties at amortized cost	6,419	153	650	2,834	5,031	15,087
Debtors by acceptances	3,692	6,312	786	-	-	10,790
Financial assets classified at amortized cost	89,575	117,933	498,134	4,333,384	1,675,251	6,714,277
Financial assets at fair value through other comprehensive income	60	119	663	19,157	29,508	49,507
<b>Total undiscounted financial assets</b>	<b>5,984,474</b>	<b>1,892,692</b>	<b>2,374,932</b>	<b>18,611,413</b>	<b>27,893,708</b>	<b>56,757,219</b>
<b>Financial liabilities</b>						
Due to central banks	76,885	48,836	91,324	2,198,546	685,105	3,100,696
Due to banks and financial institutions	281,799	53,400	11,066	-	-	346,265
Derivative financial instruments	2,678	7,920	275	-	-	10,873
Customers' deposits at amortized cost	21,645,085	7,270,226	2,380,159	457,227	39	31,752,736
Deposits from related parties at amortized cost	111,160	2,083	5,283	3,003	-	121,529
Debt issued and other borrowed funds	235	471	2,118	42,042	-	44,866
Engagements by acceptances	3,695	6,312	868	-	-	10,875
<b>Total undiscounted financial liabilities</b>	<b>22,121,537</b>	<b>7,389,248</b>	<b>2,491,093</b>	<b>2,700,818</b>	<b>685,144</b>	<b>35,387,840</b>
<b>Net undiscounted financial assets (liabilities)</b>	<b>(16,137,063)</b>	<b>(5,496,556)</b>	<b>(116,161)</b>	<b>15,910,595</b>	<b>27,208,564</b>	<b>21,369,379</b>

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

	2021					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial guarantees	323,201	-	-	-	-	323,201
Documentary credits	-	17,848	-	-	-	17,848
Loan commitments	-	478,293	-	-	-	478,293
Other commitments	-	96,754	1,199,992	726,951	415,822	2,439,519
<b>Total</b>	<b>323,201</b>	<b>592,895</b>	<b>1,199,992</b>	<b>726,951</b>	<b>415,822</b>	<b>3,258,861</b>

  

	2020					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 Years LL million	
Financial guarantees	383,846	-	-	-	-	383,846
Documentary credits	-	24,900	-	-	-	24,900
Loan commitments	-	527,445	-	-	-	527,445
Other commitments	-	117,189	-	1,253,855	1,088,910	2,459,954
<b>Total</b>	<b>383,846</b>	<b>669,534</b>	<b>-</b>	<b>1,253,855</b>	<b>1,088,910</b>	<b>3,396,145</b>

**49 LIQUIDITY RISK (continued)**

**Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Group's assets and liabilities as at 31 December is as follows:

	<i>2021</i>		
	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
<b>ASSETS</b>			
Cash and balances with central banks	5,440,217	22,238,374	27,678,591
Due from banks and financial institutions	1,834,737	38,427	1,873,164
Derivative financial instruments	4,351	-	4,351
Financial assets at fair value through profit or loss	82,377	396,557	478,934
Net loans and advances to customers at amortized cost	2,342,953	1,027,507	3,370,460
Net loans and advances to related parties at amortized cost	3,472	5,398	8,870
Debtors by acceptances	5,409	-	5,409
Financial assets at amortized cost	1,661,526	3,749,918	5,411,444
Financial assets at fair value through other comprehensive income	410	63,855	64,265
Property, equipment and right-of-use assets	-	754,082	754,082
Intangible assets	-	3,079	3,079
Assets obtained in settlement of debt	-	46,862	46,862
Other assets	187,235	12,710	199,945
Goodwill	-	2,078	2,078
<b>TOTAL ASSETS</b>	<b>11,562,687</b>	<b>28,338,847</b>	<b>39,901,534</b>
<b>LIABILITIES</b>			
Due to central banks	878,650	1,993,387	2,872,037
Due to banks and financial institutions	174,721	52,048	226,769
Derivative financial instruments	7,868	-	7,868
Customers' deposits at amortized cost	30,478,153	108,903	30,587,056
Deposits from related parties at amortized cost	98,905	-	98,905
Debt issued and other borrowed funds	-	38,183	38,183
Engagements by acceptances	5,418	-	5,418
Other liabilities	867,131	103,624	970,755
Provisions for risks and charges	136,452	151,877	288,329
Loans from banks and financial institutions	-	9,588	9,588
<b>TOTAL LIABILITIES</b>	<b>32,647,298</b>	<b>2,457,610</b>	<b>35,104,908</b>
<b>NET</b>	<b>(21,084,611)</b>	<b>25,881,237</b>	<b>4,796,626</b>
	<i>2020</i>		
	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
<b>ASSETS</b>			
Cash and balances with central banks	3,095,442	24,640,578	27,736,020
Due from banks and financial institutions	1,525,882	563	1,526,445
Derivative financial instruments	1,644	-	1,644
Financial assets at fair value through profit or loss	53,886	176,101	229,987
Net loans and advances to customers at amortized cost	3,061,622	1,629,982	4,691,604
Net loans and advances to related parties at amortized cost	6,864	6,354	13,218
Debtors by acceptances	10,790	-	10,790
Financial assets at amortized cost	380,594	4,932,317	5,312,911
Financial assets at fair value through other comprehensive income	126	46,248	46,374
Property, equipment and right-of-use assets	366	752,312	752,678
Intangible assets	-	4,231	4,231
Assets obtained in settlement of debt	-	52,041	52,041
Other assets	223,531	12,898	236,429
Goodwill	-	2,131	2,131
Assets held for sale	3,059,494	1,121,689	4,181,183
<b>TOTAL ASSETS</b>	<b>11,420,241</b>	<b>33,377,445</b>	<b>44,797,686</b>
<b>LIABILITIES</b>			
Due to central banks	167,695	2,747,553	2,915,248
Due to banks and financial institutions	345,284	-	345,284
Derivative financial instruments	10,873	-	10,873
Customers' deposits at amortized cost	31,198,015	443,036	31,641,051
Deposits from related parties at amortized cost	113,114	-	113,114
Debt issued and other borrowed funds	-	38,168	38,168
Engagements by acceptances	10,874	-	10,874
Other liabilities	902,154	65,763	967,917
Provisions for risks and charges	179,195	41,853	221,048
Liabilities held for sale	3,198,429	533,650	3,732,079
<b>TOTAL LIABILITIES</b>	<b>36,125,633</b>	<b>3,870,023</b>	<b>39,995,656</b>
<b>NET</b>	<b>(24,705,392)</b>	<b>29,507,422</b>	<b>4,802,030</b>

## **50 OPERATIONAL RISK**

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

The operational risk management framework is implemented by an independent Operational Risk Management department that operates in coordination with other support functions such as: Corporate Information Security and Compliance. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through periodic reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved operational risk management framework. These principles and standards include at a minimum: segregation of duties, four-eye principle, and independency of employees performing controls, reconciliations, and awareness. Controls are also embedded within systems and formalized in policies and procedures.

Incidents are captured and analyzed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new operations, products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Board Risk Committees periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

## **51 LITIGATION RISK**

Since 17 October 2019, the Group has been subject to increased litigations in Lebanon and abroad, as a result of the restrictive measures adopted by Lebanese banks in relation to the withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Liras. Management is carefully considering the impact of these existing litigation and claims against the Group in relation to these restrictive measures. There are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices. Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group, however due to recent development and the increasing trend in judgments ruled in favor of the plaintiffs during 2021, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch (refer to note 48). The amount cannot be determined presently. In addition, the Group may, from time to time, become involved in other legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (note 43).

**52 POLITICAL RISK**

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

**53 CAPITAL MANAGEMENT**

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

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

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

<i>Type of financial instrument</i>	<b>2021</b>	<b>2020</b>
Exposures to Central Bank of Lebanon in foreign currency	<b>1.89%</b>	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Lira	<b>0 %</b>	0 %
Lebanese government securities in foreign currency	<b>45 %</b>	45 %
Lebanese government securities in Lebanese Lira	<b>0 %</b>	0 %

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier one capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020 but was later extended for the banking sector to 28 February 2021.

*As disclosed in note 1, the Bank already submitted measures to the regulators for strengthening its standalone equity by 20% and fulfilled this regulatory requirement.*

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

*The Group did not draw down its capital conservation buffer as at 31 December 2021 and 2020.*

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

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

*As a result, the levels of Common Equity Tier 1 reported below increased by LL 194,049 million at 31 December 2020 and by LL 184,448 million at 31 December 2021, compared to the previous treatment.*



**53 CAPITAL MANAGEMENT (continued)**

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

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

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

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

	<i>Common Tier 1 Capital Ratio</i>	<i>Tier 1 Capital Ratio</i>	<i>Total Capital Ratio</i>
<b>31 December 2021</b>			
Minimum required capital ratios (including capital conservation buffer)	4.50%	6.00%	8.00%
<b>31 December 2020</b>			
Minimum required capital ratios (including capital conservation buffer)	4.50%	6.00%	8.00%
		<i>2021 LL million</i>	<i>2020 LL million</i>
<b>Risk weighted assets:</b>			
Credit risk		<b>33,159,496</b>	37,800,270
Market risk		<b>2,867,421</b>	1,624,652
Operational risk		<b>3,006,933</b>	2,907,574
Total risk weighted assets		<b>39,033,850</b>	42,332,496

The regulatory capital including net income for the year as of 31 December is as follows:

	<i>2021 LL million</i>	<i>2020 LL million</i>
Tier 1 capital	<b>4,882,364</b>	4,896,576
<i>Of which: common Tier 1</i>	<b>4,880,777</b>	4,895,107
Tier 2 capital	<b>14,094</b>	11,252
Total capital	<b>4,896,458</b>	4,907,828

**53 CAPITAL MANAGEMENT (continued)**

The capital adequacy ratio including net income for the year as of 31 December is as follows:

	<i>2021</i>	<i>2020</i>
Capital adequacy – Common Tier 1	<b>12.50%</b>	11.56%
Capital adequacy – Tier 1	<b>12.50%</b>	11.56%
Capital adequacy – Total capital	<b>12.54%</b>	11.59%

To note that BLOM Bank SAL consolidated figures for 2020 are inclusive of BLOM Bank Egypt SAE, whereas for 2021 the consolidated figures are after the conclusion of BLOM Bank Egypt SAE sale (thus it does not include the risk-weights of BLOM Bank Egypt SAE but includes the proceeds resulting from its sale) which partially explains the increase in CAR year-on-year. The CAR's increase was aided also by the higher provisions related to Lebanese foreign currency Central Bank exposure since risk-weighted assets are applied on net of provisions exposure.

The capital adequacy ratios as at 31 December 2021 and 2020 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in note 1. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the platform rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its Group's capital adequacy. Management has 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.

**54 SUBSEQUENT EVENTS**

On 10 March 2022, the Prosecutor of the Court of Appeal in Mount Lebanon issued a decision banning the Chairman of the Group from travelling abroad. The decision was issued without charging the aforementioned party with any crime. On the 14<sup>th</sup> of March 2022, the same judge issued a decision to freeze the Bank's shares in companies owned by both the Bank and some members of the board of directors, in addition to the vehicles and properties owned by the Bank and some of the members of the board of directors. On the 1<sup>st</sup> of April 2022, the Judge lifted the travel ban imposed previously on the Chairman while he was outside Lebanon and to revisit the issue after he is back. Further outcome and consequences of the above mentioned can't be presently determined.