

BLC BANK S.A.L

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2022

BLC BANK S.A.L

Consolidated Financial Statements and independent auditor's report

for the year ended December 31, 2022

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**Independent Auditor's Report
To the Shareholders of
BLC Bank S.A.L
Beirut – Lebanon**

Adverse Opinion

We have audited the consolidated financial statements of BLC Group S.A.L. (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022 and the consolidated statement of profit or loss, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Adverse Opinion

1. As disclosed in note 1.3.2 to the accompanying consolidated financial statements, the Group's functional currency is the Lebanese Pound which is the currency of a hyperinflationary economy and the Group has not applied the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" in the preparation of the financial statements for the year ended 31 December 2022. Had the Group applied the requirements of IAS 29, many elements and disclosures in the accompanying financial statements, including the comparative financial statements for the year ended 31 December 2021, would have been significantly impacted. The effects on the consolidated financial statements arising from this departure have not been determined. The opinion in the prior year was also modified in respect of this matter.

2. As disclosed in note 1.3.1 to the accompanying consolidated financial statements, the Group's transactions and monetary assets and liabilities denominated in foreign currencies have been translated to functional currency (i.e. Lebanese Pounds) in accordance with the accounting policy on foreign currency transactions detailed in note 3 of the consolidated financial statements, at the official exchange rate published at the end of the reporting period which significantly varies from the several exchange rates that have emerged since the start of the economic crisis.

As per IAS 21 "The Effects of Changes in Foreign Exchange Rates", 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. Had the Group applied the requirements of IAS 21 many of the elements of the accompanying consolidated financial statements, including disclosures, would have been significantly impacted. The effects on the consolidated financial statements of this departure have not been determined. The opinion in the prior year was also modified in respect of this matter.

Basis for Adverse Opinion (continued)

3. Note 1 to the consolidated financial statements indicates that there is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole, triggered by the severe financial crisis and unprecedented economic downturn. The magnitude of the possible adverse effects on the Lebanese economy and the banking sector, remains unknown and gave rise to unusual practices that are not considered to be in the normal course of business in a non-crisis environment as disclosed under Note 1 to the consolidated financial statements.

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

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

4. Cash and balances with the Central Bank of Lebanon, investment securities at amortized cost which are carried in the consolidated statement of financial position at LBP 2,999 billion and LBP 1,339 billion respectively (2021: LBP 2,403 billion and LBP 1,531 billion), include balances held with the Central Bank of Lebanon, Lebanese government bonds and Lebanese treasury bills of LBP 3,317 billion, LBP 743 billion and LBP 42 billion respectively (2021: LBP 3,180 billion and LBP 743 billion and LBP 117 billion respectively). Management has not stated these balances net of allowances for expected credit losses which take into account the significant deterioration in credit quality since initial recognition which has arisen as a result of the continuing economic crisis in Lebanon and the government default on Eurobonds, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. The opinion in the prior year was also modified in respect of this matter.

5. Loans and advances to customers and deposits with banks and financial institutions which are carried in the consolidated statement of financial position at LBP 565 billion and LBP 32 billion respectively (2021: LBP 983 billion and LBP 50 billion respectively) include loans and advances to customers, balances with banks and financial institutions originated by the private sector of LBP 565 billion and LBP 6 billion respectively (2021: LBP 983 billion and LBP 7 billion respectively) which are concentrated in Lebanon. Management has not stated these balances net of allowances for expected credit losses which take into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. The opinion in the prior year was also modified in respect of this matter.

Basis for Adverse Opinion (continued)

6. Provisions are carried in the consolidated statement of financial position at LBP 57 billion (2021: LBP 34 billion). The assumptions used in calculating and estimating these provisions are subject to high uncertainties due to the prevailing financial and economic situation in Lebanon as mentioned in note 1 to the consolidated financial statements, that expose the Group to increased litigation and regulatory risks. Consequently, we were unable to determine whether any adjustments to the calculation of these estimates were necessary.

Moreover, it includes a provision for expected credit losses on financial guarantees and other commitments of LBP 825 million (2021: LBP 1 billion). Management has not stated the allowance for expected credit losses on financial guarantees and other commitments by taking into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount. The opinion in the prior year was also modified in respect of this matter.

7. Investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income which are carried in the consolidated statement of financial position at LBP 68 billion and LBP 14 billion respectively (2021: LBP 54 billion and LBP 19 billion respectively), include investment securities of LBP 17 billion and LBP 14 billion respectively (2021: LBP 43 billion and LBP 19 billion respectively), which are issued by the Lebanese government and private entities domiciled in Lebanon.

Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing in Lebanon at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. The opinion in the prior year was also modified in respect of this matter.

8. Management has not disclosed the fair value of the Group's financial assets and financial liabilities at amortized cost, which constitutes a departure from IFRSs. We were unable to determine the fair value of the Group's financial assets and financial liabilities at amortized cost which should be disclosed. The opinion in the prior year was also modified in respect of this matter.

9. We did not receive up to this report's date sufficient direct confirmation of balances related to customers' accounts and loans and advances to customers as at 31 December 2022 (notes 19 and 8). In addition, we were unable to verify by alternative means the balances of unconfirmed accounts included in the statement of financial position as at 31 December 2022 and accordingly, we were unable to satisfy ourselves as to the accuracy of the reported balances as at that date.

Basis for Adverse Opinion (continued)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics of the Lebanese Association of Certified Public Accountants that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Matter

The consolidated financial statements of the Group as of and for the year ended December 31, 2021 were audited by DFK Fiduciaire du Moyen-Orient and Deloitte & Touche, whose auditor's report dated August 5, 2022 expresses an adverse opinion on those consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. 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

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

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

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

Responsibilities of Management and Those Charged with Governance for the 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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.
- 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

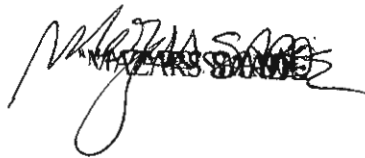
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Beirut, Lebanon
July 5, 2023


DFK Fiduciaire du Moyen-Orient

Mazars Saade


MAZARS SAADE

BLC BANK S.A.L
Consolidated Statement of Financial Position

	Notes	December 31,	
		2022	2021
		LBP'000	LBP'000
<u>Assets</u>			
Cash and balances with the Central Bank of Lebanon	5	2,998,685,432	2,403,406,940
Deposits with banks and financial institutions	6	31,648,985	50,094,949
Loan to a bank	7	-	691,446
Loans and advances to customers	8	564,687,329	982,900,379
Financial assets at fair value through profit or loss	10	68,061,104	53,727,295
Investment securities	9	1,353,056,865	1,549,941,737
Assets acquired in satisfaction of loans	12	61,534,981	62,387,713
Right-of-use assets	13	6,057,203	8,159,620
Property and equipment	14	78,581,310	84,597,026
Intangible assets	15	1,719,184	3,178,780
Other assets	16	51,050,165	59,356,918
		<u>5,215,082,558</u>	<u>5,258,442,803</u>
Assets held for sale	17	-	21,921,318
Total Assets		<u>5,215,082,558</u>	<u>5,280,364,121</u>
<u>Liabilities</u>			
Deposits from banks and financial institutions	18	102,325,165	72,415,663
Customers' accounts	19	4,253,465,754	4,222,461,232
Borrowings from Central Bank of Lebanon	20	182,977,458	219,365,528
Lease liabilities	14	7,127,008	8,824,282
Other liabilities	21	65,189,674	77,579,784
Provisions	22	57,523,567	34,376,827
		<u>4,668,608,626</u>	<u>4,635,023,316</u>
Liabilities associated with assets held for sale	17	-	776,065
Total Liabilities		<u>4,668,608,626</u>	<u>4,635,799,381</u>
<u>Equity</u>			
Capital	23	214,000,000	214,000,000
Shareholders' cash contribution to capital	23	141,492,443	141,492,443
Preferred shares	24	152,786,633	152,786,633
Treasury shares	25	(75,882,381)	(75,882,381)
Non-distributable reserves	26	262,973,595	262,973,595
(Accumulated losses) retained earnings		(41,783,186)	150,262,806
Cumulative change in fair value of investments at fair value through other comprehensive income	9	(10,056,994)	(10,151,288)
Net loss for the year		<u>(97,498,065)</u>	<u>(192,025,700)</u>
Equity attributable to Equity holders of the Bank		<u>546,032,045</u>	<u>643,456,108</u>
Non-controlling interests		441,887	1,108,632
Total Equity		<u>546,473,932</u>	<u>644,564,740</u>
Total Liabilities and Equity		<u>5,215,082,558</u>	<u>5,280,364,121</u>
Financial instruments with off-balance sheet risks:			
Letters of guarantee and standby letters of credit	38	58,782,342	78,347,433
Forward exchange contracts		17,477,998	17,015,200
Fiduciary accounts	39	4,553,592	4,522,500

BLC BANK S.A.L
Consolidated Statement of Profit or Loss

The accompanying note 1 to 48 form an integral part of the consolidated financial statements

	Notes	Year ended December 31,	
		2022	2021
		LBP'000	LBP'000
Interest income		224,720,746	260,529,706
<u>Less: Tax on interest</u>		<u>(16,051,029)</u>	<u>(21,101,055)</u>
Interest income, net of tax	28	208,669,717	239,428,651
Interest expense	29	<u>(27,022,698)</u>	<u>(63,314,346)</u>
Net interest income		<u>181,647,019</u>	<u>176,114,305</u>
Fee and commission income	30	73,786,136	37,048,266
Fee and commission expense	31	<u>(5,239,251)</u>	<u>(1,547,213)</u>
Net fee and commission income		<u>68,546,885</u>	<u>35,501,053</u>
Losses arising from the derecognition of investment securities measured at amortized cost	32	-	(14,521,566)
Losses arising from the derecognition of investment securities measured at fair value through other comprehensive income	33	-	(89,576)
Net interest and other loss on investment securities at fair value through profit or loss	34	(15,120,894)	(184,024,867)
Gain on disposal of investment in subsidiaries		392,523	-
Other operating expenses, net	35	<u>(76,145,511)</u>	<u>(36,908,224)</u>
Net financial revenues / (expenses)		159,320,022	(23,928,875)
Allowance for expected credit losses, net	42	(111,393,740)	(59,402,555)
Recovery of loans and advances, net		<u>(117,327)</u>	<u>273,755</u>
Net financial revenues losses after net expected credit losses		47,808,955	(83,057,675)
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	13,15	11,354,022	9,037,567
Provision for risks and charges	22	(11,051,500)	(20,804,000)
Staff costs	36	(97,291,927)	(52,102,882)
General and administrative expenses	37	(40,215,026)	(36,142,514)
Depreciation and amortization	15,16	(6,839,645)	(7,581,656)
Depreciation of right-of-use assets	14	<u>(1,216,250)</u>	<u>(1,278,667)</u>
Loss before income tax		(97,451,371)	(191,929,827)
Income tax expense	21	<u>(41,259)</u>	<u>(74,103)</u>
Loss for the year		<u>(97,492,630)</u>	<u>(192,003,930)</u>
Attributable to equity			
Equity holders of the Bank		(97,498,065)	(192,025,700)
Non-controlling interests		5,435	21,770
		<u>(97,492,630)</u>	<u>(192,003,930)</u>

The accompanying note 1 to 48 form an integral part of the consolidated financial statements

BLC BANK S.A.L
Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended December 31,	
		2022	2021
		LBP'000	LBP'000
Loss for the year		(97,492,630)	(192,003,930)
Other comprehensive income:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net Change in fair value of investments at fair value through other comprehensive income		421,118	(7,315,533)
Deferred tax	17,21	(129,295)	833,601
		<u>291,823</u>	<u>(6,481,932)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net Change in fair value of debt securities at fair value through other comprehensive income (net of tax)		23,271	1,490,109
Deferred tax	17,21	(220,800)	(253,319)
		<u>(197,529)</u>	<u>1,236,790</u>
Total other comprehensive income / (loss) for the year		<u>94,294</u>	<u>(5,245,142)</u>
Total comprehensive loss for the year		<u>(97,398,336)</u>	<u>(197,249,072)</u>
Attributable to:			
Equity holders of the Bank		(97,403,771)	(197,270,842)
Non-controlling interests		5,435	21,770
		<u>(97,398,336)</u>	<u>(197,249,072)</u>

The accompanying note 1 to 48 form an integral part of the consolidated financial statements

BLC BANK S.A.L
Consolidated Statement of Changes In Equity

	Capital	Preferred Shares and Premiums	Treasury shares	Shareholders cash contribution to Capital	Non-Distributable Reserves	Cumulative Change in Fair Value of investment	(Accumulated losses) Retained Earnings	Loss for the Year	Total	Non-controlling interests	Total Equity
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance December 31, 2020	214,000,000	152,786,633	(76,855,365)	69,289,411	262,937,542	(4,906,146)	177,761,217	(27,441,570)	767,571,722	1,196,634	768,768,356
Appropriation of 2020 loss	-	-	-	-	-	-	(27,441,570)	27,441,570	-	-	-
Contributions from shareholders (Note 23)	-	-	-	72,203,032	-	-	-	-	72,203,032	-	72,203,032
Adjustments related to disposal of subsidiary	-	-	-	-	-	-	-	-	-	(59,135)	(59,135)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(20,956)	(20,956)
Other movement	-	-	-	-	36,053	-	(37,893)	-	(1,840)	(29,681)	(31,521)
Effect of exchange rates changes	-	-	972,984	-	-	-	-	-	972,984	-	972,984
Deferred tax on future dividend distribution of subsidiaries	-	-	-	-	-	-	(18,948)	-	(18,948)	-	(18,948)
Total comprehensive loss for the year 2021	-	-	-	-	-	(5,245,142)	-	(192,025,700)	(197,270,842)	21,770	(197,249,072)
Balance December 31, 2021	214,000,000	152,786,633	(75,882,381)	141,492,443	262,973,595	(10,151,288)	150,262,806	(192,025,700)	643,456,108	1,108,632	644,564,740
Appropriation of 2021 loss	-	-	-	-	-	-	(192,025,700)	192,025,700	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(672,180)	(672,180)
Other movement	-	-	-	-	-	-	28,589	-	28,589	-	28,589
Effect of exchange rates changes	-	-	-	-	-	-	-	-	-	-	-
Deferred tax on future dividend distribution of subsidiaries	-	-	-	-	-	-	(48,881)	-	(48,881)	-	(48,881)
Total comprehensive loss for the year 2022	-	-	-	-	-	94,294	-	(97,498,065)	(97,403,771)	5,435	(97,398,336)
Balance December 31, 2022	214,000,000	152,786,633	(75,882,381)	141,492,443	262,973,595	(10,056,994.00)	(41,783,186)	(97,498,065)	546,032,045	441,887	546,473,932

The accompanying notes 1 to 48 form an integral part of the consolidated financial statement

BLC BANK S.A.L
Consolidated Statement of Cash Flows

	Notes	Year ended December 31,	
		2022	2021
		LBP'000	LBP'000
Cash flows from operating activities:			
Net loss for the year		(97,492,630)	(192,003,930)
Adjustments for:			
Allowance for expected credit losses (net)	42	111,393,740	59,402,555
Depreciation and amortization	15,16	6,839,645	7,581,656
Depreciation of right-of-use	13	1,216,250	1,278,667
Provision for risk and charges (net)	22	11,051,500	20,804,000
Provision for end-of-service indemnities (net)	22	17,363,780	863,052
Provision for loss on foreign currency position	22	-	11,691
Unrealized loss on investments at fair value through profit or loss	34	15,300,009	(184,030,219)
Income tax expense	21	41,259	74,103
(Gain)/loss on disposal of property and equipment	14	(1,608,430)	121,563
Gain on disposal of property acquired in satisfaction of loans	12	(9,745,593)	(9,159,130)
Dividend income	34,35	(93,552)	(5,352)
Interest expense	29	27,022,698	63,314,346
Interest income	28	(208,755,280)	(239,428,651)
		<u>(127,466,604)</u>	<u>(471,175,649)</u>
Net decrease in loans and advances to customers		434,980,999	394,315,776
Net decrease in investments at fair value through other comprehensive income		1,400,239	20,456,475
Net increase in investments at fair value through profit or loss		(29,633,818)	(84,967,838)
Net decrease in investments at amortized cost		78,666,146	549,761,833
Net increase/(decrease) in customers' deposits		28,252,205	(404,775,183)
Net increase in compulsory deposits with the Central bank		(95,649,741)	(38,922,317)
Net decrease in margin with banks		812,742	-
Net decrease in term deposits with Central Bank		173,983,685	140,584,248
Net increase in deposits from banks		27,598,164	(33,959,691)
Net increase in other assets		8,306,753	(25,655,793)
Net (decrease)/increase in other liabilities		(12,357,084)	9,944,625
Proceeds from disposal of assets acquired in satisfaction of loans	40	12,278,588	16,635,263
Acquisition of assets acquired in satisfaction of loans		(1,680,263)	-
Settlements made from provisions	22	(4,887,016)	(467,751)
		<u>494,604,995</u>	<u>71,773,998</u>
Income tax paid		(74,286)	(3,144,177)
Tax on revenues paid		-	(11,492,591)
Dividends received from investments at fair value through profit	34	93,552	5,352
Other movement		(20,291)	(29,681)
Interest paid		(21,371,611)	(70,920,437)
Interest received		<u>192,302,856</u>	<u>250,184,742</u>
Net cash generated from operating activities		<u>665,535,215</u>	<u>236,377,200</u>
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		2,546,099	4,524
Acquisition of property and equipment		(260,168)	(840,943)
Increase in intangible assets		(41,833)	(145,571)
Proceeds from disposal of assets held for sale		21,145,253	-
Net change in non-controlling interest		(672,180)	(20,956)
Net cash generated from/(used) in investing activities		<u>22,717,171</u>	<u>(1,002,946)</u>
Cash flows from financing activities:			
Settlement of lease liabilities	13	(1,398,540)	(2,702,774)
Shareholders' cash contribution to capital	23	-	72,203,032
Net decrease in loan to a bank		704,766	686,646
Net decrease in other borrowings	20	(36,388,070)	(85,373,307)
Net cash used in financing activities		<u>(37,081,844)</u>	<u>(15,186,403)</u>
Net increase in cash and cash equivalents		651,170,542	220,187,851
Effect of foreign currency fluctuation and other adjustments		-	2,772,248
Cash and cash equivalents - Beginning of year	40	<u>1,075,865,395</u>	<u>852,905,296</u>
Cash and cash equivalents - End of year	40	<u>1,727,035,937</u>	<u>1,075,865,395</u>

The accompanying notes 1 to 48 form an integral part of the consolidated financial statements

1. Formation and activities

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

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

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

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

	<u>Ownership interest</u>		<u>Country of Incorporation</u>	<u>Business Activity</u>
	<u>2022</u>	<u>2021</u>		
	<u>%</u>	<u>%</u>		
BLC Finance S.A.L.(Dormant)	99.33	99.33	Lebanon	Financial Institution
BLC Services S.A.L.	91.33	91.33	Lebanon	Insurance Brokerage

1.1 The Macro economic Environment

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

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

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 USD/LBP. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese 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) Subsidised imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 USD/LBP (the official exchange rate). During 2021, this subsidy was lifted.
- b) Introduced the Sayrafa Platform Rate to be used only in specific circumstances.
- c) Subsidised imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate. During 2021, this subsidy was lifted.
- d) Introduced exceptional measures for bank depositors to withdraw small amounts of cash in LBP from their "local" foreign currency bank accounts at the Platform Rate, but up to limits set by the Group.

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

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

In mid-2021, BDL Basic Circular 158 was issued defining the mechanism for the gradual settlement of foreign currency deposits up to an amount of USD50,000 based on several eligibility criteria. Eligible funds will be transferred to a subaccount and paid on a monthly basis of USD 400 in cash or equivalent and an amount in LBP equivalent to USD400 and converted at a rate of LBP12,000 to the US Dollar (before amendment at a rate of LBP15,000 to the US Dollar on 20 January 2023) that will be paid 50% in cash and 50% credited to a payment card.

The Central Bank of Lebanon recently announced that as at 31 December 2022, 170,000 depositors have so far benefited from the application of this circular for a total amount of USD 1.2 billion.

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

Lebanese Government's Financial Recovery Plan

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

Lebanon's government foresees cancelling "a large part" of the Central Bank's foreign currency obligations to commercial banks and dissolving non-viable banks by November, according to the Plan.

The latter includes several measures that are prerequisites to unlock funds from a preliminary deal with the International Monetary Fund agreed in April, that could help pull the country out of a three-year financial meltdown.

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

The plan made no mention of a sovereign fund to manage state-owned assets but pledges to limit recourse to public assets, which had been a demand of Lebanon's commercial banks. The plan said it would protect small depositors "to the maximum extent possible" in each viable bank but did not lay out a minimum amount to be protected – unlike draft plans. Non-viable banks, however, would be dissolved by the end of November, it added. As of today, laws for the reinstatement of financial stability, for the resolution of banks and for capital controls are yet to be issued. The timeline for their issuance is affected by the presidential vacuum and political deadlock facing Lebanon. It also said the government would unify the official exchange rate, ending a system in which, the government offered various exchange rates for different operations.

International Monetary Fund (IMF)

The Lebanese authorities and the IMF team have reached a staff-level agreement (SLA) on comprehensive economic policies that could be supported by a 46-month Extended Fund Arrangement (EFF) with requested access of SDR 2,173.9 million (equivalent to about USD 3 billion). This agreement is subject to approval by IMF Management and the Executive Board, after the timely implementation of all prior actions and confirmation of international partners' financial support.

Prior actions include the following measures prior the IMF Board's consideration:

- Cabinet approval of a bank restructuring strategy that recognizes and addresses upfront the large losses in the sector, while protecting small depositors and limiting recourse to public resources.
- Parliament approval of an appropriate emergency bank resolution legislation which is needed to implement the bank restructuring strategy.
- Initiation of an externally assisted bank-by-bank evaluation for the 14 largest banks.
- Parliament approval of a reformed bank secrecy law to bring it in line with international standards.
- Completion of the special purpose audit of the BDL's foreign asset position.
- Cabinet approval of a medium-term fiscal and debt restructuring strategy.
- Parliament approval of the 2022 budget, to start regaining fiscal accountability.
- Unification by BDL of the exchange rates for authorized current account transactions.

As of date, the parliament approved the reformed bank secrecy law and the 2022 budget.

While no much progress was achieved on other fronts, the IMF issued in March 2023, the concluding statement of its 2023 Article IV Mission. It says Lebanon is at a particularly difficult juncture. For over three years, it has been facing an unprecedented crisis, with severe economic dislocation, a dramatic depreciation of the Lebanese lira and triple digit inflation that have had a staggering impact on people's lives and livelihoods. Unemployment and emigration have increased sharply, and poverty is at historically high levels. The provision of basic services like electricity, public health, and public education have been severely disrupted, and essential social support programs and public investment have collapsed.

More broadly, capacity in public administration has been critically weakened. Banks are unable to extend credit to the economy and bank deposits are mostly inaccessible to customers. The presence of a large number of refugees exacerbates Lebanon's challenges.

Maritime border demarcation agreement

The maritime border demarcation agreement between Lebanon and Israel was finalized in October. The deal could enhance long-term economic prospects and improve the country's external position which is positive for Lebanon's credit profile, but implementation risks remain significant. International Rating Fitch disclosed that gas discoveries would generate important economic benefits for Lebanon, should the resources prove to be commercially viable. Moody's disclosed that the agreement is credit positive for Lebanon because it will help alleviate the country's chronic power deficit and kick-start an economic recovery. Such deals and initiatives are of a long term rather than imminent nature and the timing of the flow of economic benefit and positive development on Lebanon is uncertain.

Presidential vacuum

The presidential term has ended on 31 October 2022 without the election of a new President despite holding a number of electoral sessions that witness non-quorum in their second rounds. As such, Lebanon has entered a presidential vacuum since then, which has stalled cabinet formation, reforms and final IMF agreement.

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

1.2 Central Bank of Lebanon (BDL) policy initiatives

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

Regulatory framework:

- *Intermediate Circular 567:*

- BDL licensees should apply the following minimum regulatory expected credit loss ("ECL") ratios, while permitting banks to constitute progressively those ECLs over a period of five years (starting from 2020). The BDL Central Council may consider the extension of the period to 10 years, for banks that manage to complete the 20% cash contribution to capital requirement:

Foreign currency placements with BDL, including certificates of deposits: 1.89%

Local currency deposits with BDL: 0%

Lebanese government bonds in foreign currencies: 45% and later on increased to 75% in 2022

Lebanese treasury bills in local currency: 0%

Intermediate circular 649 issued on 24 November 2022 replaced the aforementioned five years and ten years deadline by the fixed dates of 31 December 2026 and 31 December 2029 respectively.

- BDL licensees are allowed not to downgrade loans exposures showing past dues (principal and interest) between February 2020 and December 2020 as a result of COVID-19, unless borrower ceases to operate as a going concern, in which case exposure should be automatically downgraded to Stage 3.
 - Prohibition of dividends distribution on banks' common shares for the years 2019 and 2020 (years 2021 and 2022 were subsequently added by way of Intermediate Circulars 616 and 659 respectively).
 - By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018.
 - The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these are liquidated within 5 years.
 - Banks can include the revaluation surplus of property and equipment in Tier I capital, subject to BDL approval on the revaluation. However, on 20 January 2023, Intermediate Circular 659 capped the inclusion of revaluation of fixed assets at 50% under certain conditions while allowing the use of the prevailing Sayrafa rate at the end of each reporting period over 5 years. Besides, it widened the scope of revaluation to include participations and long-term loans to affiliated banks and financial institutions.
 - Banks must comply with the minimum capital adequacy ratios. Bank should refrain from dividend distribution, should these ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio.
Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022.
 - Banks are required to submit a comprehensive plan to Central Bank, reflecting own strategies to comply with the regulatory minimum capital requirements, including the timeline to achieve compliance. The plan should incorporate allowances required by the Banking Control Commission of Lebanon against different risks banks are exposed to.
 - As exceptional measures, 100% of ECL on Stage 1 and Stage 2 exposures (except those against sovereign and BDL exposures in local and foreign currency), may be added to common equity Tier I capital. These will be gradually amortized to 75% in 2022, 50% in 2023 and 25% in 2024.
- *Basic Circular 154:*
 - Banks should perform a fair value assessment of their assets and liabilities and set a plan to comply with all applicable regulatory requirements, namely those related to liquidity and capital adequacy, and restore their levels of service which were in place before the economic crisis. Banks should also submit a request to the BDL Central Council to reconstitute/raise their capital to the required levels by the end of the first quarter of the year 2021, where applicable. In this respect, banks shall consider soliciting their depositors to convert their deposits into shares or bonds, provided listing the bank's shares on the Beirut Stock Exchange.
 - In order to enhance their offshore liquidity, banks are required to instigate those depositors to repatriate 30% (in the case of banks' key executives and politically exposed persons) and 15% (for other depositors) of their overseas transfers made since July 1, 2017 and exceeding the equivalent of USD 500,000. Funds received will be deposited in special saving accounts for 5 years and will not be subject to compulsory reserve requirements.

- Banks should secure by February 28, 2021, offshore foreign currency deposits equivalent to a minimum of 3% of their total foreign currency as at July 31, 2020. The requirement was later amended through Intermediate Circular 645 to consider foreign currency deposits as at 30 September 2022 as the basis for the computation instead of 31 July 2020, thus lowering liquidity required levels as customers' deposits decreased over the period.
- *Intermediate Circular 575* approving banks to book exceptionally one third of the capital gains arising from the revaluation of assets received in settlement of debts, under Tier II capital subject to the approval of the BDL Central Council on the revaluation methodology and raising capital before December 31, 2021 as follows:
 - Add a maximum of one third of the revaluation gains under Tier 2 capital,
 - Increase common equity Tier I capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier II capital.
- *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.
- *Basic Circular 162* issued on 28 March 2022 requesting from banks to secure a level of liquidity sufficient to allow public sector employees to withdraw their monthly salaries and other compensations without setting any type of limits.
- *Basic Circular 163* issued on 27 May 2022 defining the framework for the monitoring of the accounts of public officials, the performance of due diligence on their operations and the reporting to the Special Investigation Committee on the basis of founded suspicion.
- *Intermediate Circular 637* issued on 27 July 2022 (amending Basic Circulars 65 and 78) requires banks selling real estate properties or participations acquired in accordance with the provisions of Article 153 or 154 of the CMC, only against fresh USD or its equivalent in LBP based on Sayrafa rate.
- *Basic Circular 164* issued on 12 October 2022 and requesting banks to report to the Banking Control Commission on the cost of their monthly operating expenses that should be paid with fresh money, the resources for settling these expenses and how to ensure those resources.
- *Intermediate Circular 649* issued on 24 November 2022 (amending Basic Circulars 44 and 143) introduced a forbearance treatment in capital ratios computation by allowing the exclusion from Common Equity Tier 1 of a portion of losses incurred from FX purchases from BDL against LBP banknotes (66% and 33% respectively in 2022 and 2023).

Monetary policies and socio-economic support:

- *Intermediate Circular 648* issued on 1 November 2022 (amending Basic Circulars 14 and 67) reduced by 50% the interest rates served on foreign currencies placements with BDL and on Certificates of Deposits issued by BDL while continuing paying 50% of coupon payment in the instrument's currency and 50% in LBP at official rate (LBP1,507.5 to the US Dollar until 31 January 2023 and LBP15,000 to the US Dollar afterwards).

- *Basic Circular 150* 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 ...)
- *Intermediate Circulars 547 and 552* requesting banks to rollover loans to customers in local and foreign currencies maturing between March 2020 to June 2020 up to 5 years at zero interest rate and fees, subject to the bank assessment of the customers' inability to settle their dues because of the economic situation. BDL also allowed the extension of loans to businesses to fund salaries and operating expenses, at the same terms mentioned above. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
- *Basic Circular 152 and Intermediate Circular 569* allowing banks extension of loans up to 5 years at zero interest rate, to help those affected by the Beirut Seaport explosion. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
- *Intermediate Circular 568* requesting banks to accept repayment by resident customers of their USD denominated retail loans (up to USD800,000 for housing loans and USD100,000 for retail loans) in local currency at the official exchange rate (LBP1,507.5 to the USD). On 20 January 2023, Intermediate Circular 656 revoked the aforementioned provision effective 1 February 2023.
- *Basic Circular 161* issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return banks will provide the total amount to their customers at the same Sayrafa rate against LBP at limits set by the bank.
- *Intermediate Circular 659* issued on 20 January 2023 (amending Basic Circulars 32 and 44) states that banks should liquidate their short open FX positions, as at 31 December 2022, gradually, on a period of 5 years. In addition, for the capital ratios computation, it capped the inclusion of revaluation of fixed assets at 50% in Common Equity Tier 1 under certain conditions while allowing the use of the prevailing Sayrafa rate at the end of each reporting period over 5 years.

Foreign exchange policies:

- *Basic Circular 151 "Cash Withdrawals from Foreign Currency Bank Accounts"* dated April 21, 2020 provides withdrawals of pre-crisis customers' deposits in foreign currencies with banks, at the rate of 3,900 LBP / USD, which was then increased to 8,000 LBP / USD and within a monthly limit of USD 3,000 by bank account. Effective until June 30, 2022. 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 USD/LBP 8,000 up to a maximum limit of USD 3,000 per month. On 20 January 2023, Intermediate Circular 657 amended the rate to be USD/ LBP 15,000 instead of USD/ LBP 8,000 while reducing the limit from USD 3,000 per month to USD 1,600 per month.
- *Basic Circular 157 "Exceptional Procedures on Foreign currency Operations"* issued on May 10, 2021 enacting the legal and regulatory framework of the 'Sayrafa' foreign exchange trading platform developed by the Central Bank of Lebanon.

Transactions that can be conducted on the 'Sayrafa' platform consist of purchasing LBP in exchange of fresh foreign currency and purchasing fresh foreign currency in exchange of LBP. The bid/ask spread that banks are allowed to achieve, is capped at 1% of the purchase price.

- The Central Bank of Lebanon may at its sole discretion, interfere on the Platform to stabilize the exchange rate. The 'Sayrafa' platform is not available for trading onshore pre-crisis foreign currency bank accounts as these are subject to unofficial capital control. The average daily trading exchange rates and daily volume of foreign currency traded on the Sayrafa platform are published on the Central Bank of Lebanon website.
- *Basic Circular 158 "Exceptional Measures for the Gradual Withdrawal of Deposits in Foreign currencies"* issued on June 8, 2021 setting out an exceptional framework for the settlement of onshore foreign currency deposits up to an amount equivalent to USD 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met. Customers' monthly entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000 (before amendment USD/ LBP at 15,000 on 20 January 2023), 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, banks can use their foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition they reconstitute it by December 31, 2022, extended to 31 December 2023 by Intermediate Circular 626 issued on 21 June 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 661* issued on 31 January 2023 (amending Basic Circulars 23, 152 and 159) states that the exchange rate for repayment was increased to LBP15,000 to the US Dollar.

1.3 The Group's Financial particulars

1.3.1 Foreign exchange

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

	2022		2021	
	Year-end Rate LBP	Average Rate LBP	Year-end Rate LBP	Average Rate LBP
US Dollar	1,507.5	1,507.5	1507.5	1507.5
Euro	1,603.83	1,590.21	1,701.52	1,786.92

BLC BANK S.A.L

Notes to the Consolidated Financial Statements for the year ended December 31, 2022

The Bank's monetary assets and liabilities in foreign currency, were converted in Lebanese Pound at the official exchange rate peg of USD1 = LBP1,507.5 as 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 a specific rate up to limits set by their bank. The limits set by banks in Lebanon had monthly averages of USD 3,000 per bank account. The specific rate was USD/LBP 3,900 throughout the period from the issuance of the circular. During December 2021, it was increased to USD 1 /LBP 8,000 and to US\$ 1/LBP 15,000 subsequent to year end.
- On 10 May 2021, the Central Bank of Lebanon issued Basic Circular 157 setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. 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:

	2022		2021	
	Year-end Rate LBP	Average Rate LBP	Year-end Rate LBP	Average Rate for the period from 10 May to 31 December LBP
US Dollar	38,000	26,433	22,700	16,266

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 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 at the date of the consolidated financial statements. We are unable to estimate the effects on these consolidated financial statements.

In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LBP1,507.5 to LBP15,000 to the US Dollars. Sayrafa Rates and parallel market rates remained highly volatile and divergent from the new official published exchange rate official (LBP42,000 and LBP62,240 respectively at 1 February 2023).

The consolidated financial statements as at and for the year ended 31 December 2022 do not include adjustments from the change in this rate from LBP1,507.5 to LBP15,000 to the US Dollars.

The Group will use the new rate of LBP15,000 in its subsequent financial information reporting, with the first period being the quarterly reporting as of 31 March 2023.

1.3.2 Hyperinflation in Lebanon

As of 31 December 2022, and 2021, 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 analyzing the behavior of population, prices, interest rates and wages should also be considered.

The Lebanese Central Administration of Statistics reported 3-year and 12-month cumulative rates of inflation of 1,670% and 122%, respectively, as of December 2022 (2021: 753% and 224%). Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after 31 December 2020.

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

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

- (a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.
- (b) In summary, the restatement method under IAS 29 is as follows:
 - i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.
 - ii. Non-monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non-monetary items.
 - iii. Non-monetary items carried at historical cost or at the current value of a date prior to the end of the reporting period are restated using coefficients that reflect the variation recorded in the general level of prices from the date of acquisition or revaluation to the closing date of the reporting period, then comparing the restated amounts of such assets with the relevant recoverable values. Depreciation charges of property, plant and equipment and amortization charges of intangible assets recognized in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.

- 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 consolidated 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 exchange rate of 1,507.5 LBP/USD to translate balances 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 the "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. 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 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 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 behavior of the population as a result of the crisis facing Lebanon.

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

1.3.3 Exposure to financial instruments

As at December 31, 2022, the Group's net credit exposure to Lebanese sovereign debt, including BDL, represented approximately 63% of total assets (2021: 75%).

As at 31 December 2022, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortized cost are recorded in these consolidated financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567 for 10 years. 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 recognized loss allowances, as well as their staging are detailed in note 42 to these consolidated financial statements.

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

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

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 consolidated financial position.

Management considers that the adverse impact of the above is expected to be pervasive and will have a significant negative impact on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

As disclosed in Note 44 to these consolidated financial statements, the Group's capital adequacy ratio as at December 31, 2022 and 2021, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

1.3.4 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 pound. 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.

However due to recent development and the increasing trend in judgments ruled in favor of the plaintiffs and customers, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch. as disclosed in Note 44. The amount cannot be determined presently.

The Lebanese crisis continues to impose 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 Group to increased litigation and regulatory risks and negatively impact the financial position of the Group, 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 cashflows, 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 . Application of new and revised International Financial Reporting Standards (IFRS)**a. New and amended IFRS Standards that are effective for the current year**

In the current year, the Group has applied a number of amendments to IFRS Accounting Standards that are effective for an accounting period that begins on or after 1 January 2022.

- IFRS 3 *Business Combinations* – Reference to the Conceptual Framework
- IAS 16 *Property, Plant and Equipment* – Proceeds before Intended Use
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – Onerous contracts : Cost of Fulfilling a Contract
- Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle :
 - IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a First-time Adopter
 - IFRS 9 *Financial Instruments* – fees in the “10 per cent” test for derecognition of financial liabilities
 - IFRS 16 *Leases* – Lease incentives
 - IAS 41 *Agriculture* – Taxation in Fair Value measurements

The application of these revised IFRSs has not had any material impact on the disclosures or on the amounts reported in these financial statements.

b. New and amended IFRS Standards in issue but not yet effective

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

- IFRS 17 *Insurance Contracts* – The amendments defer the date of initial application of IFRS 17 (including the June 2020 and December 2021 amendments) to annual reporting periods beginning on or after January 1, 2023.
- Amendments to IAS 1 *Presentation of financial statements* – Classification of Liabilities as Current or Non-current. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024, with early application permitted.
- Amendments to IAS 1 *Presentation of financial statements* and IFRS Practice Statement 2 *Making Materiality Judgments* – Disclosure of Accounting Policies. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – Definition of Accounting Estimates. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IAS 12 *Income taxes* – Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.
- Amendments to IFRS 16 *Leases* – Lease Liability in a Sale and Leaseback – The amendment is for annual periods beginning on or after January 1, 2024.

Management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods should such transactions arise.

3. Significant accounting policies

Basis of preparation

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

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

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

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

Summary of significant accounting policies

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

A. Basic of Consolidation:

The Consolidated Financial statements of BLC Bank S.A.L. incorporated the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as the reporting date. Control is achieved when the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- 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.

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements.

- The Bank's voting rights and potential voting rights

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

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

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

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

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

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

B. Business combination

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

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit and loss. where applicable, adjustments are made to provisional value of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interest and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of the measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified at equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit and loss.

C. Foreign currencies

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

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

D. Financial instruments

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

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

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

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

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

E. Financial assets

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

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

Specifically:

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

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

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

Debt instruments at amortized cost or at FVTOCI

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

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

Impairment

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

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

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

Credit-impaired financial assets

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

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

It may not be possible to identify a single discrete event instead, the combined effect of several events may we caused financial assets to become credit impaired.

The Group assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, edit ratings and the ability of the borrower to raise funding.

Purchased or originated credit impaired (POCI) financial assets

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

Definition of default

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

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

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

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

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators.

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

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Modification and derecognition of financial assets

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

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

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

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Exchange of securities

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition.

Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Repurchase and Reverse Repurchase Agreements

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

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

Write-off

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

Presentation of allowance for ECL in the statement of financial position

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

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

- The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

F. Financial liabilities and equity

Classification as debt or equity:

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

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

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

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

Financial Liabilities:

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

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

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

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

G. Offsetting

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

H. Fair Value measurement of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

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

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

I. Derivative financial instruments

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

Embedded Derivatives

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

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

J. Financial guarantee contracts

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

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

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

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

K. Hedge accounting

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

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

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

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

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship.

For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

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

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

The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable.

The discontinuation is accounted for prospectively. Any gain/loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognized immediately in profit or loss.

Hedges of net investments in foreign operations

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

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

L. Non-Current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

M. Property and equipment

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

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

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

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

N. Intangible assets

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

Computer software	5 years
Key money	15 years

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

O. Leases

The Group as lessee

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

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

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;

- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

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

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

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

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

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

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

P. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78, -are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses.

The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from Banking Control Commission approval date. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

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

Q. Impairment of non-financial assets

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

Goodwill is tested annually for impairment. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

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

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

S. Provisions

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

T. Deferred restricted contributions

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

U. Net Interest income

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

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

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

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

V. Net fee and commission income

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

W. Dividend income

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

X. Income tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss because of the items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Y. Fiduciary accounts

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

Z. Cash and cash equivalents

Cash and cash equivalents comprise balances with original contractual maturities of three months or less.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Going Concern:

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

Business model assessment:

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (Refer to the financial assets sections of note 3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk:

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

Establishing groups of assets with similar credit risk characteristics:

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgement.

The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar.

Models and assumptions used:

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

B. Key Sources of Estimation Uncertainty:

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

Macroeconomic Factors and Forward-Looking Information:

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

Probability of default (PD):

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

Loss Given default:

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

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

5. Cash and balances with the Central Bank of Lebanon

	December 31,			
	2022		2021	
	Balance LBP'000	of which compulsory/ Regulatory Deposits LBP'000	Balance LBP'000	of which compulsory/ Regulatory Deposits LBP'000
Cash on hand	502,948,036	-	42,589,527	-
Central Bank of Lebanon :				
Current accounts	1,222,397,302	174,836,879	939,906,462	79,187,138
Terms Placements	1,268,770,131	399,635,205	1,403,927,244	463,203,269
Accrued interest receivable	16,092,391	-	24,684,049	-
	<u>3,010,207,860</u>	<u>574,472,084</u>	<u>2,411,107,282</u>	<u>542,390,407</u>
Allowance for expected credit losses (Note 42)	(11,522,428)	-	(7,700,342)	-
	<u>2,998,685,432</u>	<u>574,472,084</u>	<u>2,403,406,940</u>	<u>542,390,407</u>

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

Regulatory deposits under term placements with Central Bank of Lebanon are made in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 14% of customers' deposits in foreign currencies, certificates of deposit and borrowings acquired from non-resident financial institutions.

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

6. Deposits with banks and financial institutions

	December 31,	
	2022	2021
	LBP'000	LBP'000
Current accounts with banks and financial institutions	25,608,959	43,115,960
Current accounts with Parent Bank (Note 46)	5,384,418	5,729,108
Current accounts with related banks and financial institutions (Note 46)	814,101	648,976
	<u>31,807,478</u>	<u>49,494,044</u>
Margin accounts	-	814,742
	-	814,742
	31,807,478	50,308,786
Provision for expected credit losses (Note 42)	(158,493)	(213,837)
	<u>31,648,985</u>	<u>50,094,949</u>

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

	December 31,	
	2022	2021
	LBP'000	LBP'000
Onshore	6,447,933	7,176,715
Offshore	25,359,545	43,132,071
	<u>31,807,478</u>	<u>50,308,786</u>

7. Loan to a bank

	December 31,	
	2022	2021
	LBP'000	LBP'000
Principal outstanding	-	700,000
Accrued interest receivable	-	4,766
	-	704,766
Provision for expected credit losses (Note 42)	-	(13,320)
	<u>-</u>	<u>691,446</u>

The above loan is secured against a pledge of notes receivable against housing loans granted by the borrower.

The loan principal balance matures over 10 yearly payments of LBP 700 million each with final payment in year 2022.

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

8. Loans and advances to customers

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

	December 31, 2022		
	Exposures (Net of Interest in Suspense)	Allowance for Expected Credit Losses	Net
	LBP'000	LBP'000	LBP'000
Credit risk stage 1 & 2:			
Retail loans:			
Housing loans	169,217,565	(1,752,787)	167,464,778
Personal loans	31,403,209	(1,572,127)	29,831,082
Car loans	9,333,016	(346,921)	8,986,095
Credit cards	1,803,911	(28,477)	1,775,434
Education loans	2,716,501	(22,793)	2,693,708
Staff loans	841,916	-	841,916
Private Banking	10,640	-	10,640
Small and medium enterprises	46,151,062	(715,942)	45,435,120
Corporates	154,552,832	(3,410,312)	151,142,520
	<u>416,030,652</u>	<u>(7,849,359)</u>	<u>408,181,293</u>
Credit risk stage 3:			
Substandard	77,433,357	(1,323,441)	76,109,916
Doubtful	155,061,330	(81,065,767)	73,995,563
Bad	52,844,573	(52,844,493)	80
	<u>285,339,260</u>	<u>(135,233,701)</u>	<u>150,105,559</u>
	701,369,912	(143,083,060)	558,286,852
Accrued interest receivable	6,400,477	-	6,400,477
	<u>707,770,389</u>	<u>(143,083,060)</u>	<u>564,687,329</u>

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

	December 31 ,2021		
	Exposures (Net of Interest in Suspense)	Allowance for Expected Credit Losses	Net
	LBP'000	LBP'000	LBP'000
Credit risk stage 1 & 2:			
Retail loans:			
Housing loans	331,051,347	(5,943,168)	325,108,179
Personal loans	68,008,184	(3,538,238)	64,469,946
Car loans	22,927,285	(743,213)	22,184,072
Credit cards	3,652,872	(105,299)	3,547,573
Education loans	5,534,799	(65,064)	5,469,735
Staff loans	2,079,850	-	2,079,850
Private Banking	12,655	-	12,655
Small and medium enterprises	79,770,676	(2,122,922)	77,647,754
Corporates	314,082,267	(17,652,439)	296,429,828
	<u>827,119,935</u>	<u>(30,170,343)</u>	<u>796,949,592</u>
Credit risk stage 3:			
Substandard	115,658,409	(18,827,062)	96,831,347
Doubtful	139,370,335	(62,533,180)	76,837,155
Bad	43,097,674	(43,082,521)	15,153
	<u>298,126,418</u>	<u>(124,442,763)</u>	<u>173,683,655</u>
	1,125,246,353	(154,613,106)	970,633,247
Accrued interest receivable	12,267,132	-	12,267,132
	<u>1,137,513,485</u>	<u>(154,613,106)</u>	<u>982,900,379</u>

The above balances include loans to related parties of LBP 10 million (2021: LBP 3.7 billion) (Note 46).

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

9. Investment securities

	December 31,					
	2022			2021		
	Local Currency LBP'000	Foreign Currencies LBP'000	Total LBP'000	Local Currency LBP'000	Foreign Currencies LBP'000	Total LBP'000
At fair value through other comprehensive income	12,093,260	2,326,687	14,419,947	4,954,316	13,759,817	18,714,133
Accrued interest receivable	66,475	-	66,475	85,195	-	85,195
	<u>12,159,735</u>	<u>2,326,687</u>	<u>14,486,422</u>	<u>5,039,511</u>	<u>13,759,817</u>	<u>18,799,328</u>
At amortized cost	659,115,137	657,163,517	1,316,278,654	732,419,428	774,418,361	1,506,837,789
Accrued interest receivable	21,884,122	407,667	22,291,789	23,467,330	837,290	24,304,620
	<u>680,999,259</u>	<u>657,571,184</u>	<u>1,338,570,443</u>	<u>755,886,758</u>	<u>775,255,651</u>	<u>1,531,142,409</u>
	<u>693,158,994</u>	<u>659,897,871</u>	<u>1,353,056,865</u>	<u>760,926,269</u>	<u>789,015,468</u>	<u>1,549,941,737</u>

A. Investments at fair value through other comprehensive income:

	December 31,					
	2022			2021		
	Local Currency LBP'000	Foreign Currencies LBP'000	Total LBP'000	Local Currency LBP'000	Foreign Currencies LBP'000	Total LBP'000
Unquoted equities	7,149,427	830,116	7,979,543	(1,713,693)	9,275,005	7,561,312
Lebanese government bonds	-	25,100,802	25,100,802	-	25,100,802	25,100,802
Lebanese treasury bills	4,943,833	-	4,943,833	6,668,009	-	6,668,009
	<u>12,093,260</u>	<u>25,930,918</u>	<u>38,024,178</u>	<u>4,954,316</u>	<u>34,375,807</u>	<u>39,330,123</u>
Accrued interest receivable	66,475	-	66,475	85,195	-	85,195
Allowance for expected credit losses (Note 42)	-	(23,604,231)	(23,604,231)	-	(20,615,990)	(20,615,990)
	<u>12,159,735</u>	<u>2,326,687</u>	<u>14,486,422</u>	<u>5,039,511</u>	<u>13,759,817</u>	<u>18,799,328</u>

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B. Investments at amortized cost:

	December 31, 2022							
	Local currency				Foreign currencies			
	Amortized Cost	Allowance for expected credit losses	Net Carrying Value	Accrued Interest Receivable	Amortized Cost	Allowance for expected credit losses	Net Carrying Value	Accrued Interest Receivable
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Lebanese treasury bills	41,054,941	-	41,054,941	690,671	-	-	-	-
Lebanese government bonds	-	-	-	-	742,953,129	(256,148,115)	486,805,014	-
Certificates of deposits issued by Central Bank of Lebanon	618,060,196	-	618,060,196	21,193,451	170,498,250	(139,747)	170,358,503	407,667
	<u>659,115,137</u>	<u>-</u>	<u>659,115,137</u>	<u>21,884,122</u>	<u>913,451,379</u>	<u>(256,287,862)</u>	<u>657,163,517</u>	<u>407,667</u>
	December 31, 2021							
	Local currency				Foreign currencies			
	Amortized Cost	Allowance for expected credit losses	Net Carrying Value	Accrued Interest Receivable	Amortized Cost	Allowance for expected credit losses	Net Carrying Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	114,178,679	-	114,178,679	2,455,203	-	-	-	-
Lebanese government bonds	-	-	-	-	743,085,581	(140,197,684)	602,887,897	-
Certificates of deposits issued by Central Bank of Lebanon	618,114,708	-	618,114,708	21,010,041	171,701,064	(170,600)	171,530,464	837,290
Corporate bonds and asset backed securities	126,970	(929)	126,041	2,086	-	-	-	-
	<u>732,420,357</u>	<u>(929)</u>	<u>732,419,428</u>	<u>23,467,330</u>	<u>914,786,645</u>	<u>(140,368,284)</u>	<u>774,418,361</u>	<u>837,290</u>

Certificates of deposit issued by Central Bank of Lebanon amounting to LBP 7.94 billion (2021: LBP 7.94 billion) and Lebanese treasury bills which matured during 2022 (2021 : LBP 15.22 billion) are pledged against borrowings from Central Bank of Lebanon (Note 41).

During 2021, the Group transferred Eurobonds in the amount of LBP 226 billion from securities held at amortized cost and fair value through other comprehensive income to fair value through profit or loss in order to increase regulatory offshore liquidity.

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

Remaining Period to Maturity	December 31, 2022					
	Local currency			Foreign currencies		
	Nominal Value	Amortized Cost	Average Coupon rate	Nominal Value	Amortized Cost	Average Coupon rate
	LBP'000	LBP'000	%	LBP'000	LBP'000	%
Lebanese treasury bills:						
1 year to 3 years	23,155,020	23,970,241	8.52	-	-	-
3 years to 5 years	1,648,000	1,648,000	7.46	-	-	-
Above 10 years	15,124,490	15,436,700	10.50	-	-	-
	<u>39,927,510</u>	<u>41,054,941</u>		<u>-</u>	<u>-</u>	
Lebanese government bonds:						
Past due (defaulted)	-	-	-	113,452,943	113,452,942	-
1 year to 3 years (defaulted)	-	-	-	10,552,500	10,738,735	-
3 years to 5 years (defaulted)	-	-	-	215,878,523	216,010,468	-
5 years to 10 years (defaulted)	-	-	-	98,536,230	98,625,855	-
Above 10 years (defaulted)	-	-	-	303,987,375	304,125,129	-
	<u>-</u>	<u>-</u>		<u>742,407,571</u>	<u>742,953,129</u>	
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	-	-	-	22,612,500	22,612,500	3.24
5 years to 10 years	-	-	-	147,885,750	147,885,750	3.00
Above 10 years	610,000,000	618,060,196	10.94	-	-	-
	<u>610,000,000</u>	<u>618,060,196</u>		<u>170,498,250</u>	<u>170,498,250</u>	

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Remaining Period to Maturity	December 31, 2021					
	Local currency			Foreign currencies		
	Nominal Value	Amortized Cost	Average Coupon rate	Nominal Value	Amortized Cost	Average Coupon rate
LBP'000	LBP'000	%	LBP'000	LBP'000	%	
Lebanese treasury bills:						
Up to one year	72,725,000	72,843,942	6.11	-	-	-
1 year to 3 years	3,155,000	3,153,754	7.12	-	-	-
3 years to 5 years	20,819,020	21,900,345	7.08	-	-	-
5 years to 10 years	829,000	829,000	7.46	-	-	-
Above 10 years	15,124,490	15,451,638	10.19	-	-	-
	<u>112,652,510</u>	<u>114,178,679</u>		<u>-</u>	<u>-</u>	
Lebanese government bonds:						
Past due (defaulted)	-	-	-	15,075,000	15,075,000	-
3 years to 5 years (defaulted)	-	-	-	212,863,523	213,031,856	-
5 years to 10 years (defaulted)	-	-	-	98,536,230	98,639,251	-
Above 10 years (defaulted)	-	-	-	402,365,318	416,339,474	-
	<u>-</u>	<u>-</u>		<u>728,840,071</u>	<u>743,085,581</u>	
Certificates of deposit issued by Central Bank of Lebanon:						
Up to one year	-	-	-	1,206,000	1,202,814	7
1 year to 3 years	-	-	-	22,612,500	22,612,500	6
5 years to 10 years	-	-	-	147,885,750	147,885,750	7
Above 10 years	610,000,000	618,114,708	10.79	-	-	-
	<u>610,000,000</u>	<u>618,114,708</u>		<u>171,704,250</u>	<u>171,701,064</u>	

No interest income on defaulted Lebanese government bonds is being recognized by the Group for both year 2022 and 2021.

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10. Financial assets at fair value through profit or loss :

	December 31,					
	2022			2021		
	Local Currency	Foreign Currencies	Total	Local Currency	Foreign Currencies	Total
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	
Quoted equities	-	51,077,276	51,077,276	-	10,590,143	10,590,143
Unquoted equities	1,235,275	2,597,590	3,832,865	1,370,420	3,016,444	4,386,864
Lebanese government bonds	-	12,811,775	12,811,775	-	38,441,250	38,441,250
Mutual Funds	-	339,188	339,188	-	309,038	309,038
	<u>1,235,275</u>	<u>66,825,829</u>	<u>68,061,104</u>	<u>1,370,420</u>	<u>52,356,875</u>	<u>53,727,295</u>

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

11. Assets under leverage arrangement with the Central Bank of Lebanon

	December 31,	
	2022	2021
	LBP'000	LBP'000
Assets under leverage arrangements:		
Term placements with Central Bank of Lebanon	128,067,000	231,709,000
Lebanese treasury bills at amortized cost	75,744,530	88,845,980
	<u>203,811,530</u>	<u>320,554,980</u>
Less: Borrowings under leverage arrangements	203,811,530	320,554,980
Net	<u>-</u>	<u>-</u>

Assets under leverage arrangement consist of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP subject to interest rates between 1.26% and 10.66% originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing a 2% interest rate), with the purpose of providing yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities.

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

	December 31,	
	2022	2021
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon in U.S.dollar	61,882,875	73,038,375
Term placements with Central Bank of Lebanon in Euro	20,883,195	22,155,200
Term placements with Central Bank of Lebanon in LBP originated from the sale of foreign currency	68,383,952	150,941,583
Term placements with Central Bank of Lebanon in LBP originated from the swap of certificates of deposit in foreign currency	19,682,000	19,682,000
	<u>170,832,023</u>	<u>265,817,158</u>

The Group signed with Central Bank of Lebanon a netting agreement allowing to offset the "assets under leverage arrangement" versus the borrowing from the Central Bank. The agreement covered financial assets and liabilities resulting from transactions that took place before the netting agreement date that have not yet matured. As such the Group has presented "time deposits with Central Bank of Lebanon" and term borrowing from Central Bank of Lebanon" on a net basis.

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12. Assets acquired in satisfaction of loans

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

The movement of assets acquired in satisfaction of loans during 2022 and 2021 was as follows:

	<u>Cost</u>	<u>Impairment</u>	<u>Carrying Value</u>
	LBP'000	LBP'000	LBP'000
Balance January 1, 2021	77,802,823	(7,938,977)	69,863,846
Disposals	<u>(7,573,530)</u>	<u>97,397</u>	<u>(7,476,133)</u>
Balance December 31, 2021	70,229,293	(7,841,580)	62,387,713
Additions	1,680,263	-	1,680,263
Disposals	<u>(2,581,453)</u>	<u>48,458</u>	<u>(2,532,995)</u>
Balance December 31, 2022	<u>69,328,103</u>	<u>(7,793,122)</u>	<u>61,534,981</u>

Gain on disposal of assets acquired in satisfaction of loans during the year amounted to LBP 9.7 billion included in profit or loss (2021: LBP 9.2 billion).

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13. Leases

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

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

	Right-of-use assets	Lease liabilities
	LBP'000	LBP'000
Balance January 1, 2021	18,616,649	19,678,708
Other movement	174,025	174,025
Amortization of right-of-use assets	(1,278,667)	-
Termination of rent contracts	(9,352,387)	(9,352,387)
Accretion of interest (Note 29)	-	1,026,710
Payments	-	(2,702,774)
Balance December 31, 2021	<u>8,159,620</u>	<u>8,824,282</u>
Termination of rent contracts	(886,167)	(886,166)
Amortization of right-of-use assets	(1,216,250)	-
Other movement	-	-
Accretion of interest (Note 29)	-	587,432
Payments	-	(1,398,540)
Balance December 31, 2022	<u><u>6,057,203</u></u>	<u><u>7,127,008</u></u>

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

	2022	2021
	LBP'000	LBP'000
Amortization of right-of-use assets	1,216,250	1,278,667
Interest portion of lease liabilities	587,432	1,026,710
	<u><u>1,803,682</u></u>	<u><u>2,305,377</u></u>

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14. Property and equipment

	Balance January 1, 2022 <u>LBP'000</u>	Additions <u>LBP'000</u>	Disposals and Adjustments <u>LBP'000</u>	Transfers <u>LBP'000</u>	Balance December 31, 2022 <u>LBP'000</u>
Cost/Revaluation:					
Owned properties	87,770,621	-	(1,059,255)	-	86,711,366
Computer hardware	18,469,195	264,625	(2,459,461)	-	16,274,359
Machine and equipment	6,567,388	10,764	(38,851)	-	6,539,301
Furniture and fixture	6,497,100	-	(430,845)	-	6,066,255
Vehicles	750,521	-	(28,372)	-	722,149
Freehold and leasehold improvements	37,571,854	72,081		-	37,643,935
Advance payments	308,264	91,128	-	(165,375)	234,017
	<u>157,934,943</u>	<u>438,598</u>	<u>(4,016,784)</u>	<u>(165,375)</u>	<u>154,191,382</u>
Accumulated depreciation	(73,317,082)	(5,338,216)	3,066,061	-	(75,589,237)
Allowance for impairment	(65,308)	-	-	-	(65,308)
	<u>(73,382,390)</u>	<u>(5,338,216)</u>	<u>3,066,061</u>	<u>-</u>	<u>(75,654,545)</u>
Capital work-in-progress	44,473	-	-	-	44,473
Carrying values	<u>84,597,026</u>				<u>78,581,310</u>

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	Balance January 1, 2021	Additions	Disposals and Adjustments	Transfers	Balance December 31, 2021
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:					
Owned properties	87,770,621	-	-	-	87,770,621
Computer hardware	18,447,251	79,548	(57,604)	-	18,469,195
Machine and equipment	6,516,757	53,477	(2,846)	-	6,567,388
Furniture and fixture	6,518,106	-	(21,006)	-	6,497,100
Vehicles	983,974	-	(233,453)	-	750,521
Freehold and leasehold improvements	35,919,380	699,551	(58,110)	1,011,033	37,571,854
Advance payments	1,240,812	8,367	-	(940,915)	308,264
	<u>157,396,901</u>	<u>840,943</u>	<u>(373,019)</u>	<u>70,118</u>	<u>157,934,943</u>
Accumulated depreciation	(67,620,887)	(5,943,127)	246,932	-	(73,317,082)
Allowance for impairment	(65,308)	-	-	-	(65,308)
	<u>(67,686,195)</u>	<u>(5,943,127)</u>	<u>246,932</u>	<u>-</u>	<u>(73,382,390)</u>
Capital work-in-progress	114,591	-	-	(70,118)	44,473
Carrying values	<u>89,825,297</u>				<u>84,597,026</u>

Gain on disposal of property and equipment during the year amounted to LBP 1.6 billion included in profit or loss (2021: loss of LBP 122 million).

15. Intangible assets

	Carrying Value January 31, 2022	Additions	Amortization for the year	Carrying Value December 31, 2022
	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	3,178,780	41,833	(1,501,429)	1,719,184
	<u>3,178,780</u>	<u>41,833</u>	<u>(1,501,429)</u>	<u>1,719,184</u>

	Carrying Value January 1, 2021	Additions	Amortization for the year	Carrying Value December 31, 2021
	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	4,671,738	145,571	(1,638,529)	3,178,780
	<u>4,671,738</u>	<u>145,571</u>	<u>(1,638,529)</u>	<u>3,178,780</u>

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

16. Other assets

	December 31,	
	2022	2021
	LBP'000	LBP'000
Prepayments	8,760,390	6,417,474
Commission receivable	1,058,046	816,592
Sundry debtors (a)	24,063,650	26,678,990
Foreign exchange position receivables (b)	12,602,200	20,523,767
Regulatory blocked deposit (c)	4,500,000	4,500,000
Accrued interest subsidy from Central Bank of Lebanon	-	70,000
Deferred tax assets on other comprehensive income	-	350,095
Fair valuation of forward exchange contracts	65,879	-
	51,050,165	59,356,918

(a) Sundry debtors include medical costs receivable from the Lebanese National Social Security Fund for the amount of LBP 11 billion. It represents medical expenses settled by the Group to employees and expected to be recovered within three years from the date they were incurred because of substantial settlement delays by the National Social Security Fund.

(b) Foreign exchange position receivables as at December 31, 2022, consist of amounts receivable from the Central Bank of Lebanon, mainly as a result of application of Basic Circulars 151, 158 and 161.

(c) Regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the establishment of a subsidiary that is in the process of liquidation. This deposit will be refunded upon finalizing the liquidation of the subsidiary, according to article 132 of the Lebanese Code of Money and Credit.

17. Assets and Liabilities held for sale

	December 31,	
	2022	2021
	LBP'000	LBP'000
Investments properties	-	20,995,135
Deferred assets adjustments to reach fair value less cost to sell	-	926,183
Assets held for sale	-	21,921,318
Other Liabilities	-	776,065
Liabilities associated with assets held for sale	-	776,065

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In 2017, the Group committed to a plan to sell its controlling interest in USB Bank PLC(Cyprus). In august 2018, the bank's board of Directors approved the sale and the Group received a total consideration of LBP 98 billion (EUR 57 million) in 2019 representing the net assets of USB Holding PLC.

On May 17, 2022, the Bank's directors approved the sale of its entire participation in the share capital of USB Holdings PLC for a total consideration of EUR 18,318,263 after the payment to the minority shareholders.

On 10 June 2022, BLC Bank and Astro Bank have entered into a share sale and purchase agreement of which Astro Bank acquired the 319,429,978 ordinary shares held by BLC in the share capital of USB Holdings PLC, constituting 99.25% of the issued share capital of USB.

Gain arising from disposal of investment in USB Holdings PLC during 2022 amounted to LBP 393 million.

18. Deposits from Banks and financial institutions

	December 31,	
	2022	2021
	LBP'000	LBP'000
Short term deposits from Parent Bank (Note 46)	-	67,000,000
Currents deposits	1,136,898	2,028,824
Short term deposits	101,064,979	952,213
Accrued interest payable (Note 46)	123,288	2,434,626
	102,325,165	72,415,663

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19. Customers' Accounts

Customers' accounts at amortized cost are detailed as follows:

	December 31,	
	2022	2021
	LBP'000	LBP'000
Deposits:		
Current/demand deposits	1,871,643,846	1,433,898,902
Term deposits	2,312,118,032	2,704,235,654
Collateral against loans and advances	30,944,064	41,796,903
Margins and other accounts:		
Margins against import letters of credit	9,282	9,282
Margins against letters of guarantee issued	25,904,440	26,870,793
Other margins	1,116,589	1,253,951
Blocked accounts	10,462,248	10,376,177
Accrued interest Payable	1,267,253	4,019,570
	4,253,465,754	4,222,461,232

Blocked accounts include balances amounting to LBP 5.4 billion (2021: LBP 5.4 billion) representing undisbursed loans to customers.

The above balances include deposits from related parties of LBP 64 billion (2021: LBP 67 billion) (Note 46).

Customers' deposits include related party deposits detailed as follows:

	December 31,	
	2022	2021
	LBP'000	LBP'000
Demand deposits	2,901,612	8,897,710
Term deposits	60,448,091	58,185,556
Collateral against loans and advances	505,719	79,144
Accrued interest payable	161,167	302,831
	64,016,589	67,465,241

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Brackets of deposits were as follows:

	December 31, 2022				
	Local currency		Foreign currencies		
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
	LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	538,625,945	38	972,617,363	34	1,511,243,308
From LBP 250 million to LBP 1.5 billion	356,367,049	25	937,632,557	33	1,293,999,606
Above LBP 1.5 billion	518,641,387	37	929,581,453	33	1,448,222,840
	<u>1,413,634,381</u>	<u>100</u>	<u>2,839,831,373</u>	<u>100</u>	<u>4,253,465,754</u>

	December 31, 2021				
	Local currency		Foreign currencies		
	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
	LBP'000	%	LBP'000	%	LBP'000
Less than LBP 250 million	412,836,410	34	790,731,150	26	1,203,567,560
From LBP 250 million to LBP 1.5 billion	349,133,627	29	1,052,628,223	35	1,401,761,850
Above LBP 1.5 billion	456,441,656	37	1,160,690,166	39	1,617,131,822
	<u>1,218,411,693</u>	<u>100</u>	<u>3,004,049,539</u>	<u>100</u>	<u>4,222,461,232</u>

Deposits from customers include coded deposit accounts in the aggregate amount of LBP 30 billion as at December 31, 2022 (2021: LBP 58 billion). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Group's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

20. Borrowing from Central Bank of Lebanon

	December 31,	
	2022	2021
	LBP'000	LBP'000
Soft loans from Central Bank of Lebanon (a)	1,232,408	4,103,030
Borrowings from Central Bank of Lebanon (b)	181,745,050	215,262,498
	<u>182,977,458</u>	<u>219,365,528</u>

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- (a) Outstanding facilities in Lebanese Pounds granted from the Central Bank of Lebanon in the amount of LBP 1.2 billion (LBP 4.1 billion as at December 31, 2021) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. These facilities bear interest rate of 0% computed annually and paid monthly.
- (b) Outstanding facilities in Lebanese Pounds granted from the Central Bank of Lebanon in the amount of LBP 182 billion (2021: LBP 215 billion) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. These facilities bear interest rate of 1% computed annually and paid monthly. Part of these facilities are collateralized by Lebanese treasury bills which will mature in 2022 and certificates of deposit issued by Central Bank of Lebanon.

The remaining contractual maturities of above borrowings are as follows:

	December 31,	
	2022	2021
	LBP'000	LBP'000
Up to 3 months	15,888,911	173,558
3 months to 1 year	374,975	34,717,844
1 year to 3 years	3,548,590	14,609,960
3 years to 5 years	9,251,781	1,797,630
Over 5 years	153,913,201	168,066,536
	182,977,458	219,365,528

The movement of borrowings was as follows:

	2022	2021
	LBP'000	LBP'000
Balance January 1	219,365,528	304,738,835
Additions	2,981,900	2,486,882
Settlements	(39,369,970)	(87,860,189)
Balance December 31	182,977,458	219,365,528

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

21. Other liabilities

	December 31,	
	2022	2021
	LBP'000	LBP'000
Sundry accounts payable	16,099,291	11,917,970
Advance on sale of USB	-	17,719,717
Accrued expenses	29,090,106	23,133,817
Provision for tax- Article 20 of Law No. 6/2020	7,409	7,409
Provision for income tax (a)	7,604,653	7,637,497
Withheld taxes payable	699,278	2,067,962
Deferred tax liability on accrued interest receivable	2,679,592	5,237,560
Deferred tax liability on future dividend distribution of subsidiaries	853,976	805,095
Deferred tax liability	1,639,606	1,639,606
Payable to personnel and directors	3,593,263	4,105,813
Checks and incoming payment orders in course of settlement	468,692	1,411,147
Deferred income	874,809	870,993
Due to the National Social Security Fund	1,169,785	606,433
Fair valuation of forward exchange contracts	-	1,611
Blocked capital subscriptions for companies under incorporation	409,215	409,714
Payable to non-controlling interests of a subsidiary under liquidation	-	7,440
	<u>65,189,674</u>	<u>77,579,784</u>

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

	December 31, 2021	
	2022	2021
	LBP'000	LBP'000
Loss before tax	(97,539,887)	(192,198,968)
Income tax on enacted applicable rates	41,259	74,103
Income tax expense	41,259	74,103
Unpaid prior year income tax	7,563,211	7,563,211
Other additional provisions/adjustments	-	183
Income tax liability	<u>7,604,470</u>	<u>7,637,497</u>

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The movement of current tax liability was as follows:

	December 31, 2021	
	2022	2021
	LBP'000	LBP'000
Balance January 1,	7,637,497	10,707,571
Charge for the year	41,259	74,103
Settlements	(74,286)	(3,144,177)
Balance December 31	<u>7,604,470</u>	<u>7,637,497</u>

Provision for income tax includes provision for tax contingencies in the amount of LBP 6.4 billion that was recorded during 2020.

22. Provisions

	December 31,	
	2022	2021
	LBP'000	LBP'000
Provision for end-of-service indemnity (a)	20,278,484	3,764,895
Provision for risk and charges (b)	36,126,382	29,111,657
Expected credit losses on commitments and financial guarantees	824,659	1,206,233
Provision for loss on foreign currency position	294,042	294,042
	<u>57,523,567</u>	<u>34,376,827</u>

a) The movement of the provision for end-of-service indemnity was as follows:

	2022	2021
	LBP'000	LBP'000
Balance January 1	3,764,895	3,262,874
Additions- net (Notes 36-37)	17,363,780	863,052
Settlements	(850,191)	(361,031)
Balance December 31	<u>20,278,484</u>	<u>3,764,895</u>

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

	2022	2021
	LBP'000	LBP'000
Balance January 1	29,111,657	8,412,440
Additions/(write-back)	11,051,500	20,804,000
Settlements	(4,036,775)	-
Difference of exchange	-	(104,783)
Balance December 31	<u>36,126,382</u>	<u>29,111,657</u>

Provisions for risks and charges are mainly against tax contingencies.

23. Share capital

As at December 31, 2022 and 2021, the Group's ordinary share capital consists of 214,000,000 shares of a par value of LBP 1,000 each fully paid.

The Group followed the requirements of Central Bank of Lebanon regarding the increase in common equity Tier I as at December 31, 2018 by 20% in foreign currencies that was later extended to February 28, 2021. The Group's Extraordinary General Assembly of shareholders held on January 30, 2020 called additional cash contribution from shareholders in the amount of USD 93.86 million. Up to December 31, 2020, the Group's shareholders settled USD 45.96 million (LBP 69.29 billion) in the form of cash contribution and the remaining balance of USD 47.9 million (LBP 72.2 billion) was settled in 2021 by the shareholders.

24. Preferred shares

	Year of Issue	Number of Shares	Annual Return	December 31,	
				2022	2021
			%	LBP'000	LBP'000
Series "D"	2016	750,000	6.75	113,062,501	113,062,501
Series "E"	2018	263,510	7.00	39,724,132	39,724,132
				<u>152,786,633</u>	<u>152,786,633</u>

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

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

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

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25. Treasury shares

	No. of shares	Cost LBP'000
Balance January 1, 2021	21,365,000	76,855,365
Effect of exchange rates changes	-	(972,984)
Balance December 31, 2021	21,365,000	75,882,381
Balance December 31, 2022	21,365,000	75,882,381

26. Non-distributable reserves

	Legal Reserve LBP'000	Reserve For General Banking Risks LBP'000	Special Reserve for Loans and Advances LBP'000	Reserve for Assets required in Satisfaction of Loans LBP'000	Total LBP'000
Balance - January 1, 2021	26,852,521	173,175,224	7,303,478	55,606,319	262,937,542
Other movement	-	36,053	-	-	36,053
Reallocation of reserves	-	4,570,382	-	(4,570,382)	-
Balance - December 31, 2021	26,852,521	177,781,659	7,303,478	51,035,937	262,973,595
Reallocation of reserves	-	1,504,493	-	(1,504,493)	-
Balance - December 31, 2022	26,852,521	179,286,152	7,303,478	49,531,444	262,973,595

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

(b) Based on the Central Bank of Lebanon Circular No73 and Banking Control Commission memo No12/2010 relating to reserve allocation for doubtful debts, the Group has allocated an amount of LBP7.3billion for the year 2020 to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved. This reserve is not available for distribution.

(c) The reserve for assets acquired in satisfaction of loans represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of loans shall be transferred to unrestricted reserves upon the disposal of the related assets.

27. Dividends paid

The Group distributed nil dividends during 2022 and 2021 to ordinary and preferred shares owners.

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28. Interest income

	2022		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Loans and advances to customers	48,977,577	-	48,977,577
Deposits with Central Bank	87,136,033	(8,223,127)	78,912,906
Investment securities (excluding FVTPL)	88,535,961	(7,827,145)	80,708,816
Deposits with banks and financial institutions	53,193	-	53,193
Loan to a bank	2,801	(757)	2,044
Loans and advances to related parties	15,181	-	15,181
	<u>224,720,746</u>	<u>(16,051,029)</u>	<u>208,669,717</u>

	2021		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Loans and advances to customers	60,010,177	-	60,010,177
Deposits with Central Bank	102,196,908	(11,230,360)	90,966,548
Investment securities (excluding FVTPL)	98,147,326	(9,868,130)	88,279,196
Deposits with banks and financial institutions	12,818	-	12,818
Loan to a bank	19,103	(2,565)	16,538
Loans and advances to related parties	143,374	-	143,374
	<u>260,529,706</u>	<u>(21,101,055)</u>	<u>239,428,651</u>

Interest income on investment securities:

	2022	2021
	LBP'000	LBP'000
Lebanese treasury bills	11,233,499	16,961,860
Certificates of deposit issued by Central Bank of Lebanon	77,302,149	81,139,769
Corporate bonds and asset backed securities	313	45,697
	<u>88,535,961</u>	<u>98,147,326</u>

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

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29. Interest expense

	2022	2021
	LBP'000	LBP'000
Interest expense on:		
Customers' accounts at amortized cost	21,064,089	47,762,496
Deposits and borrowings from banks	991,629	269,787
Deposits and borrowings from Parent Bank and subsidiaries (Note 46)	2,245,794	8,291,933
Special loan from Central Bank of Lebanon	2,133,643	2,860,435
Customers' accounts - related parties (Note 46)	111	3,102,985
Lease liability (Note13)	587,432	1,026,710
	27,022,698	63,314,346

30. Fee and commission income

	2022	2021
	LBP'000	LBP'000
Commission income from:		
Fee income on customers' transactions	52,821,589	22,383,477
Fee income on loans and advances	16,442,765	9,566,220
Commission earned on insurance policies	1,541,327	2,081,201
Fee income on letters of guarantee	1,652,680	1,933,073
Fee income on documentary credits	8,587	124,487
Commission on transactions with banks	31,710	28,515
Commission on capital markets customers' transactions (Note 38)	335,166	272,443
Other	952,312	658,850
	73,786,136	37,048,266

31. Fee and commission expense

	2022	2021
	LBP'000	LBP'000
Brokerage fees	282,115	333,964
Commission on transactions with banks and financial institutions	830,187	560,579
Commission paid to cars dealers	237,774	237,698
Other	3,889,175	414,972
	5,239,251	1,547,213

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32. Losses arising from the derecognition of investment securities measured at amortized cost

	<u>2022</u>	<u>2021</u>
	LBP'000	LBP'000
Lebanese government bonds (a)	-	12,748,281
Certificates of deposit issued by Central Bank of Lebanon (a)	-	1,773,285
	<u>-</u>	<u>14,521,566</u>

a) During 2021, the Group sold certificates of deposits issued by the Central Bank of Lebanon and Lebanese government bonds with a nominal value of LBP 50 billion and LBP 15 billion respectively, classified at amortized cost, which resulted in losses of LBP 1.8 billion and LBP 1.27 billion respectively.

33. Losses arising from the derecognition of investment securities measured at fair value through other comprehensive income

	<u>2021</u>	<u>2020</u>
	LBP'000	LBP'000
Lebanese Government bonds	-	89,576
	<u>-</u>	<u>89,576</u>

During 2022, the Group sold shares with a nominal value of LBP 263 million, classified at fair value through other comprehensive income, which resulted in net losses of LBP 90 million.

34. Net interest and other loss on investment securities at fair value through profit or loss

	<u>2022</u>	<u>2021</u>
	LBP'000	LBP'000
Interest income (net of withheld tax)	85,563	5,352
Dividends received	93,552	(184,030,219)
Net unrealized loss	(15,300,009)	-
	<u>(15,120,894)</u>	<u>(184,024,867)</u>

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35. Other operating expenses net

	<u>2022</u>	<u>2021</u>
	LBP'000	LBP'000
Multiplier factor costs (a)	(853,773)	(8,152,236)
Foreign exchange gain	(77,602,819)	(36,748,357)
Multiplier income	-	7,073,921
Rent income	2,237,207	665,310
Other income	73,874	253,138
	<u>(76,145,511)</u>	<u>(36,908,224)</u>

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

36. Staff costs

	<u>2022</u>	<u>2021</u>
	LBP'000	LBP'000
Salaries	39,822,871	30,718,657
Board of Directors remunerations (Note 46)	962,327	1,028,347
Social security contributions	7,184,065	4,608,217
Provision for end-of-service indemnities (Note 22)	17,363,780	823,952
Termination costs	-	389,271
Bonus and other staff benefits	31,958,884	14,534,438
	<u>97,291,927</u>	<u>52,102,882</u>

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37. General and administrative expense

	<u>2022</u>	<u>2021</u>
	LBP'000	LBP'000
Maintenance and repairs	6,818,971	9,237,688
Heat, light and power	11,725,036	5,622,982
Legal and professional fees	1,986,180	2,711,379
Credit card expenses	1,527,879	2,208,241
Fees and taxes	2,093,098	1,888,515
Electricity and water	2,193,795	1,678,710
Rent and building services	1,044,339	1,652,786
Subscriptions	2,131,091	1,176,636
Insurance	957,052	1,144,043
Public relations and entertainment	1,687,062	1,035,403
Cleaning	1,639,564	1,027,434
Telephone and postage	1,539,572	761,022
Security	709,767	722,282
Printing and stationary	427,513	535,531
Penalty fees	-	405,000
Advertising and publicity	299,019	233,152
Money transport	7,019	254,122
Travel	70,211	44,624
Software implementation fees	43,506	42,603
Miscellaneous expenses	3,314,352	3,760,361
	<u>40,215,026</u>	<u>36,142,514</u>

38. Financial instruments with off-balance sheet risks

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

Forward exchange contracts outstanding as of December 31, 2022 and 2021 represent positions held for customers' accounts. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

39. Fiduciary accounts

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

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40. Cash and cash equivalents

	December 31,	
	2022	2021
	LBP'000	LBP'000
Cash on hand (Note 5)	502,948,036	42,589,527
Current accounts with Central Bank of Lebanon (excluding compulsory deposits) (Note 5)	1,047,560,423	860,719,324
Term placements with Central Bank of Lebanon (with original maturity of less than 3 month) (Note 5)	144,720,000	123,062,500
Current accounts with correspondents (Note 6)	25,608,959	43,115,960
Current accounts with related banks and financial institutions (Note 6)	814,101	648,976
Current accounts with the Parent Bank (Note 6)	5,384,418	5,729,108
	<u>1,727,035,937</u>	<u>1,075,865,395</u>

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2022 and 2021 are summarized as follows:

- a. Negative change in fair value of investments as at fair value through other comprehensive income of LBP 444 million and related deferred tax liability of LBP 350 million (Negative change in fair value of LBP 6 billion and related deferred tax liability of LBP 580 million during 2021).
- b. Transfer from securities held at amortized cost and securities held at fair value through other comprehensive income to fair value through profit or loss in the amount of LBP 226 billion and LBP 13 billion respectively in 2021.

41. Collateral given

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

	December 31,				Amount of Pledged Assets LBP'000
	2022			2021	
	Amount of Pledged Assets LBP'000	Maturity Date LBP'000	Amount of Facility LBP'000	Nature of Facility LBP'000	
Certificates of Deposits issued by the Central Bank of Lebanon	7,943,789	June 9, 2029	7,337,169	Facilities from the Central Bank of Lebanon	7,943,789
Lebanese treasury bills	-	Revolving	-	Central Bank of Lebanon	15,219,300

42. Risk management

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

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Market risk: the risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- 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 Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, approves the risk appetite and policies of the Group. The Board monitors the risk profile in comparison to the risk appetite on a regular basis and follow-up on existing and emerging risks. A number of Management committees and departments are also responsible for various levels of risk management.

A. Credit Risk

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

Credit risk management

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

- Overseeing the risk management function as a whole.
- Ensuring that adequate policies and procedures governing the work of the risk management function exist at all levels, are up to date at all times, and ensure the proper and timely identification of risks that may put the capital of the Group at risk.
- Ensuring full compliance with laws and regulations related to risk management.
- Following up on corrective measures proposed by the risk management function and approved by the risk management committee.
- Overseeing the work of sub-committees especially when it comes to policies and procedures.
- Relaying to the board of directors its assessment on the adequacy of the risk management framework as a whole.
- Reviewing the risk reports making sure to relay to the board of directors in due time identified risks that may require a prompt attention/action.
- Validating all Risk related Policies, Business Continuity Policies, the Internal Capital Adequacy.
- Ensuring that the Group risk appetite and limits are properly understood and duly approved by BOD.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

Significant increase in credit risk

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

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

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

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

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

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

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

Incorporation of forward-looking information

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

Measurement of ECL

The key inputs used for measuring ECL are:

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

Commercial and retail lending

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

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

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

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice.

However, for exposures such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such exposures the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

These exposures do not have a fixed term or repayment structure and have a short contractual cancellation period.

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

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

Groupings based on shared risks characteristics

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

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

Credit Risk monitoring and review

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

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

I. Maximum exposure to credit risk

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

	December 31, 2022		
	Gross amounts	Allowance for expected credit losses	Net carrying amounts
	LBP'000	LBP'000	LBP'000
Deposits with the Central Bank of Lebanon (Note 5)	2,507,259,824	(11,522,428)	2,495,737,396
Deposits with banks and financial institutions (Note 6)	31,807,478	(158,493)	31,648,985
Loans and advances to customers (Note 8)	707,770,389	(143,083,060)	564,687,329
Investment securities at amortized cost (Note 9)	1,594,858,305	(256,287,862)	1,338,570,443
Investment securities at fair value through other comprehensive income (Note 9)	38,090,653	(23,604,231)	14,486,422
Investment securities at fair value through profit or loss (Note 10)	68,061,104	-	68,061,104
Other assets (Note 16)	37,807,560	-	37,807,560
	<u>4,985,655,313</u>	<u>(434,656,074)</u>	<u>4,550,999,239</u>
Commitments and financial guarantees	<u>58,782,342</u>	<u>(824,659)</u>	<u>57,957,683</u>

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	December 31, 2021		
	Gross	Allowance for	Net carrying
	amounts	expected credit	amounts
	LBP'000	losses	LBP'000
	LBP'000	LBP'000	LBP'000
Deposits with the Central Bank of Lebanon (Note 5)	2,368,517,755	(7,700,342)	2,360,817,413
Deposits with banks and financial institutions (Note 6)	50,308,786	(213,837)	50,094,949
Loan to a bank (Note 7)	704,766	(13,320)	691,446
Loans and advances to customers (Note 8)	1,137,513,485	(154,613,106)	982,900,379
Investment securities at amortized cost (Note 9)	1,671,511,622	(140,369,213)	1,531,142,409
Investment securities at fair value through other comprehensive income (Note 9)	39,415,318	(20,615,990)	18,799,328
Investment securities at fair value through profit or loss (Note 10)	53,727,295	-	53,727,295
Other assets (Note 16)	19,486,437	-	19,486,437
	<u>5,341,185,464</u>	<u>(323,525,808)</u>	<u>5,017,659,656</u>
Commitments and financial guarantees	<u>43,716,283</u>	<u>(1,206,233)</u>	<u>42,510,050</u>

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II. Exposures subject to ECL

	December 31, 2022			
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000
<u>Gross Exposures</u>				
Central Bank of Lebanon	-	2,507,259,824	-	2,507,259,824
Banks and financial institutions	31,807,478	-	-	31,807,478
Loans and advances to customers	333,813,116	88,618,014	285,339,259	707,770,389
Investment securities at amortized cost	-	680,999,259	913,859,046	1,594,858,305
Investment securities at fair value through other comprehensive income	12,989,851	-	25,100,802	38,090,653
Commitments and financial guarantees	50,864,084	7,917,258	1,000	58,782,342
	<u>429,474,529</u>	<u>3,284,794,355</u>	<u>1,224,300,107</u>	<u>4,938,568,991</u>
<u>Expected Credit Losses</u>				
Central Bank of Lebanon	-	(11,522,428)	-	(11,522,428)
Banks and financial institutions	(158,493)	-	-	(158,493)
Loans and advances to customers	(1,292,645)	(6,556,714)	(135,233,701)	(143,083,060)
Investment securities at amortized cost	-	-	(256,287,862)	(256,287,862)
Investment securities at fair value through other comprehensive income	-	-	(23,604,231)	(23,604,231)
Commitments and financial guarantees	(47,681)	(775,978)	(1,000)	(824,659)
	<u>(1,498,819)</u>	<u>(18,855,120)</u>	<u>(415,126,794)</u>	<u>(435,480,733)</u>
<u>Net Exposures</u>				
Central Bank of Lebanon	-	2,495,737,396	-	2,495,737,396
Banks and financial institutions	31,648,985	-	-	31,648,985
Loans and advances to customers	332,520,471	82,061,300	150,105,558	564,687,329
Investment securities at amortized cost	-	680,999,259	657,571,184	1,338,570,443
Investment securities at fair value through other comprehensive income	12,989,851	-	1,496,571	14,486,422
Commitments and financial guarantees	50,816,403	7,141,280	-	57,957,683
	<u>427,975,710</u>	<u>3,265,939,235</u>	<u>809,173,313</u>	<u>4,503,088,258</u>

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
<u>Gross Exposures</u>				
Central Bank of Lebanon	2,368,517,755	-	-	2,368,517,755
Banks and financial institutions	50,308,786	-	-	50,308,786
Loan to a bank	704,766	-	-	704,766
Loans and advances to customers	559,044,410	281,399,560	297,069,515	1,137,513,485
Investment securities at amortized cost	928,426,041	-	743,085,581	1,671,511,622
Investment securities at fair value through other comprehensive income	14,314,516	-	25,100,802	39,415,318
Commitments and financial guarantees	31,827,463	11,888,820	-	43,716,283
	<u>3,953,143,737</u>	<u>293,288,380</u>	<u>1,065,255,898</u>	<u>5,311,688,015</u>
<u>Expected Credit Losses</u>				
Central Bank of Lebanon	(7,700,342)	-	-	(7,700,342)
Banks and financial institutions	(213,837)	-	-	(213,837)
Loan to a bank	(13,320)	-	-	(13,320)
Loans and advances to customers	(5,954,861)	(24,215,482)	(124,442,763)	(154,613,106)
Investment securities at amortized cost	-	-	(140,369,213)	(140,369,213)
Investment securities at fair value through other comprehensive income	-	-	(20,615,990)	(20,615,990)
Commitments and financial guarantees	(255,284)	(950,949)	-	(1,206,233)
	<u>(14,137,644)</u>	<u>(25,166,431)</u>	<u>(285,427,966)</u>	<u>(324,732,041)</u>
<u>Net Exposures</u>				
Central Bank of Lebanon	2,360,817,413	-	-	2,360,817,413
Banks and financial institutions	50,094,949	-	-	50,094,949
Loan to a bank	691,446	-	-	691,446
Loans and advances to customers	553,089,549	257,184,078	172,626,752	982,900,379
Investment securities at amortized cost	928,426,041	-	602,716,368	1,531,142,409
Investment securities at fair value through other comprehensive income	14,314,516	-	4,484,812	18,799,328
Commitments and financial guarantees	31,572,179	10,937,871	-	42,510,050
	<u>3,939,006,093</u>	<u>268,121,949</u>	<u>779,827,932</u>	<u>4,986,955,974</u>

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

III. Movement of ECL

	December 31, 2022			
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	Total LBP'000
At January 1, 2022				
Deposits with Central Bank of Lebanon	7,700,342	-	-	7,700,342
Deposits with banks and financial institutions	213,837	-	-	213,837
Loan to a bank	13,320	-	-	13,320
Loans and advances to customers	5,954,861	24,215,482	124,442,763	154,613,106
Investment securities at amortized cost	-	-	140,369,213	140,369,213
Investment securities at fair value through other comprehensive income	-	-	20,615,990	20,615,990
Commitments and financial guarantees	255,284	950,949	-	1,206,233
	<u>14,137,644</u>	<u>25,166,431</u>	<u>285,427,966</u>	<u>324,732,041</u>
Net charge for the year				
Deposits with Central Bank of Lebanon	-	3,836,330	-	3,836,330
Deposits with banks and financial institutions	(53,344)	-	-	(53,344)
Loan to a bank	(13,320)	-	-	(13,320)
Loans and advances to customers	(4,222,120)	(12,715,530)	6,036,356	(10,901,294)
Investment securities at amortized cost	-	-	115,918,651	115,918,651
Investment securities at fair value through other comprehensive income	-	-	2,988,241	2,988,241
Commitments and financial guarantees	(207,553)	(174,971)	1,000	(381,524)
	<u>(4,496,337)</u>	<u>(9,054,171)</u>	<u>124,944,248</u>	<u>111,393,740</u>
Net transfers between stages				
Deposits with Central Bank of Lebanon	(7,700,342)	7,700,342	-	-
Loans and advances to customers	(52,121)	(4,943,240)	4,995,361	-
	<u>(7,752,463)</u>	<u>2,757,102</u>	<u>4,995,361</u>	<u>-</u>
Effect of exchange rates changes				
Deposits with Central Bank of Lebanon	-	(14,244)	-	(14,244)
Deposits with banks and financial institutions	(2,000)	-	-	(2,000)
Loans and advances to customers	(387,975)	2	(240,779)	(628,752)
Investment securities at amortized cost	-	-	(2)	-
Commitments and financial guarantees	(50)	-	-	(50)
	<u>(390,025)</u>	<u>(14,242)</u>	<u>(240,779)</u>	<u>(645,046)</u>
At December 31, 2022				
Deposits with Central Bank of Lebanon	-	11,522,428	-	11,522,428
Deposits with banks and financial institutions	158,493	-	-	158,493
Loans and advances to customers	1,292,645	6,556,714	135,233,701	143,083,060
Investment securities at amortized cost	-	-	256,287,862	256,287,862
Investment securities at fair value through other comprehensive income	-	-	23,604,231	23,604,231
Commitments and financial guarantees	47,681	775,978	1,000	824,659
	<u>1,498,819</u>	<u>18,855,120</u>	<u>415,126,794</u>	<u>435,480,733</u>

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Notes to the Consolidated Financial Statements for the year ended December 31, 2022

	December 31, 2021			Total LBP'000
	Stage 1 LBP'000	Stage 2 LBP'000	Stage 3 LBP'000	
At January 1, 2021				
Deposits with Central Bank of Lebanon	3,402,320	-	-	3,402,320
Deposits with banks and financial institutions	1,441,411	-	-	1,441,411
Loan to a bank	26,674	-	-	26,674
Loans and advances to customers	22,696,339	22,624,454	121,736,971	167,057,764
Investment securities at amortized cost	186,051	93,736,697	-	93,922,748
Investment securities at fair value through other comprehensive income	-	757,306	-	757,306
Commitments and financial guarantees	250,685	112,915	-	363,600
	<u>28,003,480</u>	<u>117,231,372</u>	<u>121,736,971</u>	<u>266,971,823</u>
Net charge for the year				
Deposits with Central Bank of Lebanon	4,311,694	-	-	4,311,694
Deposits with banks and financial institutions	(1,238,784)	-	-	(1,238,784)
Loan to a bank	-	-	-	-
Loans and advances to customers	(15,136,139)	-	4,315,677	(10,820,462)
Investment securities at amortized cost	(14,831)	-	66,320,368	66,305,537
Customers' liability under acceptances	41	-	-	41
Customers' liability under acceptances	844,529	-	-	844,529
	<u>(11,233,490)</u>	<u>-</u>	<u>70,636,045</u>	<u>59,402,555</u>
Net transfers between stages				
Loans and advances to customers	(1,606,049)	1,591,028	(1,609,885)	(1,624,906)
Commitments and financial guarantees	(839,930)	839,930	-	-
	<u>(2,445,979)</u>	<u>2,430,958</u>	<u>(1,609,885)</u>	<u>(1,624,906)</u>
Other transfers				
Investment securities at amortized cost	(171,220)	(93,736,697)	74,049,233	(19,858,684)
Investment securities at fair value through other comprehensive income	-	(757,306)	20,615,990	19,858,684
	<u>(171,220)</u>	<u>(94,494,003)</u>	<u>94,665,223</u>	<u>-</u>
Recoveries related to financial assets sold				
Customers' liability under acceptances	(41)	-	-	(41)
Commitments and financial guarantees	-	(1,896)	-	(1,896)
	<u>(41)</u>	<u>(1,896)</u>	<u>-</u>	<u>(1,937)</u>
Effect of exchange rates changes				
Deposits with Central Bank of Lebanon	(13,672)	-	-	(13,672)
Deposits with banks and financial institutions	11,210	-	-	11,210
Loan to a bank	(13,354)	-	-	(13,354)
Loans and advances to customers	710	-	(388)	322
	<u>(15,106)</u>	<u>-</u>	<u>(388)</u>	<u>(15,494)</u>
At December 31, 2021				
Deposits with Central Bank of Lebanon	7,700,342	-	-	7,700,342
Deposits with banks and financial institutions	213,837	-	-	213,837
Loan to a bank	13,320	-	-	13,320
Loans and advances to customers	5,954,861	24,215,482	124,442,763	154,613,106
Investment securities at amortized cost	-	-	140,369,213	140,369,213
Investment securities at fair value through other comprehensive income	-	-	20,615,990	20,615,990
Commitments and financial guarantees	255,284	950,949	-	1,206,233
	<u>14,137,644</u>	<u>25,166,431</u>	<u>285,427,966</u>	<u>324,732,041</u>

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

	December 31,	
	2022	2021
	LBP'000	LBP'000
<u>Corporate:</u>		
Agriculture	15,347,831	22,337,008
Commerce	152,242,787	260,203,096
Construction and real estate	182,011,927	238,017,714
Individual	75,965,380	17,192,442
Industrial	31,090,194	49,393,665
Financial intermediaries	-	3,448,763
Services	25,307,228	31,295,179
	<u>481,965,347</u>	<u>621,887,867</u>
Retail loans	219,404,565	503,358,486
Accrued interest receivable	6,400,477	12,267,132
	<u>707,770,389</u>	<u>1,137,513,485</u>

Netting arrangements:

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

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

IV. Risk Mitigation Policies

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

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

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

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V. Financial assets with credit risk exposure and related concentrations

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

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

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

	December 31, 2022		
	Total Balance	% of Total	Number of Counterparties
Less than LBP 5 billion	12,008,179	38	24
From LBP 5 billion to LBP 15 billion	19,799,299	62	2
From LBP 15 billion to LBP 30 billion	-	-	-
	<u>31,807,478</u>	<u>100</u>	<u>26</u>

	December 31, 2021		
	Total Balance	% of Total	Number of Counterparties
Less than LBP 5 billion	22,714,042	45	56
From LBP 5 billion to LBP 15 billion	12,049,363	24	2
From LBP 15 billion to LBP 30 billion	15,545,381	31	1
	<u>50,308,786</u>	<u>100</u>	<u>59</u>

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

	December 31, 2022		
	Carrying amount	% of Total	Number of Counterparties
Less than LBP 500 million	312,355,144	45	41,357
From LBP 500 million to LBP 5 billion	119,855,435	17	186
From LBP 5 billion to LBP 15 billion	107,011,598	15	13
Above LBP 15 billion	162,147,735	23	10
	<u>701,369,912</u>	<u>100</u>	<u>41,566</u>
Accrued interest receivable	6,400,477		
	<u>707,770,389</u>		

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	December 31, 2021		
	Carrying amount	% of Total	Number of Counterparties
Less than LBP 500 million	530,690,400	47	54,692
From LBP 500 million to LBP 5 billion	232,057,022	21	278
From LBP 5 billion to LBP 15 billion	129,673,829	12	16
Above LBP 15 billion	232,825,102	20	11
	1,125,246,353	100	54,997
Accrued interest receivable	12,267,132		
	<u>1,137,513,485</u>		

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

	Carrying Values of Collaterals Received											Lesser of individual Exposure or Total Guarantees LBP'000
	December 31, 2022	Carrying Amount LBP'000	Expected Credit Losses LBP'000	Net Amount LBP'000	Pledged Funds LBP'000	Bank Guarantee LBP'000	First and second degree mortgage on Properties LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	others LBP'000	Total Guarantees LBP'000	
Performing - Stages 1 & 2	422,431,129	(7,849,359)	414,581,770	33,474,957	139,282	323,123,334	339,188	150,750	72,191,832	429,419,342	350,799,114	
Substandard - Stage 3	77,433,357	(1,323,441)	76,109,916	3,045	-	69,374,276	-	-	2,132,227	71,509,549	70,234,181	
Doubtful - Stage 3	155,061,330	(81,065,767)	73,995,563	4,571	-	101,086,023	-	-	4,791,809	105,882,403	104,467,249	
Bad - Stage 3	52,844,573	(52,844,493)	80	115,863	-	718,334	-	-	12,340,122	13,174,319	9,364,697	
	707,770,389	(143,083,060)	564,687,329	33,598,436	139,282	494,301,968	339,188	150,750	91,455,989	619,985,612	534,865,241	

	Carrying Values of Collaterals Received											Lesser of individual Exposure or Total Guarantees LBP'000
	December 31, 2021	Carrying Amount LBP'000	Expected Credit Losses LBP'000	Net Amount LBP'000	Pledged Funds LBP'000	Bank Guarantee LBP'000	First and second degree mortgage on Properties LBP'000	Equity Securities LBP'000	Debt Securities LBP'000	others LBP'000	Total Guarantees LBP'000	
Performing - Stages 1 & 2	839,387,067	(30,170,380)	809,216,724	64,573,834	851,933	568,166,284	339,188	150,750	130,881,943	764,963,932	617,861,973	
Substandard - Stage 3	115,658,409	(18,827,062)	96,831,347	34,059	-	73,806,774	-	-	3,420,559	77,261,392	74,990,551	
Doubtful - Stage 3	139,370,335	(62,533,180)	76,837,155	68,176	-	107,451,645	-	-	5,786,510	113,306,331	111,237,383	
Bad - Stage 3	43,097,674	(43,082,484)	15,153	53,926	-	378,902	-	-	15,139,151	15,571,979	10,868,345	
	1,137,513,485	(154,613,106)	982,900,379	64,729,995	851,933	749,803,605	339,188	150,750	155,228,163	971,103,634	814,958,252	

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Notes to the Consolidated Financial Statements For the year ended December 31, 2022

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

	December 31, 2022					Total LBP'000
	Lebanon LBP'000	Middle East and Africa LBP'000	North America	Europe	Other	
FINANCIAL ASSETS						
Cash and Central Bank	2,998,685,432	-	-	-	-	2,998,685,432
Deposits with banks and financial institutions	6,289,441	328,823	4,551,158	20,479,563	-	31,648,985
Investments at fair value through profit or loss	68,061,104	-	-	-	-	68,061,104
Loans and advances to customers	546,355,779	15,063,789	1,100,162	1,747,805	419,794	564,687,329
Investment securities	1,353,056,865	-	-	-	-	1,353,056,865
	<u>4,972,448,621</u>	<u>15,392,612</u>	<u>5,651,320</u>	<u>22,227,368</u>	<u>419,794</u>	<u>5,016,139,715</u>
FINANCIAL LIABILITIES						
Deposits from banks and Financial institutions	102,139,538	133	-	185,494	-	102,325,165
Customers' accounts	3,567,536,675	447,892,989	75,807,100	118,331,783	43,897,207	4,253,465,754
Borrowing from Central Bank of Lebanon	182,977,458	-	-	-	-	182,977,458
Lease liability	7,127,008	-	-	-	-	7,127,008
	<u>3,859,780,679</u>	<u>447,893,122</u>	<u>75,807,100</u>	<u>118,517,277</u>	<u>43,897,207</u>	<u>4,545,895,385</u>
December 31, 2021						
	Lebanon LBP'000	Middle East and Africa LBP'000	North America	Europe	Other	Total LBP'000
FINANCIAL ASSETS						
Cash and Central Bank	2,403,406,940	-	-	-	-	2,403,406,940
Deposits with banks and financial institutions	6,962,878	983,619	10,875,002	31,273,450	-	50,094,949
Loan to a bank	691,446	-	-	-	-	691,446
Investments at fair value through profit or loss	53,727,295	-	-	-	-	53,727,295
Loans and advances to customers	945,783,453	30,851,590	2,568,923	2,984,424	711,989	982,900,379
Investment securities	1,549,941,737	-	-	-	-	1,549,941,737
	<u>4,960,513,749</u>	<u>31,835,209</u>	<u>13,443,925</u>	<u>34,257,874</u>	<u>711,989</u>	<u>5,040,762,746</u>
FINANCIAL LIABILITIES						
Deposits from banks and Financial institutions	72,145,437	133	-	270,093	-	72,415,663
Customers' accounts	3,516,783,237	469,726,638	71,469,277	120,248,528	44,233,552	4,222,461,232
Borrowing from Central Bank of Lebanon	219,365,528	-	-	-	-	219,365,528
Lease liability	8,824,282	-	-	-	-	8,824,282
	<u>3,817,118,484</u>	<u>469,726,771</u>	<u>71,469,277</u>	<u>120,518,621</u>	<u>44,233,552</u>	<u>4,523,066,705</u>

B. Liquidity Risk

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

1. Management of liquidity risk

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

2. Exposure to liquidity risk

Regulatory requirements

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Group. In Lebanon and since October 2019 events, the Group monitors on a daily basis the ratio of available international foreign currency liquidity to international commitments over various time horizons.

The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by February 28, 2021. On December 24, 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Group has not yet met this regulatory international liquidity ratio, and communication with the regulator is still ongoing to meet this ratio.

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

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Residual contractual maturities of financial liabilities

	December 31, 2022					Total LBP'000
	Up to 3 months	3 months to 1 Year	1 year to 3 Years	3 Years to 5 Years	Over 5 years	
	LBP'000	LBP'000				
Deposits from banks and financial institutions	101,936,165	389,000	-	-	-	102,325,165
Customers' accounts at amortized cost	3,152,759,754	1,090,500,000	5,180,000	5,026,000	-	4,253,465,754
Lease Liabilities	-	-	172,309	1,434,371	5,520,328	7,127,008
Borrowing from Central Bank of Lebanon	15,888,911	374,975	3,548,590	9,251,781	153,913,201	182,977,458
	<u>3,270,584,830</u>	<u>1,091,263,975</u>	<u>8,900,899</u>	<u>15,712,152</u>	<u>159,433,529</u>	<u>4,545,895,385</u>

	December 31, 2021					Total LBP'000
	Up to 3 months	3 months to 1 Year	1 year to 3 Years	3 Years to 5 Years	Over 5 years	
	LBP'000	LBP'000				
Deposits from banks and financial institutions	35,501,519	36,914,144	-	-	-	72,415,663
Customers' accounts at amortized cost	3,384,598,399	797,000,203	40,335,086	527,544	-	4,222,461,232
Lease Liabilities	-	-	1,415,993	1,817,992	5,590,297	8,824,282
Borrowing from Central Bank of Lebanon	173,558	34,717,844	14,609,960	1,797,630	168,066,536	219,365,528
	<u>3,420,273,476</u>	<u>868,632,191</u>	<u>56,361,039</u>	<u>4,143,166</u>	<u>173,656,833</u>	<u>4,523,066,705</u>

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C. Market Risk

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

Exposure to foreign exchange risk:

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

	December 31, 2022					Total LBP'000
	LBP LBP'000	USD LBP'000	Euro LBP'000	GBP LBP'000	Other LBP'000	
ASSETS:						
Cash and Central Bank	1,122,409,777	1,756,257,693	119,022,067	995,895	-	2,998,685,432
Deposits with banks and financial institutions	3,317,662	8,781,175	16,871,587	450,874	2,227,687	31,648,985
Investments at fair value through profit or loss	1,235,275	66,825,829	-	-	-	68,061,104
Loans and advances to customers	258,356,379	305,232,841	1,095,881	350	1,878	564,687,329
Investment securities	693,158,994	659,850,437	47,433	-	-	1,353,056,865
Assets acquired in satisfaction of loans	10,924,978	50,610,004	-	-	-	61,534,981
Right-of-use assets	483,105	5,574,098	-	-	-	6,057,203
Property and equipment	78,581,310	-	-	-	-	78,581,310
Intangible assets	1,719,184	-	-	-	-	1,719,184
Other assets	44,658,865	6,383,928	1,803	5,573	(3)	51,050,165
Total assets	2,214,845,529	2,859,516,004	137,038,771	1,452,692	2,229,562	5,215,082,558
LIABILITIES						
Deposits from banks and financial institutions	100,176,142	2,146,255	2,768	-	-	102,325,165
Customers accounts	1,413,634,393	2,672,047,359	162,070,759	3,005,717	2,707,526	4,253,465,754
Other borrowings	175,945,597	7,031,861	-	-	-	182,977,458
Lease liability	537,648	6,589,360	-	-	-	7,127,008
Other liabilities	57,019,359	8,046,583	123,238	89	405	65,189,674
Provisions	48,216,077	8,455,741	851,749	-	-	57,523,567
Total Liabilities	1,795,529,216	2,704,317,159	163,048,514	3,005,806	2,707,931	4,668,608,626
Net assets	419,316,314	155,198,845	(26,009,743)	(1,553,114)	(478,369)	546,473,932

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	December 31, 2021					Total LBP'000
	LBP LBP'000	USD LBP'000	Euro LBP'000	GBP LBP'000	Other LBP'000	
ASSETS:						
Cash and Central Bank	602,249,137	1,677,060,320	122,986,878	1,110,605	-	2,403,406,940
Deposits with banks and financial institutions	3,609,879	23,389,753	17,213,365	2,373,719	3,508,233	50,094,949
Loan to a bank	691,446	-	-	-	-	691,446
Investments at fair value through profit or loss	1,370,421	52,356,874	-	-	-	53,727,295
Loans and advances to customers	477,346,391	503,450,706	2,097,059	4,473	1,750	982,900,379
investments at amortized cost	755,886,758	775,255,651	-	-	-	1,531,142,409
Investments at fair value through other comprehensive income	5,039,511	13,709,495	50,322	-	-	18,799,328
Assets acquired in satisfaction of loans	10,918,928	51,468,785	-	-	-	62,387,713
Right-of-use assets	801,907	7,357,713	-	-	-	8,159,620
Property and equipment	84,597,026	-	-	-	-	84,597,026
Intangible assets	3,178,780	-	-	-	-	3,178,780
Other assets	52,268,250	7,067,265	4,034	14,306	3,063	59,356,918
Asset classified as held for sale	-	-	21,921,318	-	-	21,921,318
Total assets	1,997,958,434	3,111,116,562	164,272,976	3,503,103	3,513,046	5,280,364,121
LIABILITIES						
Deposits from banks and financial institutions	69,694,302	2,627,452	93,909	-	-	72,415,663
Customers accounts	1,218,411,689	2,823,248,962	174,016,415	3,417,312	3,366,854	4,222,461,232
Other borrowings	208,165,409	11,200,119	-	-	-	219,365,528
Lease liability	913,791	7,910,491	-	-	-	8,824,282
Other liabilities	50,513,066	11,590,631	15,465,556	124	10,407	77,579,784
Provisions	31,424,566	1,761,196	1,191,065	-	-	34,376,827
Liabilities associated with assets as held for sale	-	-	776,065	-	-	776,065
	1,579,122,823	2,858,338,851	191,543,010	3,417,436	3,377,261	4,635,799,381
Net assets	418,835,611	252,777,711	(27,270,034)	85,667	135,785	644,564,740

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

The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the official exchange rate is changed by the relevant authorities.

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

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The tables below include segregation of onshore and offshore assets and liabilities in foreign currencies:

	December 31 ,2022			
		Onshore	Offshore	
	LBP LBP'000	Foreign currency LBP'000	foreign Currency LBP'000	Total LBP'000
<u>ASSETS:</u>				
Cash and Central Bank	1,122,409,777	1,860,496,038	15,779,617	2,998,685,432
Deposits with banks and Financial institutions	3,317,662	3,010,638	25,320,685	31,648,985
Investments at fair value through profit or loss	1,235,275	66,825,829	-	68,061,104
Loans and advances to customers	258,356,378	295,275,786	11,055,165	564,687,329
Investment securities	693,158,994	659,897,871	-	1,353,056,865
Assets acquired in satisfaction of loans	10,924,978.00	50,610,003	-	61,534,981
Right-of-use assets	483,105	5,574,098	-	6,057,203
Property and equipment	78,581,310	-	-	78,581,310
Intangible assets	1,719,184	-	-	1,719,184
Other assets	44,658,865	6,391,300	-	51,050,165
Total Assets	2,214,845,528	2,948,081,563	52,155,467	5,215,082,558
<u>LIABILITIES</u>				
Deposits from banks	100,404,317	1,735,220	185,627	102,325,165
Customers accounts	1,413,634,381	2,279,327,263	560,504,110	4,253,465,754
Borrowing from Central Bank of Lebano	175,945,597	7,031,861	-	182,977,458
Lease liability	537,648	6,589,360	-	7,127,008
Other liabilities	57,019,359	8,144,950	25,365	65,189,674
Provisions	48,216,077	9,307,490	-	57,523,567
Total Liabilities	1,795,757,379	2,312,136,144	560,715,102	4,668,608,626
Net assets	419,088,149	635,945,418	(508,559,635)	546,473,932

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	December 31, 2021			
	LBP	Onshore Foreign currency	Offshore foreign Currency	Total
	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS:				
Cash and Central Bank	602,249,135	1,787,936,774	13,221,031	2,403,406,940
Deposits with banks and Financial institutions	3,609,878	3,422,395	43,062,676	50,094,949
Loan to a bank	691,446	-	-	691,446
Investments at fair value through profit or loss	1,370,421	52,356,874	-	53,727,295
Loans and advances to customers	477,346,253	490,990,475	14,563,651	982,900,379
Investments securities	760,926,269	789,015,468	-	1,549,941,737
Assets acquired in satisfaction of loans	10,918,927	51,468,786	-	62,387,713
Right-of-use assets	801,907	7,357,713	-	8,159,620
Property and equipment	84,597,026	-	-	84,597,026
Intangible assets	3,178,780	-	-	3,178,780
Other assets	52,246,612	7,110,306	-	59,356,918
Assets classified as held-for-sale	-	-	21,921,318	21,921,318
Total Assets	1,997,936,654	3,189,658,791	92,768,676	5,280,364,121
LIABILITIES				
Deposits from banks	69,694,301	2,445,139	276,223	72,415,663
Customers accounts	1,218,411,693	2,423,308,623	580,740,916	4,222,461,232
Other borrowings	208,165,408	11,200,120	-	219,365,528
Lease liability	913,791	7,910,491	-	8,824,282
Other liabilities	50,708,575	26,839,279	31,930	77,579,784
Provisions	31,424,567	2,952,260	-	34,376,827
Liabilities associated with assets held for sale	-	-	776,065	776,065
Total Liabilities	1,579,318,335	2,474,655,912	581,825,134	4,635,799,381
Net assets	418,618,319	715,002,879	(489,056,458)	644,564,740

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Exposure to Interest rate risk

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

		December 31, 2022						
		No subject to Interest	Less than 3 Months	3 Months to 1 Year	1 year to 3 Years	3 year to 5 Years	Over 5 Years	Total
		LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS								
Cash and Central Bank		2,134,048,432	-	7,057,000	140,905,000	98,572,000	618,103,000	2,998,685,432
Deposits with banks and financial institutions		31,594,912	54,073	-	-	-	-	31,648,985
Investment securities at fair value through profit or loss		22,792,347	22,505,000	290	-	15,215,000	7,548,467	68,061,104
Loans and advances to customers		150,107,558	86,536,000	121,357,000	63,283,000	64,876,000	78,527,771	564,687,329
Investment securities		509,585,446	692,000	12,675,982	63,225,754	61,495,000	705,382,683	1,353,056,865
		<u>2,848,128,695</u>	<u>109,787,073</u>	<u>141,090,272</u>	<u>267,413,754</u>	<u>240,158,000</u>	<u>1,409,561,921</u>	<u>5,016,139,715</u>
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions		3,236,840	99,088,325					102,325,165
Customers' accounts		3,814,329,776	355,112,978	73,817,000	5,180,000	5,026,000	-	4,253,465,754
Borrowing from Central Bank of Lebanon		13,952,026	1,936,886	374,975	3,548,590	9,251,781	153,913,201	182,977,458
Lease Liability		-	-	-	172,309	1,434,371	5,520,328	7,127,008
		<u>3,831,518,642</u>	<u>456,138,189</u>	<u>74,191,975</u>	<u>8,900,899</u>	<u>15,712,152</u>	<u>159,433,529</u>	<u>4,545,895,385</u>

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	December 31, 2021						Total LBP'000	
	No subject to Interest LBP'000	Less than 3 Months LBP'000		3 Months to 1 Year LBP'000		1 to 3 Years LBP'000		
		3 to 5 Years LBP'000		Over 5 Years LBP'000		Total LBP'000		
FINANCIAL ASSETS								
Cash and Central Bank	1,396,729,903	10,000,000	220,991,529	65,449,375	80,738,000	629,498,133	2,403,406,940	
Deposits with banks and financial institutions	-	50,094,949	-	-	-	-	50,094,949	
Loan to a bank	4,694	-	686,752	-	-	-	691,446	
Investment securities at fair value through profit or loss	13,177,189	-	40,550,106	-	-	-	53,727,295	
Loans and advances to customers	173,683,687	155,394,229	96,768,195	146,123,129	77,352,484	333,578,655	982,900,379	
Investment securities	814,129,671	50,090,000	36,918,342	13,285,133	19,964,175	615,554,416	1,549,941,737	
	<u>2,397,725,144</u>	<u>265,579,178</u>	<u>395,914,924</u>	<u>224,857,637</u>	<u>178,054,659</u>	<u>1,578,631,204</u>	<u>5,040,762,746</u>	

FINANCIAL LIABILITIES

Deposits from banks and financial institutions	5,383,937	30,031,726	37,000,000	-	-	-	72,415,663
Customers' accounts	4,195,061	3,981,959,467	196,515,382	39,263,778	527,544	-	4,222,461,232
Borrowing from Central Bank of Lebanon	5,836,340	-	205,703,358	-	5,885,830	1,940,000	219,365,528
Lease Liability	-	-	-	1,415,993	1,817,992	5,590,297	8,824,282
	<u>15,415,338</u>	<u>4,011,991,193</u>	<u>439,218,740</u>	<u>40,679,771</u>	<u>8,231,366</u>	<u>7,530,297</u>	<u>4,523,066,705</u>

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D. Other Operational Risks

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 bank 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 bank 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.

E. Other risks

Litigation Risk

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

Since October 17, 2019, and as a result of the de-facto capital control and other measures adopted by Lebanese banks imposing various restrictions of free flow of customers' funds deposited with the banking sector, the Group has been subject to an increased litigation risk. Management is monitoring and assessing the impact of potential litigation and claims against the Group in relation to these restrictive measures taking into consideration prevailing laws, regulations and local banking practices.

Although there are uncertainties with respect to outcomes of any potential litigation in connection with the adoption of the various restrictive measures, management considers that any associated claims, if any are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

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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 bank'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 neighboring 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.

43. Contingencies

Provisions for risk and charges includes provisions against tax contingencies, litigations and claims whereby the Group is defendant in several lawsuits.

The Group's tax returns for the years 2017 till 2022 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

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

On June 7, 2021 a decision was taken by the Execution court in Metn to apply a conservative seizure on the Bank's movable assets in some of its branches as one of the customers has filed a lawsuit against the Bank for an amount of USD1.4million and EUR259. The Bank has filed an opposition against the decision on November 1, 2021 which is still pending before the court and also requested to move the conservatory seizure in counterpart of depositing a bankers check in LBP amounting to LBP 2.4 billion on December 6, 2021. but has been rejected by the court on April 11, 2022. The advance payment was recorded under "sundry debtors" (Note 16).

On May 17, 2022 a decision was issued to expand the conservatory seizure to include property No. 4740 from Ashrafiéh real estate area.

On June 6, 2022 the Bank deposited a bankers check in USD amounting to USD 1,5 million in order to request to move the conservatory seizure which is still pending before the court.

44. Capital management

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

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

- Raising the regulatory expected credit loss level for Lebanese Government securities in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45% and then later to 75%. Regulatory ECL for other exposures remain unchanged.

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<i>Type of financial instrument</i>	2022	2021
Exposures to Central Bank of Lebanon in foreign currency	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Lira	0 %	0 %
Lebanese government securities in foreign currency	75 %	45 %
Lebanese government securities in Lebanese Lira	0 %	0 %

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier one capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020 but was later extended for the banking sector to 28 February 2021.

As discussed in note 23, the bank's extraordinary General Assembly of shareholders held on January 30, 2020 called additional cash contribution from shareholders in the amount of USD 93.86million. Up to December 31, 2020 the bank's shareholders settled USD 45.96million (LBP 69.29 billion) in the form of cash contribution with the remaining balance of USD47.9 million (LBP 72.2 billion) settled in 2021.

- Exceptionally during 2020 and 2021, allowing banks to drawn down the 2.5% capital conservation buffer oncondition of rebuilding it progressively starting 2022 by 0.75% each year, to reach the minimum required level of 2.5% by the end of 2024.
- Prohibiting Lebanese banks from distributing dividends on common shares for the financial years 2019, 2020, 2021 and 2022 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.

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

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

In 2022, 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 bank's capital adequacy ratio.

The Group's capital adequacy ratio was as follows:

	December, 31	
	2022	2021
	LBP Million	LBP Million
Common Equity Tier I	405,758	518,868
Additional Tier I capital	152,787	152,787
	<u>558,545</u>	<u>671,655</u>
Tier II capital	9,988	7,924
Total regulatory capital	<u>568,533</u>	<u>679,579</u>
Credit risk	3,028,580	3,758,205
Market risk	284,041	105,796
Operational risk	333,812	317,313
Risk-weighted assets and risk-weighted off-balance sheet items	<u>3,646,433</u>	<u>4,181,314</u>
Equity Tier I ratio	11.13%	12.41%
Tier I capital ratio	15.32%	16.06%
Risk based capital ratio - Tier I and Tier II capital	15.59%	16.25%

The Bank's capital adequacy ratio as at December 31, 2022 and 2021, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties discussed under Note 1.3 once these uncertainties become reasonably quantifiable.

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Due to the high levels of these uncertainties, management is unable to estimate in a reasonable manner, the impact of these matters on the Group's capital adequacy and the recapitalization needs that may arise once the necessary adjustments are determined and recorded.

45. Fair value of financial assets and liabilities

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 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.

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

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

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comprising of interest rates and yield curves, implied volatilities, and credit spreads that are not reflective of the economic reality and market conditions.

In the absence of reliable data, the Group did not disclose the fair value of financial assets and liabilities originated in Lebanon as required by IFRS 13 *Fair Value Measurements*.

46. Related party transactions

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

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

	December 31,	
	2022	2021
	LBP'000	LBP'000
Deposits with related banks		
Current accounts with Parent Bank (note 6) :		
Fransabank S.A.L.	5,384,418	5,729,108
Current accounts with related banks and financial institutions (note 6) :		
Fransa Invest Bank S.A.L	628,664	447,610
Fransabank France S.A.	185,437	201,366
Interest income from deposits with related banks	1,026	-
Loans and advances to related parties – Board members and key management		
Loans and advances (Note 8)	9,648	3,658,599
Interest income from loans and advances to related parties	19,413	143,374
Deposits from related banks (Note 18)		
Current deposits - subsidiaries :		
Short term deposits from parent bank-Fransabank S.A.L	-	67,000,000
Accrued interest payable	123,288	2,434,626
Interest expense on deposits from related banks (Note 29)	2,245,794	8,291,933
Related parties' customers' deposits – Board members, key management and related company (Note 19)		
Demand deposits	2,901,612	8,897,710
Term deposits	60,448,091	58,185,556
Collateral against loans and advances	505,719	79,144
Accrued interest payable	161,167	302,831
Interest expense on customers' deposits from related parties	111	3,102,985
Board members remunerations (Note 36)		
Board of Directors remuneration fees	881,927	947,947

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47. Subsequent events

i) As mentioned in Note 1, in February 2023, the Central Bank of Lebanon changed the official published exchange rate from LBP1,507.5 to LBP15,000 to the US Dollars. The Bank applied the new rate of LBP15,000 in its subsequent financial information reporting, with the first period being the reporting as of 31 March 2023.

ii) On May 17, 2022 the Group signed the sale purchase agreement of BLC Finance SAL for a total consideration of USD 225,000 plus LBP 8.75 billion.

On April 3, 2023 the Central Bank of Lebanon approved the disposal of the entire shares of all the shareholders of BLC Finance SAL.

48. Approval of the financial statements

The consolidated financial statements for the year ended December 31, 2022 were approved by the Board of Directors in its meeting held on July 5, 2023.