BLOM BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL

Adverse opinion

We have audited the consolidated financial statements of Blom Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for adverse opinion

1. As disclosed in note 48.3 to the consolidated financial statements, as at 31 December 2020, the Group holds balances with the Central Bank of Lebanon amounting to LL 25,844 billion, a portfolio of Lebanese government treasury securities and Certificates of deposits (under financial assets at amortized costs) totalling LL 4,719 billion, a portfolio of loans to the private sector amounting to LL 2,935 billion and other balances with Lebanese banks and other financial assets amounting to LL 131 billion concentrated in Lebanon which represent 75% of the Group's total assets as at 31 December 2020 (31 December 2019: 77 %).

   As disclosed in note 1, the accompanying consolidated financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amounts of the above assets and related disclosures that would result from resolution of the uncertainties described in note 1, which prevailed since the last quarter of 2019 and the future effects of the economic crisis and the implementation of government reforms and restructuring plans.

   Also, as disclosed in note 43, management was unable to produce a faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

   Had such adjustments and disclosures been determined and made, many elements and related disclosures in the accompanying consolidated financial statements for the year ended 31 December 2020 and the year ended 31 December 2019 would have been materially different. The effects of the resolution of these uncertainties on the carrying amounts of the assets and the related disclosures in these consolidated financial statements have not been determined. Our opinion for the year ended 31 December 2019 was modified for the same matter explained above.

2. Further, as disclosed in note 2 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying consolidated financial statements for the year ended 31 December 2020. Had the Group applied IAS 29, a number of the elements in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2019, would have been materially different and also the disclosures for the year ended 31 December 2020 and 31 December 2019 would have been materially affected. The effects on the consolidated financial statements arising from the failure to apply IAS 29 have not been determined.

Basis for adverse opinion (continued)

3. The events and conditions and, practices that would not qualify as normal course of business in a non-crisis environment described in note 1 and the matters described in paragraph 1 above, affect the financial position, liquidity, solvency and profitability of the Group; exposes the Group to increased litigation and regulatory risks and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern.

   Our opinion for the year ended 31 December 2019 was modified for the same matter explained above.

4. As disclosed in note 35 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess provisions of LL 160,945 million (the "excess provisions") as at 31 December 2018. During 2019, the Group wrote-back an amount of LL 76,380 million under "other operating income" and transferred the remaining balance of LL 84,565 million towards additional IFRS 9 allowances for the year. This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements, as these transactions constitute a departure from IFRS 9. Had the Group accounted for these transactions in accordance with IFRS 9, profit for the year ended 31 December 2019 would have decreased by LL 160,945 million and opening retained earnings as at 1 January 2019, would have increased by the same amount.

   Our opinion for the year ended 31 December 2019 was modified for the same matter explained above.

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

Emphasis of a matter

We draw attention to notes 1 and 49A to the consolidated financial statements, which describe that the Group's assets and liabilities denominated in foreign currency are translated to Lebanese Liras as per the accounting policy on foreign currency transactions, at the official exchange rate prevailing at the end of the reporting period and that the actual realization and settlement of these assets and liabilities, respectively, could be materially different.

Key audit matters

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

Other information included in the Group's 2020 annual report

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. As described in the "Basis for adverse opinion" section of our report, the consolidated financial statements do not include adjustments arising from the matters set out therein. We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group's 2020 Annual Report affected by these matters.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Ernst & Young

BDO, Semaan, Gholam & Co.

5 June 2021
Beirut, Lebanon

BLOM Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 LL million	2019* Restated LL million
CONTINUING OPERATIONS			
Interest and similar income	6	3,018,940	3,557,917
Interest and similar expense	7	(1,250,804)	(2,573,171)
Net interest income		1,768,136	984,746
Fee and commission income		187,881	251,212
Fee and commission expense		(40,775)	(59,489)
Net fee and commission income	8	147,106	191,723
Net loss from financial assets at fair value through profit or loss	9	(92,529)	(116,582)
Net (loss) gain from derecognition of financial assets at amortized cost	10	(73,387)	15,823
Non-interest revenues from financial assets at fair value through other comprehensive income		633	749
Other operating income	11	12,731	102,415
Total operating income		1,762,690	1,178,874
Net impairment loss on financial assets	12	(1,089,065)	(489,264)
Discounts on loans		(58,430)	-
Net operating income		615,195	689,610
Personnel expenses	13	(225,518)	(252,844)
Other operating expenses	14	(169,203)	(169,677)
Depreciation of property, equipment and right-of-use assets	25	(31,485)	(32,475)
Amortization of intangible assets	26	(2,234)	(2,166)
Total operating expenses		(428,440)	(457,162)
Operating profit		186,755	232,448
Net gain on disposal of property and equipment		4,361	395
Profit before tax from continuing operations		191,116	232,843
Income tax expense	15	(251,128)	(130,742)
(Loss) profit for the year from continuing operations		(60,012)	102,101
DISCONTINUED OPERATIONS			
Profit for the year, from discontinued operations, net of tax	42	63,938	71,881
Profit for the year		3,926	173,982
Attributable to:			
Equity holders of the parent		2,020	165,178
(Loss) profit for the year from continuing operations		*(61,547)*	*93,714*
Profit for the year from discontinued operations		*63,567*	*71,464*
Non-controlling interests		1,906	8,804
Profit for the year from continuing operations		*1,535*	*8,387*
Profit for the year from discontimued operations		*371*	*417*
		3,926	173,982
Basic earnings per share attributable to equity holders of the parent for the year		*LL*	*LL*
Basic earnings per share	16	9	771
Basic (loss) earnings per share from continuing operations	16	(287)	437
Basic earnings per share from discontinuing operations	16	296	334

**Restated for the effect of separate presentation of profit from discontinued operations and share information*

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020

	2020 LL million	2019* Restated LL million
(Loss) profit for the year from continuing operations	**(60,012)**	102,101
Profit for the year from discontinuing operations	**63,938**	71,881
Other comprehensive income (loss) that will be reclassified to the consolidated income statement in subsequent periods from continuing operations:		
Exchange differences on translation of foreign operations	**42,645**	(4,285)
Net gain on hedge of net investment	**-**	4,083
Total other comprehensive income (loss) that will be reclassified to the consolidated income statement in subsequent periods from continuing operations	**42,645**	(202)
Other comprehensive income that will not to be reclassified to the consolidated income statement in subsequent periods from continuing operations:		
Net unrealized gain from financial assets at fair value through other comprehensive income	**1,214**	1,407
Total other comprehensive income that will not be reclassified to the consolidated income statement in subsequent periods from continuing operations	**1,214**	1,407
Other comprehensive income for the year from continuing operations, net of tax	**43,859**	1,205
Other comprehensive income for the year from discontinuing operations, net of tax	**14,998**	47,184
Total comprehensive (loss) income for the year from continuing operations, net of tax	**(16,153)**	103,306
Total comprehensive income for the year from discontinuing operations, net of tax	**78,936**	119,065
Total comprehensive income for the year, net of tax	**62,783**	222,371
Attributable to:		
Equity holders of the parent	**60,461**	212,621
Non-controlling interests	**2,322**	9,750
	62,783	222,371

**Restated for the effect of separate presentation of profit from discontinued operations and share information*

BLOM Bank SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	2020 LL million	2019 LL million
Assets			
Cash and balances with Central Banks	17	27,736,020	31,202,426
Due from banks and financial institutions	18	1,526,445	1,921,172
Loans to banks and financial institutions	19	-	46,570
Derivative financial instruments	20	1,644	27,986
Financial assets at fair value through profit or loss	21	229,987	482,154
Net loans and advances to customers at amortized cost	22	4,691,604	8,746,544
Net loans and advances to related parties at amortized cost	46	13,218	18,255
Debtors by acceptances		10,790	142,961
Financial assets at amortized cost	23	5,312,911	5,876,677
Financial assets at fair value through other comprehensive income	24	46,374	661,976
Property, equipment and right-of-use assets	25	752,678	819,289
Intangible assets	26	4,231	4,439
Assets obtained in settlements of debt	27	52,041	60,123
Other assets	28	236,429	180,508
Goodwill	29	2,131	2,004
Assets held for sale	42	4,181,183	-
Total assets		44,797,686	50,193,084
Liabilities and equity			
Liabilities			
Due to central banks	30	2,915,248	3,898,754
Due to banks and financial institutions	31	345,284	520,696
Derivative financial instruments	20	10,873	30,550
Customers' deposits at amortized cost	32	31,641,051	39,321,893
Deposits from related parties at amortized cost	46	113,114	113,309
Debt issued and other borrowed funds	33	38,168	456,545
Engagements by acceptances		10,874	144,827
Other liabilities	34	967,917	794,161
Provisions for risks and charges	35	221,048	154,731
Liabilities held for sale	42	3,732,079	-
Total liabilities		39,995,656	45,435,466
Equity			
Share capital – common shares	36	322,500	322,500
Share premium on common shares	36	374,059	374,059
Non-distributable reserves	37	1,655,491	1,612,192
Distributable reserves		685,918	682,894
Treasury shares	38	(4,434)	(13,531)
Retained earnings		1,963,760	1,870,434
Revaluation reserve of real estate	25	14,727	14,727
Change in fair value of financial assets at fair value through other comprehensive income	39	456	9,928
Foreign currency translation reserve		(22,201)	(365,409)
Reserves related to assets held for sale	42	(275,457)	-
Result of the year		2,020	165,178
Equity attributable to equity holders of the parent		4,716,839	4,672,972
Non-controlling interests		85,191	84,646
Total equity		4,802,030	4,757,618
Total liabilities and equity		44,797,686	50,193,084

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 20 May 2021:

Saad Azhari
Chairman and General Manager

Talal Baba
Chief Financial Officer

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

BLOM Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity holders of the parent													
	Share capital-common shares LL million	*Share premium on common shares LL million*	*Non-distributable reserves LL million*	*Distributable reserves LL million*	*Treasury shares LL million*	*Retained earnings LL million*	*Revaluation reserve of real estate LL million*	*Change in fair value of financial assets at fair value through other comprehensive income LL million*	*Foreign currency translation reserve LL million*	*Reserves related to assets held for sale LL million*	*Profit for the year LL million*	*Total LL million*	*Non-controlling interests LL million*	*Total equity LL million*
Balance at 1 January 2020	322,500	374,059	1,612,192	682,894	(13,531)	1,870,434	14,727	9,928	(365,409)	-	165,178	4,672,972	84,646	4,757,618
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,020	2,020	1,906	3,926
Other comprehensive income	-	-	-	-	-	-	-	7,858	50,583	-	-	58,441	416	58,857
Total comprehensive income	-	-	-	-	-	-	-	7,858	50,583	-	2,020	60,461	2,322	62,783
Transfer from non-distributable reserves to retained earnings	-	-	(10,649)	-	-	10,649	-	-	-	-	-	-	-	-
Transfer from distributable reserves to non-distributable reserves	-	-	44,524	(44,524)	-	-	-	-	-	-	-	-	-	-
Dividends distributions from subsidiaries	-	-	-	(17,607)	-	(145)	-	-	-	-	-	(17,752)	(1,974)	(19,726)
Appropriation of 2019 profits	-	-	17,158	65,046	-	82,904	-	-	-	-	(165,108)	-	-	-
Discontinued operations	-	-	-	-	-	-	-	(17,174)	292,631	(275,457)	-	-	-	-
Sale of treasury shares (note 38)	-	-	-	-	9,097	-	-	-	-	-	-	9,097	-	9,097
Net loss on sale of treasury shares (note 38)	-	-	(7,926)	-	-	-	-	-	-	-	-	(7,926)	-	(7,926)
Other adjustments	-	-	192	109	-	(82)	-	(156)	(6)	-	(70)	(13)	197	184
Balance at 31 December 2020	322,500	374,059	1,655,491	685,918	(4,434)	1,963,760	14,727	456	(22,201)	(275,457)	2,020	4,716,839	85,191	4,802,030
Balance at 1 January 2019	322,500	374,059	1,533,677	642,697	(13,567)	1,611,312	14,727	(957)	(402,131)	-	765,757	4,848,074	79,217	4,927,291
Impact of IFRS 16 at 1 January 2019	-	-	-	-	-	(698)	-	-	-	-	-	(698)	-	(698)
Restated balance at 1 January 2019	322,500	374,059	1,533,677	642,697	(13,567)	1,610,614	14,727	(957)	(402,131)	-	765,757	4,847,376	79,217	4,926,593
Profit for the year	-	-	-	-	-	-	-	-	-	-	165,178	165,178	8,804	173,982
Other comprehensive income	-	-	-	-	-	-	-	10,721	36,722	-	-	47,443	946	48,389
Total comprehensive income	-	-	-	-	-	-	-	10,721	36,722	-	165,178	212,621	9,750	222,371
Transfer from retained earnings to non-distributable reserves	-	-	1,810	-	-	(1,810)	-	-	-	-	-	-	-	-
Transfer from non-distributable reserves to retained earnings	-	-	(233)	-	-	233	-	-	-	-	-	-	-	-
Dividends distributions	-	-	-	-	-	-	-	-	-	-	(364,148)	(364,148)	-	(364,148)
Dividends distributions from subsidiaries	-	-	-	-	-	(1,481)	-	-	-	-	-	(1,481)	(3,612)	(5,093)
Appropriation of 2018 profits	-	-	76,945	40,197	-	284,467	-	-	-	-	(401,609)	-	-	-
Sale of treasury shares (note 38)	-	-	-	-	36	-	-	-	-	-	-	36	-	36
Net loss on sale of treasury shares (note 38)	-	-	(7)	-	-	-	-	-	-	-	-	(7)	-	(7)
Other	-	-	-	-	-	(21,589)	-	164	-	-	-	(21,425)	(709)	(22,134)
Balance at 31 December 2019	322,500	374,059	1,612,192	682,894	(13,531)	1,870,434	14,727	9,928	(365,409)	-	165,178	4,672,972	84,646	4,757,618

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 LL million	2019 LL million
OPERATING ACTIVITIES			
Profit for the year before income tax from continuing operations		191,116	232,843
Profit for the year before income tax from discontinuing operations		89,676	99,922
Adjustments for non-cash items:			
Depreciation of property, equipment and right-of-use assets	25	37,872	38,054
Amortization of intangible assets	26	2,234	2,166
Gain on disposal of property and equipment		(4,482)	(634)
Interest on lease liabilities		345	344
Net provision for risks and charges		21,551	1,763
Release of provisions for risks and charges	35	-	(76,380)
Net impairment loss on financial assets	12	1,104,344	492,957
Provision for impairment of assets obtained in settlement of debt	27	421	2,133
Write-back of provision on assets obtained in settlement of debt	27	(202)	(245)
Loss on disposal of assets obtained in settlement of debt		(1,922)	408
Net (gain) loss from derecognition of financial assets at amortized cost	10	73,387	(15,823)
Unrealized loss from revaluation of financial assets at fair value through profit or loss	9	2,370	196,765
		1,516,710	974,273
Changes in operating assets and liabilities:			
Balances with central banks		2,088,147	(3,221,105)
Repurchase agreements		-	(4,750)
Due from banks and financial institutions		(451,868)	177,460
Loans to banks and financial institutions		24,157	(8,706)
Derivative financial instruments – debit		26,342	(9,234)
Financial assets at fair value through profit or loss		241,407	(4,829)
Net loans and advances to customers at amortized cost		2,556,197	1,822,625
Net loans and advances to related parties at amortized cost		4,791	6,191
Debtors by acceptances		(1,910)	785
Other assets		(66,146)	(2,781)
Due to banks and financial institutions		(36,505)	(126,003)
Derivative financial instruments – credit		(19,677)	7,929
Customers' deposits at amortized cost		(4,135,902)	(1,091,511)
Deposits from related parties at amortized cost		(39)	(50,909)
Other liabilities		88,162	(31,022)
Provisions for risks and charges		63,795	(119,188)
Cash from (used in) operations		1,897,661	(1,680,775)
Taxes paid		(45,411)	(163,910)
Provisions for risks and charges paid		(5,435)	(6,228)
Net cash from (used in) operating activities		**1,846,815**	**(1,850,913)**
INVESTING ACTIVITIES			
Financial assets at amortized cost		290,986	1,231,224
Financial assets at fair value through other comprehensive income		(678,994)	(656,176)
Assets obtained in settlement of debt		7,320	(3,454)
Purchase of property and equipment	25	(18,315)	(53,068)
Purchase of intangible assets	26	(1,349)	(1,343)
Transfer of property and equipment and intangible assets		145	1,510
Cash proceeds from the sale of property and equipment and intangible assets		9,261	7,336
Net cash (used in) from investing activities		**(390,946)**	**526,029**
FINANCING ACTIVITIES			
Sale of treasury shares – net		9,097	36
Net loss on sale of treasury shares		(7,926)	(7)
Dividends paid		-	(364,148)
Dividends paid to non-controlling interests in a subsidiary company		(1,974)	(5,093)
Debt issued and other borrowed funds		(418,377)	257
Lease liability payments		(1,086)	(249)
Net cash used in financing activities		**(420,266)**	**(369,204)**
Net foreign exchange difference in respect of cash and cash equivalents		**18,078**	**7,246**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,053,681**	**(1,686,842)**
Cash and cash equivalents at 1 January		3,272,739	4,959,581
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	**4,326,420**	**3,272,739**
Operational cash flows from interest and dividends			
Interest paid		(1,403,090)	(2,833,887)
Interest received		3,197,076	3,907,386
Dividends received		1,057	13,494

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

1 CORPORATE INFORMATION

BLOM Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Verdun, Rashid Karameh Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and Luxembourg Stock Exchange. On 23 October 2020, the Bank announced that it has applied for the withdrawal of its Global Depositary Shares from trading on the EUROMTF and the Official List of Luxembourg Stock Exchange with effect from 24 November 2020. Moreover, the GDSs and its underlying shares will continue to trade on the Beirut Stock Exchange. Noting that the Global Depository receipt programme (GDR) will continue to operate and all GDSs will remain outstanding.

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

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 20 May 2021.

1.1 Macroeconomic environment

The Group's operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis and 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 Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and 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 lead to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 US$/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Lira, impacting intensely the purchasing power of the 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 purchasing power of the Lebanese people, the Central Bank of Lebanon, through several circulars, introduced the following measures:

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

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and "local" foreign currency bank accounts and tossing Lebanon towards hyperinflation and major economic collapse.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

Lebanese Government's Financial Recovery Plan

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

Restructuring of the banking sector:

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

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

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

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

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

Alternative Plan submitted by Association of Banks in Lebanon

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

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

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

The ABL approach deploys five strategic priorities allowing a prompt and sustainable economic and financial recovery in the wake of expected IMF (or 'the Fund') Balance of Payments ('BoP') support requested on May 1st by the Government:
I. A debt restructuring process that minimizes the damaging consequences to the nearly 3 million domestic bank depositors and to the economy as a whole, while priming the economy for a faster recovery and higher medium-term potential growth
II. A sustainable medium-term fiscal strategy leaving a significant fiscal space to finance much-needed social measures, including an Expanded Social Safety Net to fight poverty and concrete steps against social exclusion
III. A monetary and exchange rate unification policy that addresses the massive external imbalances while containing considerable inflationary pressures and avoiding hyperinflation
IV. A financial sector restructuring based on an orderly banking sector approach on a case-by-case basis when needed, upgrading regulatory matters to international standards
V. A strong diversification strategy of the economy as well as much-needed structural reforms including anticorruption measures, a lower cost of Doing Business in the country as well as reforms that reduce the size of the informal sector.

Beirut Port Explosion

On 4 August 2020, a large explosion occurred at the port of the city of Beirut, causing casualties and material damages across the capital of Lebanon. The Beirut Port explosion affected several individuals and businesses and contributed to further deterioration of the economic environment and disruption of businesses, leading to further Expected Credit Losses charges.

COVID-19

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

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

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

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

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment

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

- Basic Circular 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the Platform Rate. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations.

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

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

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

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

  In addition, the circular introduced the following measures:
  - Allowing banks to constitute the expected credit losses on exposures to Lebanese sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.
  - Allowing banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of COVID-19 pandemic, then the Bank must immediately downgrade the loan classification and staging to Stage 3 (default).
  - Requesting from banks to finalise the assessment of the future financial position of their customers by 31 December 2020 and to estimate expected credit losses based on this assessment and recognise the financial impact in the statement of income for the year ended 31 December 2020.
  - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their common equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.
- Changed the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain.
- Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity Tier 1, 10% for Tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. However, under exceptional circumstances, the buffer may be drawn down during 2020 and 2021, however it must be rebuilt progressively starting 2022, by at least 0.75% each year, to reach the minimum required of 2.5% by end of 2024.
- Prepare and present to the Central Bank of Lebanon a comprehensive plan for rectifying non-compliances with the regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL), as well as other losses or provisions that the Bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.
- Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortised over a period of 3 years (2022-2024 by 25% yearly).

• Basic Circular 154 issued on 27 August 2020, aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019, and rectifying any non-compliance with regulatory ratios and banking regulations. The circular mainly introduced the following measures:
  - Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in Intermediate Circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the Bank to their normal levels as at before October 2019.
  - Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term "special account" an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks' importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019, and without a minimum threshold.
  - Requesting from banks to maintain a current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the Bank's total foreign currency deposits as at 31 July 2020, by 28 February 2021.
  - Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalisation needs, if any, to the Central Bank of Lebanon's Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

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

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

1.3 Particular situation of the Group

Assets and liabilities in foreign currency, transactions in foreign currency and foreign currency translation reserves, regardless of whether they are onshore or offshore, were reflected in these consolidated financial statements at the official exchange rate of 1,507.5 USD/LL in line with, IAS 21 due to the lack of an alternative legal exchange mechanism. 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 that are high 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 purpose in Lebanon. Accordingly, translation of all assets and liabilities and foreign currency transactions at the official exchange rate does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the consolidated financial statements. In the absence of an alternative legal exchange mechanism, we are unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official exchange rate and/or alternative legal exchange mechanism. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these consolidated financial statements once the revamping of the peg and/or a new legal exchange mechanism is implemented by the Lebanese government. FX currency mismatch is detailed in note 49A to the consolidated financial statements.

As at 31 December 2020, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortised cost are recorded in these consolidated financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to the exposures of banks 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 losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognised loss allowances, as well as their staging are detailed in note 48 to these consolidated financial statements.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. The deterioration was further aggravated by the effects of the COVID-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese crisis, the Bank has been implementing a derisking strategy by considerably reducing its assets size, specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralised and specialised remedial function to proactively review and manage the quality of its various portfolios. The Bank has recorded significant amounts of expected credit losses during the last quarter of 2019 and the year ended 31 December 2020. Loss allowances on the Bank's portfolio of these private loans have been estimated based on the best available information at the reporting date about past events, current conditions and forecasts of economic conditions combined with expert judgement. Maximum exposures to the credit risk of the Group's portfolio of private loans and the recognised loss allowances, as well as their staging, are detailed in note 48 to these consolidated financial statements.

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

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

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

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

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

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

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)
The roadmap was submitted to the Central Bank of Lebanon on 4 December 2020. However, a reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

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

Management has been focusing on six main pillars to face the current financial and economic environment. These pillars are: 1-Asset Quality; 2-Quality of Earnings; 3-Liquidity and ALM; 4-Solvency; 5-Operational and other.

All of these measures have helped to strengthen the Bank's financial position, including international liquidity and solvency metrics. As at December 2020, consolidated capital adequacy ratios stood at 11.56%, 11.56% and 11.59% for CET1, Tier 1 and Total CAR respectively, above the minimum required levels of 4.5%, 6% and 8% for 2020-2021 and 7%, 8.5% and 10.5% (including 2.5% capital conservation buffer) required by 2024. These ratios exclude the impact of lower RWA levels that will result from the deconsolidation of BLOM Bank Egypt SAE and should therefore further improve once the deconsolidation is completed in 2021.

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

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

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

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

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

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

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

The Lebanese crisis which was set off during the last quarter of 2019, has imposed severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon in 2020. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar, during the current fiscal year, 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.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

Such practices and transactions expose the Bank to increased litigation and regulatory risks and negatively impact the financial position of the Bank, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the Group's financial position, future 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 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 173% and 146%, respectively, as of December 2020. 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 Lira, should restate their financial statements to reflect the effects of inflation in conformity with IAS 29. Such restatement shall be made as if the Lebanese economy has always been hyperinflationary; using a general price index that reflects the changes in the currency's purchasing power.

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

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

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

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

  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.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

The Group uses the official exchange rate of 1,507.5 USD/LL to translate balance and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Platform Rate" of approximately 3,900 USD/LL, the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. Accordingly, since there is no official exchange or payment mechanism for transactions and balances denominated in foreign currencies, the Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or of the consolidated financial statements.

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

Statement of compliance

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

Presentation of consolidated financial statements

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the consolidated statement of financial position date (current) and more than 1 year after the consolidated statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements is disclosed in note 30.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of BLOM Bank SAL and its subsidiaries as at 31 December 2020. Details of the principal subsidiaries are given in note 3.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

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

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

Non-controlling interests

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

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

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

2.3 New and amended standards and interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The nature and the impact of each new amendment is described below:

Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.

2 ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretations (continued)

Amendments to IAS 1 and IAS 8 *Definition of Material (continued)*
A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 *Covid-19 Related Rent Concessions*
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

2.4 Standards issued but not yet effective
Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

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

Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform – Phase 2*
'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

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

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform – Phase 2 (continued)*
For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Group reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The Phase 2 reliefs will cease to apply once all changes have been made to financial instruments and hedging relationships, as required by the Reform.

As at 31 December 2020, the Group has not transitioned a financial instrument from an IBOR to risk-free-rate (RFR) and as such did not early adopt IBOR Reform Phase 2. The Group is currently assessing the impact of transitioning from an IBOR to RFR and the amendments of IBOR Reform Phase 2 on its hedging relationships and consolidated financial statements.

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

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

Amendments to IAS 1: *Classification of Liabilities as Current or Non-current*
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
• What is meant by a right to defer settlement.
• That a right to defer must exist at the end of the reporting period.
• That classification is unaffected by the likelihood that an entity will exercise its deferral right.
• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

Property, Plant and Equipment: Proceeds before Intended Use – *Amendments to IAS 16*
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Reference to the Conceptual Framework – ***Amendments to IFRS 3***
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively and the Group is currently assessing the impact the amendments.

Onerous Contracts – Costs of Fulfilling a Contract – ***Amendments to IAS 37***
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments and these amendments are not expected to have a material impact on the Group.

2.5 Summary of significant accounting policies

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Foreign currencies (continued)

(ii) Group companies (continued)

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

	2020		2019	
	Year-end rate *LL*	*Average rate* *LL*	*Year-end rate* *LL*	*Average rate* *LL*
US Dollar	**1,507.50**	**1,507.50**	1,507.50	1,507.50
Euro	**1,851.21**	**1,720.19**	1,686.89	1,687.84
Swiss Franc	**1,713.77**	**1,607.13**	1,554.16	1,516.97
Jordanian Dinar	**2,126.23**	**2,126.23**	2,124.74	2,124.74
Egyptian Pound	**95.78**	**95.32**	93.93	89.68
Saudi Riyal	**401.79**	**401.71**	401.86	401.94
Qatari Riyal	**414.03**	**413.67**	414.03	414.00
Iraqi Dinar	**1.03**	**1.03**	1.27	1.27

Financial instruments – initial recognition

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

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

(iii) Day 1 profit or loss

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

Financial assets – classification and measurement

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)
All other financial assets are classified as measured at fair value through profit or loss.

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

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial assets – classification and measurement (continued)

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

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

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

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – classification and measurement
Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – classification and measurement (continued)
Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

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

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

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

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

Derivatives recorded at fair value through profit or loss
A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Embedded derivatives

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

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

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

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

Reclassification of financial assets

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

***Financial assets* (continued)**

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

A transfer only qualifies for derecognition if either:

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

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

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

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

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

Financial liabilities

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

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

Repurchase and reverse repurchase agreements

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements (continued)

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

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

Impairment of financial assets

(i) Overview of the ECL principles

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

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

(ii) Measurement of ECLs

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

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

The key inputs into the measurements of ECL are:

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(ii) Measurement of ECLs (continued)

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

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

(iii) Forborne and modified loans

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

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

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

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

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

(iv) Credit-impaired financial assets

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets *(continued)*

(v) Write offs

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

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

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

(vii) Collateral repossessed

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

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

Fair value measurement

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

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

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

Hedge ineffectiveness is recognised in the consolidated income statement in "net (loss) gain on financial assets at fair value through profit or loss".
When a Group separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge Accounting (continued)

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

Qualifying hedging relationships (continued)

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leases (continued)

Group as a lessee (continued)

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

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

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

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

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

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

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

(i) Interest and similar income and expense

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

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

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Revenue recognition (continued)

(ii) Fee and commission income (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Assets obtained in settlement of debt, assets held for sale and discontinued operations (continued)
Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax (continued)

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

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

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

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

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

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

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

Treasury shares

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

2.6 Significant accounting estimates and judgements

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting estimates and judgements (continued)

Judgements (continued)

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting estimates and judgements (continued)

Estimates and assumptions (continued)

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

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

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

During 2020, the key areas that involved a higher degree of judgment and where significant assumptions were made in the estimation of expected credit losses are described in note 1.

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

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

3 GROUP INFORMATION

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

Name	*Country of Incorporation*	*Activities*	*Functional currency*	*% effective equity interest*	
				31 December 2020	*31 December 2019*
				%	*%*
BLOM Bank France SA	France	Banking activities	EUR	99.998	99.998
BLOM Bank (Switzerland) SA	Switzerland	Banking activities	CHF	99.998	99.998
BLOMInvest Bank SAL	Lebanon	Banking activities	LL	99.925	99.920
BLOM Development Bank SAL	Lebanon	Islamic banking activities	LL	99.904	99.912
Arope Insurance SAL	Lebanon	Insurance activities	LL	89.048	89.048
BLOM Bank Egypt SAE	Egypt	Banking activities	EGP	99.419	99.419
BLOM Egypt Securities SAE	Egypt	Brokerage activities	EGP	99.667	99.665
BLOMInvest - Saudi Arabia	Saudi Arabia	Financial institution	SAR	59.96	59.96
BLOM Bank Qatar LLC	Qatar	Banking activities	QAR	99.75	99.75
Arope Life Insurance Egypt SAE	Egypt	Insurance activities	EGP	91.123	91.123
Arope Insurance of Properties and Responsibilities Egypt SAE	Egypt	Insurance activities	EGP	93.197	93.197
BLOM Securities	Jordan	Financial institution	JOD	100	100
BLOM Asset Management Company SAL	Lebanon	Investment activities	LL	99.997	99.997
BLOM Egypt Investments SAE	Egypt	Investment activities	EGP	99.679	99.677
BLOM SPV Ltd	Cayman Island	Investment activities	USD	100	100

4 MATERIAL PARTLY – OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

	2020	*2019*
	%	*%*
Name		
BLOMInvest – Saudi Arabia	**40.04**	40.04
Arope Insurance SAL	**10.952**	10.952

Profit allocated to material non-controlling interests:

	2020	*2019*
	LL million	*LL million*
BLOMInvest – Saudi Arabia	**1,240**	4,578
Arope Insurance SAL	**-**	3,578

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

Summarized statement of comprehensive income

	BLOMInvest – Saudi Arabia		*Arope Insurance SAL*	
	2020	*2019*	*2020*	*2019*
	LL million	*LL million*	*LL million*	*LL million*
Net interest income	**245**	397	**19,457**	40,292
Net fee and commission income	**6,494**	13,722	**35,275**	29,960
Net gain from financial instruments at fair value through profit or loss	**3,636**	6,365	**937**	73
Revenue from financial assets at fair value through other comprehensive income	**447**	569	**-**	-
Other operating income	**-**	-	**2,865**	776
Total operating income	**10,822**	21,053	**58,534**	71,101

4 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)

Summarized statement of comprehensive income (continued)

	BLOMInvest – Saudi Arabia		*Arope Insurance SAL*	
	2020	*2019*	*2020*	*2019*
	LL million	*LL million*	*LL million*	*LL million*
Net (recovery of impairment) impairment loss on financial assets	(1)	5	(2,000)	(1,627)
Total operating expenses	(8,064)	(8,626)	(54,494)	(34,478)
Net gain on disposal of other assets	433	117	-	-
Profit before tax	3,190	12,549	2,040	34,996
Income tax expense	(94)	(1,115)	(2,040)	(2,328)
Profit for the year	3,096	11,434	-	32,668
Attributable to non-controlling interests	1,240	4,578	-	3,578

Summarized statement of financial position

	BLOMInvest – Saudi Arabia		*Arope Insurance SAL*	
	2020	*2019*	*2020*	*2019*
	LL million	*LL million*	*LL million*	*LL million*
Assets				
Cash and balances with banks	-	1	4,161	141
Due from banks and financial institutions	17,551	1,995	8,402	32,082
Due from head office and sister banks	1,036	4,175	471,929	440,633
Financial assets at fair value through profit or loss	53,820	65,035	2,694	4,260
Net loans and advances at amortized cost	-	-	20,512	25,687
Financial assets at amortized cost	7,518	5,319	4,477	15,594
Financial assets at fair value through other comprehensive income	16,872	13,971	-	-
Investments in subsidiaries and associates	-	-	36,542	36,542
Property, equipment and right-of-use assets	11,776	15,269	22,487	22,966
Intangible assets	54	132	725	515
Other assets	39,939	48,076	117,161	56,672
Total assets	148,566	153,973	689,090	635,092
Liabilities				
Other liabilities	11,845	16,731	272,502	323,172
Provisions for risks and charges	1,052	1,024	172,970	68,302
Total liabilities	12,897	17,755	445,472	391,474
Total shareholders' equity	135,669	136,218	243,618	243,618
Attributable to non-controlling interests	*54,282*	*54,502*	*26,680*	*26,680*
Total liabilities and shareholders' equity	148,566	153,973	689,090	635,092

Summarized cash flow information

Type of activities	*BLOMInvest – Saudi Arabia*		*Arope Insurance SAL*	
	2020	*2019*	*2020*	*2019*
	LL million	*LL million*	*LL million*	*LL million*
Operating	4,803	13,591	(8,341)	8,978
Investing	12,912	(5,642)	(187,617)	270,153
Financing	(5,272)	(5,305)	-	(14,712)
	12,443	2,644	(195,958)	264,419

5 SEGMENT REPORTING

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

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

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

A) Business segments

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

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

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

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

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

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

(i) Net operating income information

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

5 SEGMENT REPORTING (continued)

A) *Business segments (continued)*

(i) Net operating income information (continued)

	2019 Restated					
	Treasury LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Unallocated(*) LL million*	*Total LL million*
Net interest income	751,783	63,645	165,786	3,532	-	984,746
Net fee and commission income	45,327	30,840	65,431	31,914	18,211	191,723
Net (loss) gain from financial instruments at fair value through profit or loss	(150,188)	-	33,606	-	-	(116,582)
Net gain from derecognition of financial assets at amortized cost	15,823	-	-	-	-	15,823
Revenue from financial assets at fair value through other comprehensive income	749	-	-	-	-	749
Other operating income	92,026	-	10,389	-	-	102,415
Net impairment loss on financial assets	(283,094)	(113,421)	(92,749)	-	-	(489,264)
Net operating income	472,426	(18,936)	182,463	35,446	18,211	689,610

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

(ii) Financial Position Information

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

	2019					
	Treasury LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Other (**) LL million*	*Total LL million*
Total assets	40,218,962	4,926,799	3,944,633	36,368	1,066,322	50,193,084
Total liabilities	36,420,145	4,461,446	3,572,049	41,256	940,570	45,435,466

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

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to LL 2,869,935 million (2019: LL 2,991,282 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	2020 LL million	*2019 LL million*
Interest and similar income		
Central Bank of Lebanon	**2,669,143**	2,756,547
Lebanese sovereign	**200,792**	234,735
	2,869,935	2,991,282

5 SEGMENT REPORTING (continued)

B) Geographical segments

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

	2020		
	Domestic LL million	***International LL million***	***Total LL million***
Total operating income	**1,701,554**	**61,136**	**1,762,690**
Net impairment loss on financial assets	**(1,088,740)**	**(325)**	**(1,089,065)**
Discounts on loans	**(54,555)**	**(3,875)**	**(58,430)**
Net operating income[1]	**558,259**	**56,936**	**615,195**
Non-current assets[2]	**586,417**	**4,405,847**	**4,992,264**

	2019 Restated		
	Domestic LL million	*International LL million*	*Total LL million*
Total operating income	1,220,093	(41,219)	1,178,874
Net impairment (loss) gain on financial assets	(501,496)	12,232	(489,264)
Net operating income[1]	718,597	(28,987)	689,610
Non-current assets[2]	607,214	278,641	885,855

[1] *Net operating income is attributed to the geographical segment based on the location where the income is generated.*

[2] *Non-current assets consist of property, equipment and right-of-use assets, intangible assets, assets obtained in settlement of debt, non-current assets held for sale and goodwill.*

6 INTEREST AND SIMILAR INCOME

	2020 LL million	*2019 Restated LL million*
Balances with Central Banks (a)	**2,553,086**	2,632,964
Due from banks and financial institutions	**20,806**	64,813
Reverse repurchase agreements	**-**	115
Loans and advances to customers at amortized cost	**378,514**	698,297
Loans and advances to related parties at amortized cost	**722**	1,243
Financial assets at amortized cost (b)	**355,670**	411,536
Financial assets at fair value through OCI	**62**	-
Less: tax on interest income (c)	**(289,920)**	(251,051)
	3,018,940	3,557,917

(a) Included under interest and similar income from balances with central banks, an amount of LL 2,553,534 million (2019: LL 2,635,614 million) from balances with the Central Bank of Lebanon.

(b) Included under interest and similar income from financial assets at amortized cost, an amount of LL 313,452 million (2019: LL 345,944 million) from Lebanese government securities.

6 INTEREST AND SIMILAR INCOME (continued)

(c) Tax on interest income for the years ended 31 December 2020 and 2019 are as follows:

	2020 *LL million*	*2019 Restated* *LL million*
Balances with Central Banks	**255,927**	219,619
Due from banks and financial institutions	**2,334**	3,932
Reverse repurchase agreements	**-**	8
Loans and advances to customers at amortized cost	**1**	3
Financial assets at amortized cost	**31,658**	27,489
	289,920	251,051

7 INTEREST AND SIMILAR EXPENSE

	2020 *LL million*	*2019 Restated* *LL million*
Due to Central Banks	**377,391**	191,198
Due to banks and financial institutions	**13,550**	25,172
Customers' deposits at amortized cost	**826,412**	2,311,021
Deposits from related parties at amortized cost	**1,939**	8,459
Debt issued and other borrowed funds	**31,167**	36,977
Lease liabilities	**345**	344
	1,250,804	2,573,171

8 NET FEE AND COMMISSION INCOME

	2020 *LL million*	*2019 Restated* *LL million*
Fee and commission income		
General banking income	**49,959**	47,915
Credit-related fees and commissions	**20,308**	26,559
Insurance brokerage income	**38,228**	35,300
Trade finance	**8,405**	15,513
Brokerage and custody income	**13,221**	15,524
Electronic banking	**31,500**	74,161
Asset management and private banking	**7,871**	17,928
Trust and fiduciary activities	**1,815**	4,208
Other fees and commissions	**16,574**	14,104
	187,881	251,212

8 NET FEE AND COMMISSION INCOME (continued)

	2020 LL million	2019 Restated LL million
Fee and commission expense		
General banking expenses	**(7,148)**	(6,796)
Credit-related fees and commissions	**(41)**	(48)
Insurance brokerage fees	**(14,958)**	(17,089)
Brokerage and custody fees	**(1,977)**	(1,912)
Electronic banking	**(14,429)**	(31,976)
Other fees and commissions	**(2,222)**	(1,668)
	(40,775)	(59,489)
	147,106	191,723

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

	2020 LL million	2019 Restated LL million
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Treasury bills	**2,949**	9,724
- Corporate debt securities	**-**	81
- Funds	**552**	522
	3,501	10,327
Net (loss) gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Treasury bills and bonds	**(67,244)**	7
- Corporate debt securities	**-**	225
- Funds	**1,008**	6,915
- Options	**(1)**	(4)
- Equity instruments	**1,665**	17,446
	(64,572)	24,589
Net unrealized loss from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Treasury bills and bonds (*)	**(416)**	(192,826)
- Corporate debt securities	**(1)**	-
- Funds	**(329)**	(1,716)
- Equity instruments	**(887)**	(3,846)
- Other	**1,029**	1,333
	(604)	(197,055)

9 NET LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	2020 *LL million*	*2019 Restated* *LL million*
Dividend income		
- Equity instruments	**147**	11,643
- Funds	**277**	306
	424	11,949
Foreign exchange (loss) income	**(31,278)**	33,608
	(92,529)	(116,582)

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

(*) Included under unrealized loss from government debt securities for the year ending 31 December 2019 is the unrealized loss of LL 107,717 million arising from the reclassification of the Bank's Eurobonds portfolio from financial assets at amortized cost to financial assets at fair value through profit or loss (note 21).

10 NET (LOSS) GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognises some debt instruments classified at amortized cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of financial assets by the Central Bank of Lebanon;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

The schedule below details the gains and losses arising from derecognition of these financial assets:

	2020		
	Gains *LL million*	*Losses* *LL million*	*Total* *LL million*
Lebanese sovereign and Central Bank of Lebanon			
Placements with the Central Bank of Lebanon	**-**	**(70,993)**	**(70,993)**
Certificates of deposit	**-**	**(780)**	**(780)**
	-	**(71,773)**	**(71,773)**
Other sovereign			
Treasury bills and bonds	**534**	**(2,148)**	**(1,614)**
	534	**(73,921)**	**(73,387)**

10 NET (LOSS) GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTIZED COST (continued)

	2019 Restated		
	Gains LL million	*Losses LL million*	*Total LL million*
Lebanese sovereign and Central Bank of Lebanon			
Placements with the Central Bank of Lebanon	-	(43)	(43)
Certificates of deposit	-	(1,061)	(1,061)
Treasury bills and bonds	1	-	1
	1	(1,104)	(1,103)
Other sovereign			
Treasury bills and bonds	2,022	-	2,022
Private sector and other securities:			
Corporate debt securities	14,905	(1)	14,904
	16,928	(1,105)	15,823

11 OTHER OPERATING INCOME

	2020 LL million	*2019 Restated LL million*
Write back of provisions for risks and charges (note 35(iii))	**2,814**	-
Write back of provisions for non-current assets held for sale (note 27)	**202**	245
Release of provisions for risks and charges (note 35 (i))	**-**	92,024
Other income	**9,715**	10,146
	12,731	102,415

12 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2020 LL million	*2019 Restated LL million*
New and increased impairment allowances:		
Balances with Central Banks	**844,093**	277,641
Banks and financial institutions	**24**	-
Loans and advances to customers at amortized cost- Commercial loans	**305,000**	193,044
Loans and advances to customers at amortized cost- Consumer loans	**219,695**	106,650
Debtors by acceptances	**521**	166
Financial assets at amortized cost	**2,640**	6,789
Financial guarantees and commitments	**1,125**	5,870
	1,373,098	590,160
Provision of sundry debtors (note 28)	**2,426**	1,821
	1,375,524	591,981

12 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS (continued)

	2020 LL million	2019 Restated LL million
Recoveries:		
Banks and financial institutions	**(457)**	(213)
Loans and advances to customers at amortized cost- Commercial loans	**(250,256)**	(73,991)
Loans and advances to customers at amortized cost- Consumer loans	**(23,006)**	(13,901)
Loans and advances to related parties at amortized cost	**(2)**	(3)
Financial assets at amortized cost	**(3,261)**	(1,122)
Debtors by acceptances	**(393)**	(344)
Financial guarantees and commitments	**(377)**	(2,271)
	(277,752)	(91,845)
Recoveries of debts previously written off	**(8,707)**	(10,872)
	1,089,065	489,264

13 PERSONNEL EXPENSES

	2020 LL million	2019 Restated LL million
Salaries and related charges	**140,416**	152,300
Social security contributions	**26,230**	30,764
Retirement benefits obligation (note 35)	**(10,939)**	(14,941)
Additional allowances	**38,339**	45,599
Bonuses	**31,472**	39,122
	225,518	252,844

14 OTHER OPERATING EXPENSES

	2020 *LL million*	*2019* *Restated* *LL million*
Provision for risks and charges (note 35 (iii))	**33,428**	12,228
Professional fees	**20,197**	18,983
Maintenance and repairs	**20,001**	13,652
Fee for guarantee of deposits	**13,869**	15,159
Marketing and advertising	**8,610**	15,562
Postage and telecommunications	**7,837**	8,948
Rent and related charges	**7,269**	7,613
Information technology	**6,715**	6,030
Taxes and fees	**6,349**	7,126
Subscriptions	**5,159**	5,325
Gifts and donations	**4,793**	10,761
Stationary and printings	**4,636**	5,051
Electricity and fuel	**4,447**	5,581
Guarding and transportation expenses	**4,008**	4,502
Card expenses	**3,237**	4,642
Board of directors' attendance fees	**2,165**	2,375
Insurance	**1,535**	1,542
Fiscal stamps	**1,140**	2,705
Travel expenses	**641**	2,260
Impairment of assets obtained in settlement of debt (note 27)	**421**	2,133
Entertainment expenses	**150**	617
Others	**12,596**	16,882
	169,203	169,677

15 INCOME TAX EXPENSE

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

Income tax expense for the years ended 31 December 2020 and 2019 was as follows:

	2020 *LL million*	*2019* *Restated* *LL million*
Current tax		
Income tax expense – gains released from provisions for risk and charges	**-**	15,644
Income tax expense – other operating results	**174,916**	115,098
Other taxes treated as income tax (*)	**76,212**	-
Income tax expense	**251,128**	130,742

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

15 INCOME TAX EXPENSE (continued)

Reconciliation of total tax charge
The relationship between taxable profit and accounting profit is as follow:

	2020 *LL million*	*2019 Restated* *LL million*
Profit before income tax from continuing operations	**191,116**	232,843
Less: Results of the subsidiary insurance company located in Lebanon (*)	**(2,040)**	(34,996)
Accounting profit before income tax	**189,076**	197,847
Add:		
Non-tax deductible provisions	**871,387**	459,499
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	**-**	203,990
Other non-tax deductible charges	**66,893**	50,417
	1,127,356	911,753
Less:		
Dividends received and previously subject to income tax	**(38)**	(12,126)
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	**(250,468)**	-
Remunerations already taxed	**(25,424)**	(31,215)
4% of a subsidiary's capital eligible to be tax deductible	**(400)**	(400)
Release of provisions previously subject to income tax	**(145,796)**	(178,270)
Net gain on disposal of fixed assets	**(3,915)**	(218)
Other non-taxable income	**(3,099)**	(12,349)
Other taxes treated as income tax	**(76,212)**	-
Other deductions	**(25,871)**	(17,951)
Taxable profit	**596,133**	659,224
Income tax expense in the consolidated income statement	**174,916**	130,742

16 EARNINGS PER SHARE

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

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

	2020 *LL million*	*2019 Restated* *LL million*
Profit attributable to equity holders of the Bank from continuing and discontinued operations	**2,020**	165,178
(Loss) profit attributable to equity holders of the Bank from continuing operations	**(61,547)**	93,714
Profit attributable to equity holders of the Bank from discontinued operations	**63,567**	71,464
Weighted average number of shares outstanding	**214,492,451**	214,206,137

16 EARNINGS PER SHARE (continued)

	2020 LL	2019 Restated LL
Basic earnings per share	**9**	771
Basic (loss) earnings per share from continuing operations	**(287)**	437
Basic earnings per share from discontinued operations	**296**	334

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

17 CASH AND BALANCES WITH CENTRAL BANKS

	2020 LL million	2019 LL million
Cash on hand	**242,923**	152,687
Central Bank of Lebanon		
Current accounts	**166,178**	224,110
Time deposits (*)	**26,415,461**	27,802,024
Accrued interest	**487,641**	610,474
	27,069,280	28,636,608
Other Central Banks		
Current accounts	**1,376,752**	1,510,322
Time deposits	**276,565**	1,266,863
Accrued interest	**-**	18,975
	1,653,317	2,796,160
	28,965,520	31,585,455
Less: Allowance for expected credit losses	**(1,229,500)**	(383,029)
	27,736,020	31,202,426

The table for the movement in allowances for expected credit losses of balances with the Central Bank of Lebanon under IFRS 9 is presented in the Credit Risk section (note 48).

(*) At 31 December 2020, time deposits with the Central Bank of Lebanon amounting to LL 5,723,853 million and maturing in 2028 and 2029 were blocked against term borrowings granted by the Central bank of Lebanon with the same value and maturing in 2028 and 2029 (2019: LL 7,379,241 maturing in 2028 and 2029) (note 30). During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. Accordingly, as at 31 December 2020, time deposits with the Central Bank of Lebanon amounting to LL 5,723,853 million (2019: LL 7,379,241 million) and term borrowings from the Central Bank of Lebanon (note 30) are reported on a net basis on the consolidated statement of financial position. During 2020, financial assets and financial liabilities that were settled on a net basis amounted to LL 1,655,388 million (note 30).

17 CASH AND BALANCES WITH CENTRAL BANKS (continued)

Obligatory reserves:

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

The following table summarizes the Group's placements in Central Banks available against the obligatory reserves as of 31 December:

	2020		
	Lebanese Lira LL million	***Foreign currency LL million***	***Total LL million***
Obligatory reserve			
Central Bank of Lebanon	**46,231**	**3,554,048**	**3,600,279**
Other Central Banks	**-**	**121,086**	**121,086**
	46,231	**3,675,134**	**3,721,365**

	2019		
	Lebanese Lira LL million	*Foreign currency LL million*	*Total LL million*
Obligatory reserve			
Central Bank of Lebanon	17,708	3,900,359	3,918,067
Other Central Banks	-	518,329	518,329
	17,708	4,418,688	4,436,396

18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2020 LL million	*2019 LL million*
Current accounts	**788,504**	945,065
Time deposits	**739,210**	977,808
	1,527,714	1,922,873
Less: Allowance for expected credit losses	**(1,269)**	(1,701)
	1,526,445	1,921,172

19 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	2020 *LL million*	*2019* *LL million*
Loans to banks and financial institutions	-	46,489
Accrued interest	-	345
	-	46,834
Less: Allowance for expected credit losses	-	(264)
	-	46,570

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group has positions in the following types of derivatives:

	2020			2019		
	Assets LL million	*Liabilities LL million*	*Total notional amount LL million*	*Assets LL million*	*Liabilities LL million*	*Total notional amount LL million*
Derivatives held-for-trading						
Currency options	-	-	-	814	814	-
Forward foreign exchange contracts	115	158	147,573	25,696	303	4,022,635
Equity swaps and options	150	150	41,446	1,131	1,131	2,477,134
Currency swaps	1,379	10,565	1,065,991	345	26,492	712,395
Interest rate swaps	-	-	36,180	-	-	36,180
	1,644	10,873	1,291,190	27,986	28,740	7,248,344
Hedge of net investment in foreign operations						
Forward foreign exchange contracts	-	-	-	-	1,810	182,023
	1,644	10,873	1,291,190	27,986	30,550	7,430,367

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

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

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

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

Hedge of net investment in foreign operations
During 2019, the Group renewed its forward foreign exchange contracts designated to hedge its investment in its subsidiary in France. The notional amount of these contracts amounted to Euro 107,904 thousand (LL 182,023 million) as at 31 December 2019. The forward foreign exchange contracts were revalued as of 31 December 2019 and resulted in unrealized loss of LL 1,810 million. The contracts matured on 21 January 2020 and were not renewed.

No ineffectiveness from the fair value hedge was recognized in profit or loss during the year.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 LL million	2019 LL million
Lebanese sovereign and Central Bank of Lebanon		
Treasury bills and bonds (*)	**473**	176,745
Private sector and other securities		
Corporate debt instruments	**3,070**	3,073
Equity instruments	**123,700**	175,904
Funds	**102,744**	126,432
	229,514	305,409
	229,987	482,154

(*) According to the resolution of the Investment Committee meeting held on 26 September 2019, the Group reclassified the Eurobonds portfolio amounting to LL 315,884 out of the amortized cost measurement category and into the fair value through profit or loss measurement category. At the reclassification effective date, 1 October 2019, the Bank's Eurobonds portfolio was measured at fair value through profit or loss. Unrealized loss of LL 107,717 million arising from the difference between the previous amortized cost carrying amount and the fair value of the Eurobonds portfolio was recognized in the consolidated income statement (note 9).

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2020 LL million	2019 LL million
Commercial loans	**2,633,288**	5,335,323
Consumer loans	**2,947,944**	4,120,239
	5,581,232	9,455,562
Less: Allowance for expected credit losses (note 48)	**(889,628)**	(709,018)
	4,691,604	8,746,544

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 987,854 million as of 31 December 2020 (2019: LL 915,128 million).

The fair value of collateral that the Group holds relating to loans and advances to commercial customers individually determined to be impaired amounts to LL 603,806 million as of 31 December 2020 (2019: LL 302,598 million). The collateral consists of cash, securities, letters of guarantee and properties.

23 FINANCIAL ASSETS AT AMORTIZED COST

	2020 *LL million*	*2019* *LL million*
Lebanese sovereign and Central Bank of Lebanon		
Treasury bills and bonds (a) and (b)	**2,779,139**	2,988,732
Certificates of deposits	**1,815,182**	1,815,168
	4,594,321	4,803,900
Other sovereign and Central Banks		
Treasury bills and bonds (c)	**454,339**	808,115
Certificates of deposits	**-**	16,353
	454,339	824,468
Private sector and other securities		
Corporate debt instruments	**306,806**	290,951
Less: Allowance for expected credit losses	**(42,555)**	(42,642)
	5,312,911	5,876,677

The table for the movement in allowances for expected credit losses of Lebanese sovereign and Central Bank of Lebanon financial instruments under IFRS 9 is presented in the Credit Risk section (note 48).

(a) As at 31 December 2020, Lebanese treasury bills amounting to LL 2,321,271 million with maturities ranging between 2022 and 2033 were pledged against term borrowing granted from the Central Bank of Lebanon with the same value (2019: LL 2,321,271 million maturing between 2022 and 2033) (note 30).

(b) According to the resolution of the Investment Committee meeting held on 26 September 2019, the Group reclassified the Bank's Eurobonds portfolio amounting to LL 315,884 out of the amortized cost measurement category and into the fair value through profit or loss measurement category. At the reclassification effective date, 1 October 2019, the Eurobonds portfolio was measured at fair value through profit or loss. Unrealized loss of LL 107,717 million arising from the difference between the previous amortized cost carrying amount and the fair value of the Eurobonds portfolio was recognized in the consolidated income statement (note 9).

	2019 *LL million*
Eurobonds portfolio at fair value through profit or loss	312,789
Eurobond portfolio at amortized cost	(315,884)
Allowance for excepted credit loss (note 48)	3,095
Unrealized loss from revaluation	107,717
Revaluation of Eurobonds at fair value through profit or loss	(107,717)

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 LL million	2019 LL million
Other sovereign		
Treasury bills and bonds (a)	-	642,749
Private sector and other securities		
Corporate debt securities	25,790	-
Equity instruments (b)	20,584	18,022
Funds	-	1,791
	46,374	19,813
	46,374	662,562
Less: Allowance for expected credit losses	-	(586)
	46,374	661,976

(a) During 2019, financial assets held at amortized cost with a carrying value of LL 409,018 million and a fair value of LL 409,693 million were reclassified to financial assets at fair value through other comprehensive income (note 23).

(b) During the year ended 31 December 2020, dividend income from equity instruments amounted to LL 632 million (2019: LL 748 million).

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

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

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of fixed assets and construction in progress LL million*	*Right-of-use LL million*	*Total LL million*
Cost:						
At 1 January 2019	645,951	8,183	352,835	123,968	-	1,130,937
Impact of adopting IFRS16 at 1 January	-	-	-	-	4,277	4,277
Restated balance at January 1	645,951	8,183	352,835	123,968	4,277	1,135,214
Additions	15,803	1,381	13,308	22,576	-	53,068
Disposals	(3,837)	(682)	(2,191)	(1,962)	-	(8,672)
Transfers	29,844	8	10,036	(41,646)	-	(1,758)
Write-off	-	-	(2,567)	(439)	-	(3,006)
Translation difference	3,789	148	4,650	844	(366)	9,065
At 31 December 2019	691,550	9,038	376,071	103,341	3,911	1,183,911
Depreciation:						
At 1 January 2019	93,189	4,546	229,377	-	-	327,112
Charge for the year related to continuing operations	10,293	1,395	20,304	-	483	32,475
Charge for the year related to discontinuing operations	1,556	224	3,799	-	-	5,579
Relating to disposals	-	(646)	(2,147)	-	-	(2,793)
Relating to write-off	-	-	(2,549)	-	-	(2,549)
Translation difference	1,428	82	3,288	-	-	4,798
At 31 December 2019	106,466	5,601	252,072	-	483	364,622
Net carrying value:						
At 31 December 2019	585,084	3,437	123,999	103,341	3,428	819,289

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

26 INTANGIBLE ASSETS

	Computer software LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2020	31,271	3,493	20	34,784
Additions	1,281	-	68	1,349
Transfers	571	-	(51)	520
Translation difference	528	169	-	697
At 31 December 2020	**33,651**	**3,662**	**37**	**37,350**
Amortization				
At 1 January 2020	26,852	3,493	-	30,345
Charge for the year	2,234	-	-	2,234
Translation difference	371	169	-	540
At 31 December 2020	**29,457**	**3,662**	-	**33,119**
Net carrying value				
At 31 December 2020	**4,194**	-	**37**	**4,231**

26 INTANGIBLE ASSETS (continued)

	Computer software LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2019	30,483	3,532	14	34,029
Additions	1,323	-	20	1,343
Disposals	(804)	-	-	(804)
Transfers	262	-	(14)	248
Translation difference	7	(39)	-	(32)
At 31 December 2019	31,271	3,493	20	34,784
Amortization				
At 1 January 2019	25,506	3,532	-	29,038
Charge for the year	2,166	-	-	2,166
Relating to disposals	(804)	-	-	(804)
Translation difference	(16)	(39)	-	(55)
At 31 December 2019	26,852	3,493	-	30,345
Net carrying value				
At 31 December 2019	4,419	-	20	4,439

27 ASSET OBTAINED IN SETTLEMENT OF DEBT

	2020 LL million	*2019 LL million*
Cost:		
At 1 January	**68,653**	64,934
Additions	**12,818**	15,967
Disposals	**(20,138)**	(12,513)
Transfer to assets held for sale	**(2,715)**	-
Translation difference	**98**	265
At 31 December	**58,716**	68,653
Impairment:		
At 1 January	**(8,530)**	(6,658)
Charge for the year (note 14)	**(421)**	(2,133)
Write-back (note 11)	**202**	245
Related to disposals	**2,093**	-
Translation difference	**(19)**	16
At 31 December	**(6,675)**	(8,530)
Net carrying value:		
At 31 December	**52,041**	60,123

28 OTHER ASSETS

	2020 LL million	2019 LL million
Reinsurer's share of technical reserves	**92,896**	27,505
Sundry debtors (i)	**30,477**	27,378
Prepaid expenses	**25,966**	24,292
Insurer deferred acquisition cost	**9,497**	13,806
Compulsory deposits (ii)	**6,173**	6,171
Other revenues to be collected	**4,818**	5,282
Customers' transactions between head office and branches	**2,337**	2,314
Precious metals and stamps	**927**	1,085
Other assets	**63,338**	72,675
	236,429	180,508

(i) Sundry debtors

	2020 LL million	2019 LL million
Sundry debtors	**35,288**	29,759
Less: Provision against sundry debtors	**(4,811)**	(2,381)
	30,477	27,378

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

	2020 LL million	2019 LL million
Balance at 1 January	**2,381**	560
Provisions (note 12)	**2,426**	1,821
Translation difference	**4**	-
Balance at 31 December	**4,811**	2,381

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

	2020 LL million	2019 LL million
BLOM Invest Bank SAL	**1,500**	1,500
BLOM Development Bank SAL	**4,500**	4,500
BLOM Bank France SA	**120**	118
BLOM Securities	**53**	53
	6,173	6,171

29 GOODWILL

	2020	2019
	LL million	*LL million*
Cost:		
At 1 January	**111,139**	111,119
Translation difference	**127**	20
At 31 December	**111,266**	111,139
Impairment:		
At 1 January / 31 December	**(109,135)**	(109,135)
Net book value:		
At 31 December	**2,131**	2,004

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

	2020	2019
	LL million	*LL million*
Asset management and private banking - Switzerland	**1,361**	1,234
BLOM Securities - Jordan	**770**	770
	2,131	2,004

30 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS

	2020	2019
	LL million	*LL million*
Central Bank of Lebanon (a)	**473,701**	496,827
Central Bank of Lebanon	**-**	946,707
Central Bank of Egypt	**-**	31,647
Term borrowings under leverage arrangements (b)	**2,321,271**	2,321,271
Central Bank of Jordan	**85,157**	43,748
Accrued interest payable	**35,119**	58,554
	2,915,248	3,898,754

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

30 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS (continued)

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

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

	2020 ***LL million***	*2019* *LL million*
Leverage arrangements		
Gross amounts	**8,045,124**	9,700,512
Amounts offset against [1]		
Placements with the Central Bank of Lebanon (note 17)	**(5,723,853)**	(7,379,241)
Net amounts reported on the consolidated balance sheet	**2,321,271**	2,321,271
Financial collateral		
Lebanese treasury bills (note 23)	**2,321,271**	2,321,271
	2,321,271	2,321,271

[1] Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon have also been reported on the balance sheet net of the amounts above.

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

31 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2020 ***LL million***	*2019* *LL million*
Current accounts	**232,763**	295,935
Time deposits	**112,521**	179,391
Loans	**-**	45,370
	345,284	520,696

32 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2020	*2019*
	LL million	*LL million*
Sight deposits	**10,273,498**	7,244,806
Time deposits	**11,906,205**	20,770,647
Saving accounts	**9,185,554**	10,564,722
Credit accounts and deposits against debit accounts	**265,213**	691,178
Margins on letters of credit	**10,581**	50,540
	31,641,051	39,321,893

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 51,517 million as of 31 December 2020 (2019: LL 60,642 million).

33 DEBT ISSUED AND OTHER BORROWED FUNDS

	2020	*2019*
	LL million	*LL million*
Certificates of deposits issued by the Group	**37,688**	452,250
Issuance cost of certificates of deposits	**-**	(1,002)
Accrued interest	**480**	5,297
	38,168	456,545

On 7 March 2018, the Group has obtained the approval of the Lebanese Capital Markets Authority for the issuance of certificates of deposits at par up to a ceiling of US$ 300 million (equivalent to LL 452,250 million) subject to a fixed interest rate of 7.5% per annum and a maturity of 4 May 2023. The Group had issued in prior years the full cap of US$ 300 million (equivalent to LL 452,250 million). On 23 September 2020, the Group has obtained the approval of the Central Bank of Lebanon to early redeem these certificates of deposits. The Group issued a Tender Offer and Consent Solicitation Memorandum (TOCSM) to repurchase the certificates of deposits which was completed on 26 October 2020 and the certificates of deposits were cancelled by the Group.

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

34 OTHER LIABILITIES

	2020 LL million	2019 LL million
Current tax liabilities	308,060	153,560
Unearned premiums and liability related to insurance contracts	257,565	313,433
Other taxes due	147,742	101,581
Sundry creditors	82,315	72,786
Accrued expenses	68,017	95,455
Regularization accounts	9,097	18,426
Lease liabilities (*)	3,450	4,191
Dividends payable	590	590
Other liabilities (**)	91,081	34,139
	967,917	794,161

(*) Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2020:

	2020 LL million	2019 LL million
Balance at 1 January	4,191	4,784
Interest expense	345	344
Paid during the year	(1,086)	(937)
	3,450	4,191

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

35 PROVISIONS FOR RISKS AND CHARGES

	2020 LL million	2019 LL million
Provision for outstanding claims and IBNR reserves related to subsidiary-insurance companies (ii)	123,521	49,249
Provision for risks and charges (iii)	54,514	30,756
Retirement benefits obligation (iv)	35,390	56,970
Provisions for ECL on financial guarantees and commitments	2,247	12,419
Provision on commitment by signature	56	25
Other provisions (v)	5,320	5,312
	221,048	154,731

(i) During 2016, the Central Bank of Lebanon issued Intermediary Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with recent regulatory provisioning requirements, the impairment loss on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One.

35 PROVISIONS FOR RISKS AND CHARGES (continued)

Besides, during 2017, the Group released an amount of LL 89,720 million (net of tax) from "Deferred revenues" whereby LL 105,552 million gross of tax were recognized in the consolidated income statement for the year ended 31 December 2017 under "Other operating income" and LL 15,832 million under "Income tax expense". As at 31 December 2017, allowance for expected credit losses include provisions constituted to comply with regulatory requirements amounting to LL 337,177 million in excess of the provisioning requirements.

During 2018, the Group used part of the "Deferred revenues" to provide for LL 126,298 million; resulting from applying IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018. In addition, during 2018 the Group used an amount of LL 49,934 million from the "Deferred revenues" for the Expected Credit Loss allowance when calculating the ECL as of 31 December 2018. The remaining balance of this excess amounted to LL 160,945 million.

During 2019, the Group released an amount of LL 76,380 million (net of tax) from "Deferred revenues" whereby LL 92,024 million gross of tax were recognized in the consolidated income statement for the year ended 31 December 2019 under "Other operating income" (note 11) and LL 15,644 million under "Income tax expense". In addition, the Group used the amount of LL 84,565 million from the "Deferred revenues" for expected credit loss allowance when calculating the ECL as of 31 December 2019.

The movement in the deferred revenues (excess provisions) is as follows:

	2019 *LL million*
Balance at 1 January	160,945
Impact of IFRS 9 adoption	-
Net transfer to expected credit losses on financial assets	(84,565)
Write back during the year	(76,380)
Balance at 31 December	-

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

	2020 ***LL million***	*2019* *LL million*
Balance at 1 January	**49,249**	43,338
Charge for the year	**76,491**	6,971
Recoveries	**(2,318)**	(1,532)
Exchange difference	**99**	472
Balance at 31 December	**123,521**	49,249

35 PROVISIONS FOR RISKS AND CHARGES (continued)

(iii) Provision for risks and charges

	2020 *LL million*	*2019* *LL million*
Balance at 1 January	**30,756**	57,210
Charge for the year related to continued operations (note 14)	**33,428**	12,228
Charge for the year related to discontinued operations	**668**	2,426
Provisions written-back during the year related to continued operations (note 11)	**(2,814)**	-
Provisions written-back during the year related to discontinued operations	**(1,634)**	-
Provisions paid during the year	**(219)**	(907)
Net transfer to expected credit losses on financial assets	**30**	(40,593)
Provisions written-off during the year	**(574)**	(13)
Transfers to assets held for sale	**(5,616)**	-
Exchange difference	**489**	405
Balance at 31 December	**54,514**	30,756

(iv) Retirement benefits obligation

	2020 *LL million*	*2019* *LL million*
Balance at 1 January	**56,970**	74,426
Charge for the year related to discontinued operations	**3,416**	2,063
Write back during the year (note 13)	**(10,939)**	(14,941)
Benefits paid	**(5,216)**	(5,321)
Transfers to assets held for sale	**(9,033)**	-
Exchange difference	**192**	743
Balance at 31 December	**35,390**	56,970

(v) Other provisions

During the year ended 31 December 2019, the Group transferred LL 5,923 million from other provisions to allowance for expected credit losses on loans and advances to customers.

36 SHARE CAPITAL AND PREMIUM

	2020		*2019*	
	Share capital LL million	*Share premium LL million*	*Share capital LL million*	*Share premium LL million*
Common shares – Authorized, issued and fully paid				
215,000,000 shares at LL 1,500 per share as of 31 December 2020 (31 December 2019: 215,000,000 shares at LL 1,500 per share)	**322,500**	**374,059**	322,500	374,059

36 SHARE CAPITAL AND PREMIUM (continued)

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

In accordance with the Central Bank of Lebanon Intermediate Circular 567, no dividends were distributed from 2019 profits.

37 NON-DISTRIBUTABLE RESERVES

	Non-distributable general reserves LL million	*Reserve for general banking risks LL million*	*Legal reserve LL million*	*Reserve appropriated for capital increase LL million*	*Other reserves LL million*	*Total LL million*
At 1 January 2019	706,550	11,796	671,938	143,393	-	1,533,677
Appropriation of 2018 profits	51	-	72,148	4,746	-	76,945
Transfer to non-distributable general reserves	1,810	-	-	-	-	1,810
Transfer to retained earnings	(233)	-	-	-	-	(233)
Net loss on sale of treasury shares	-	-	-	(7)	-	(7)
At 31 December 2019	708,178	11,796	744,086	148,132	-	1,612,192
Transfer from non-distributable reserves to retained earnings	(10,649)	-	-	-	-	(10,649)
Transfer from distributable reserves to non-distributable reserves	-	-	-	-	44,524	44,524
Appropriation of 2019 profits	309	-	11,780	5,069	-	17,158
Net loss on sale of treasury shares	-	-	-	(7,926)	-	(7,926)
Other adjustments	1	-	182	1	8	192
At 31 December 2020	**697,839**	**11,796**	**756,048**	**145,276**	**44,532**	**1,655,491**

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

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

During 2020, the Group appropriated LL 11,780 million from 2019 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2019: LL 72,148 million).

37 NON-DISTRIBUTABLE RESERVES (continued)

Reserve appropriated for capital increase

During 2020, the Group appropriated LL 5,069 million from 2019 profits to the reserve appropriated for capital increase in accordance with the General Assembly of Shareholders' resolution (2019: LL 4,746 million).

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

	2020 ***LL million***	*2019* *LL million*
Recoveries of provisions for doubtful debts and reserves for assets taken in recovery of debts	**116,434**	111,365
Gain on sale of treasury shares	**28,070**	35,996
Revaluation reserves for fixed assets sold	**668**	668
Transfer from other reserves	**102**	102
Other adjustments	**2**	1
	145,276	148,132

38 TREASURY SHARES

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

	2020		*2019*	
	Number of shares	***Cost LL million***	*Number of shares*	*Cost LL million*
Balance at 1 January	**8,851,048**	**13,531**	8,853,351	13,567
Sale of treasury shares	**(517,316)**	**(9,097)**	(2,303)	(36)
Balance at 31 December	**8,333,732**	**4,434**	8,851,048	13,531

The treasury shares represent 560,869 Global Depositary Receipts (GDR) and 7,772,863 ordinary shares owned by the Group as at 31 December 2020 (2019: 1,078,185 Global Depository Receipts (GDR) and 7,775,166 ordinary shares). The market value of one GDR and one ordinary share were USD 2.20 and USD 2.07 respectively as of 31 December 2020 (2019: USD 6.07 and USD 7.07 respectively).

The Group realized a loss of LL 7,926 million from the sale of treasury shares during the year 2020 (2019: loss of LL 7 million). Gains and losses are reflected in the "Non-distributable reserves".

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

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

	2020 ***LL million***	*2019* *Restated* *LL million*
At 1 January	**9,928**	(957)
Net changes in fair values during the year	**698**	912
Related to discontinued operations	**7,004**	9,973
Transfer related to assets held for sale	**(17,174)**	-
Balance at 31 December	**456**	9,928

40 CASH AND CASH EQUIVALENTS

	2020 LL million	*2019 LL million*
Cash and balances with central banks	**3,259,787**	2,869,035
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**1,447,048**	1,846,016
	4,706,835	4,715,051
Less:		
Due to central banks	**(94,285)**	(1,028,405)
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(286,130)**	(413,907)
	4,326,420	3,272,739

Cash and cash equivalents include balances in foreign currencies that are subject to unofficial capital controls and restricted transfers outside Lebanon. Accordingly, these balances are not considered readily convertible to known amounts of cash in the denomination currency without a risk of changes in value. However, the Group maintains their classification as cash and cash equivalents as they are freely transferrable within the Lebanese territory. These balances were as follows as at 31 December 2020 and 31 December 2019:

	2020 LL million	*2019 LL million*
Cash and balances with central banks	**1,648,614**	710,163
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**125,662**	161,536
	1,774,276	871,699
Less:		
Due to central banks	**(41,453)**	(1,007,004)
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(72,738)**	(13,765)
	(114,191)	(1,020,769)
	1,660,085	(149,070)

41 DIVIDENDS DECLARED AND PAID

In accordance with the Central Bank of Lebanon intermediary circular 532, the Board of Directors did not propose the payment of any dividends for the years ended on 31 December 2019 and 2020.

42 ASSETS AND LIABILITIES HELD FOR SALE

BLOM Bank - Egypt

On 15 January 2021, the Bank signed a Shares Purchase Agreement for the sale of 298,260,000 ordinary shares in BLOM Bank Egypt SAE, comprising 99.42% of the total issued share capital of the BLOM Bank Egypt SAE. The completion of the sale is conditional upon precedent conditions being satisfied. As of the date of these consolidated financial statements, the precedent conditions are yet to be fully satisfied. The parties agreed on a purchase price for the shares less reductions (if any) made pursuant to the contract. No impairment for BLOM Bank Egypt SAE has been recognized under IFRS 5 as at 31 December 2020. Impairment under IFRS 5 is calculated as the difference between fair value less disposal costs and the carrying value of the disposal group. The fair value is determined by reference to the purchase price agreed upon between the two parties, taking into consideration potential reductions to be made pursuant to the contract. The fair value less disposal costs and the expected contribution exceeds the net asset value as at 31 December 2020.

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

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

42 ASSETS AND LIABILITIES HELD FOR SALE (continued)

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

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

	2020 *LL million*	*2019* *LL million*
Interest and similar income	**397,817**	440,245
Interest and similar expense	**(242,854)**	(300,409)
Net interest income	**154,963**	139,836
Fee and commission income	**19,526**	24,709
Fee and commission expense	**(6,495)**	(7,306)
Net fee and commission income	**13,031**	17,403
Net gain from financial assets at fair value through profit or loss	**3,194**	4,798
Non-interest revenues from financial assets at fair value through other comprehensive income	**269**	366
Other operating income	**3,003**	1,631
Total operating income	**174,460**	164,034
Net impairment loss on financial assets	**(15,279)**	(3,693)
Net operating income	**159,181**	160,341
Personnel expenses	**(40,409)**	(35,251)
Other operating expenses	**(22,830)**	(19,828)
Depreciation of property, equipment and right-of-use assets	**(6,387)**	(5,579)
Total operating expenses	**(69,626)**	(60,658)
Operating profit	**89,555**	99,683
Net gain on disposal of property and equipment	**121**	239
Profit before tax	**89,676**	99,922
Income tax expense	**(25,738)**	(28,041)
Profit for the year from discontinued operations	**63,938**	71,881

42 ASSETS AND LIABILITIES HELD FOR SALE (continued)

Other comprehensive income relating to discontinued operations is as follows:

	2020 LL million	*2019 LL million*
Profit for the year	63,938	71,881
Other comprehensive income that will be reclassified to the consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	7,994	37,211
Total other comprehensive income that will be reclassified to the consolidated income statement in subsequent periods	7,994	37,211
Other comprehensive income that will not to be reclassified to the consolidated income statement in subsequent periods:		
Net unrealized gain from financial assets at fair value through other comprehensive income	7,004	9,973
Total other comprehensive income that will not be reclassified to the consolidated income statement in subsequent periods	7,004	9,973
Other comprehensive income for the year, net of tax	14,998	47,184
Total comprehensive income for the year, net of tax	78,936	119,065
Attributable to:		
Equity holders of the parent	78,849	118,791
Non-controlling interests	87	274
	78,936	119,065

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

	2020 LL million	*2019 LL million*
Net cash flows from operating activities	123,098	(409,889)
Net cash flows from investing activities	137,528	223,680
Net cash flows from financing activities	(11,815)	(11,723)
Net increase/(decrease) in cash and cash equivalents	248,811	(197,932)

43 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

43 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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

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

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

Effects of exchange rates on the fair value measurements:
The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Lira in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Liras at the official exchange rate of 1,507.5 US$ / LL in accordance with IAS 21, due to the lack of an alternative legal exchange mechanism. However, in light of the high deviation between the parallel market rate and the official exchange rates, management estimates that the amounts reported in this note in LL do not reflect a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated from the realization of such assets or the payment of such liabilities at the date of the consolidated financial statements. In the absence of an alternative legal exchange mechanism, management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2. Classification within Levels 1 and 2 do not take into consideration the "lack of observability" of the exchange rate.

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

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

43 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

	2020			
	Valuation techniques			
	Level 1	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*
Financial liabilities:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	**158**	-	**158**
Equity swaps and options	-	**150**	-	**150**
Currency swaps	-	**10,565**	-	**10,565**

	2019			
	Valuation techniques			
	Level 1	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*
Financial assets:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	25,696	-	25,696
Equity swaps and options	-	1,131	-	1,131
Currency swaps	-	345	-	345
Currency options	-	814	-	814
Financial assets at fair value through profit or loss:				
Treasury Bills and bonds	176,088	657	-	176,745
Corporate debt instruments	-	3,073	-	3,073
Equity instruments	154,940	20,964	-	175,904
Funds	51,566	-	74,866	126,432
Financial assets at fair value through other comprehensive income:				
Treasury bills and bonds	198,597	443,566	-	642,163
Equity instruments	14,304	3,718		18,022
Debt instruments	1,791	-	-	1,791

	2019			
	Valuation techniques			
	Level 1	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*
Financial liabilities:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	2,113	-	2,113
Equity swaps and options	-	1,131	-	1,131
Currency swaps	-	26,492	-	26,492

There were no transfers between levels during 2020 (2019: the same).

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

Derivatives

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

Funds and Equity Shares of Non-listed Entities

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

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

43 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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

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

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

31 December 2020	*Carrying*	*Fair Value*			
	Value	*Level 1*	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*
FINANCIAL ASSETS					
Cash and balances with central banks	**1,683,070**	**29,753**	**1,653,317**	**-**	**1,683,070**
Due from banks and financial institutions	**1,400,026**	**-**	**1,400,018**	**-**	**1,400,018**
Net loans and advances to customers at amortized cost	**1,696,308**	**-**	**-**	**1,703,633**	**1,703,633**
Net loans and advances to related parties at amortized cost	**9,058**	**-**	**-**	**9,118**	**9,118**
Debtors by acceptances	**10,719**	**-**	**-**	**10,719**	**10,719**
Financial assets at amortized cost	**751,938**	**328,237**	**429,593**	**-**	**757,830**
Treasury bills and bonds	***445,493***	***65,558***	***379,734***	**-**	***445,292***
Corporate debt securities	***306,445***	***262,679***	***49,859***	**-**	***312,538***
FINANCIAL LIABILITIES					
Due to central banks	**85,419**	**-**	**85,419**	**-**	**85,419**
Due to banks and financial institutions	**283,723**	**-**	**283,723**	**-**	**283,723**
Customers' deposits at amortized cost	**4,547,355**	**-**	**4,547,814**	**-**	**4,547,814**
Deposits from related parties at amortized cost	**37,697**	**-**	**37,699**	**-**	**37,699**
Engagements by acceptances	**10,719**	**-**	**-**	**10,719**	**10,719**

31 December 2019	*Carrying*	*Fair Value*			
	Value	*Level 1*	*Level 2*	*Level 3*	*Total*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*
FINANCIAL ASSETS					
Cash and balances with central banks	2,882,765	87,455	2,795,701	-	2,883,156
Due from banks and financial institutions	1,734,332	-	1,734,332	-	1,734,332
Loans to banks and financial institutions	43,525	-	43,001	-	43,001
Net loans and advances to customers at amortized cost	3,235,967	-	-	3,297,010	3,297,010
Net loans and advances to related parties at amortized cost	6,152	-	-	6,168	6,168
Debtors by acceptances	31,330	-	-	31,330	31,330
Financial assets at amortized cost	1,071,575	367,620	716,340	-	1,083,960
Treasury bills and bonds	*802,599*	*145,650*	*664,928*	-	*810,578*
Certificates of deposit - Central Banks	*16,353*	-	*16,353*	-	*16,353*
Corporate debt securities	*252,623*	*221,970*	*35,059*	-	*257,029*
FINANCIAL LIABILITIES					
Due to central banks	75,605	-	75,605	-	75,605
Due to banks and financial institutions	503,903	-	503,905	-	503,905
Customers' deposits at amortized cost	8,070,107	-	8,107,132	-	8,107,132
Deposits from related parties at amortized cost	17,782	-	17,792	-	17,792
Engagements by acceptances	31,330	-	-	31,330	31,330

43 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)

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

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

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

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

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

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

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

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

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit – related commitments and contingent liabilities (continued)

	2019		
	Banks LL million	*Customers LL million*	*Total LL million*
Guarantees issued	112,365	952,947	1,065,312
Commitments			
Documentary credits	158,039	-	158,039
Loan commitments	-	1,082,043	1,082,043
Of which revocable	-	*457,242*	*457,242*
Of which irrevocable	-	*624,801*	*624,801*
Securities pledged with the Central Bank of Lebanon	2,342,765	-	2,342,765
Other commitments	1,227	40,736	41,963
	2,614,396	2,075,726	4,690,122

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

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

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

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

Revocable loan commitments are those commitments that can be cancelled at any time (without giving a reason) subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims including those relating to the restrictive measures and capital controls in place. Based on advice from legal counsel, and despite the novelty of the certain claims and the uncertainties inherent in their unique situation management believes that legal claims will not result in any significant financial loss to the Group, except as provided for in note 52.

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Operating lease and capital expenditure commitments

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

	2020	*2019*
	LL million	*LL million*
Capital commitments		
Property and equipment	**5,141**	6,800

Other commitments and contingencies

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

The Bank's books in Lebanon for the years 2015 to 2017 (inclusive) are currently under the review of the tax authorities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the years 2018 to 2020 (inclusive).

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

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

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

45 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

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

	2020	*2019*
	LL million	*LL million*
Assets held in custody and under administration	**5,433,621**	9,973,201

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

46 RELATED PARTY TRANSACTIONS

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

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

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

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

Related party balances included in the Group's consolidated Statement of Financial Position are as follows as of 31 December:

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

	2019			
	Key management personnel	*Other related parties*	*Expected credit loss*	*Total*
	Outstanding balance LL million	*Outstanding balance LL million*	*Outstanding balance LL million*	*Outstanding balance LL million*
Deposits	34,514	78,795	-	113,309
Net loans and advances	8,973	9,286	(4)	18,255
Guarantees given	13	1,814	-	1,827

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

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

	2019		
	Key management personnel LL million	*Other related parties LL million*	*Total LL million*
Interest paid on deposits	2,420	6,038	8,458
Interest received from net loans and advances	483	761	1,244
Rent expense	-	296	296

46 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

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

	2020	*2019*
	LL million	*LL million*
Short-term benefits	**36,146**	40,581
Post-employment benefits (written-back) charged for the year, net	**3,239**	(12,306)

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

47 RISK MANAGEMENT

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

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

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

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

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

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

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

47 RISK MANAGEMENT (continued)

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

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

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

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

48 CREDIT RISK

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

48.1 Credit risk management

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

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

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

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

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

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL)

48.2.1 Governance and oversight of expected credit losses

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

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

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

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

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

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

48.2.2 Definition of default and cure

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

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

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

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

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

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL) (continued)

48.2.2 Definition of default and cure (continued)

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

48.2.3 The Group's internal rating and PD estimation process

Central Banks, Sovereigns and Financial Institutions

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

Non-consumer loans

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

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

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

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

48 CREDIT RISK (continued)

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

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

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

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

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

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

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

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

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

A financial instrument considered to have experienced a significant increase in credit risk if the instruments is more than 90 days past due on its contractual payments. Downgrade from stage 2 to stage 3 is based on whether financial assets are credit-impaired at the reporting date.

As noted in section "47.2.2. Definition of default and cure" and in response to the COVID-19 global pandemic, governments and regulators around the world have introduced a number of support measures for both consumer and non-consumer borrowers under market-wide programs.

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL) (continued)

48.2.7 Expected life

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

48.2.8 Forward looking information

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

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

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

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

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

48.2.9 Modified and forborne loans

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

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

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

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

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL) (continued)

48.2.9 Modified and forborne loans (continued)

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

	2020 *LL million*	*2019* *LL million*
Amortized costs of financial assets modified during the period	**47,238**	43,742

There are no previously modified financial assets for which loss allowance has changed to 12mECL measurement as at 31 December 2020 and 31 December 2019. There are no previously modified financial assets for which loss allowance had changed to 12mECL measurement and reverted to LTECL as at 31 December 2020 and 31 December 2019.

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL) (continued)

48.2.10 Financial assets and ECLs by stage

The tables below present an analysis of financial assets at amortized cost by gross exposure and impairment allowance by stage allocation as at 31 December 2020 and 2019. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				*Impairment allowance*				*Net*
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*exposure*
31 December 2020	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Cash and balances with central banks	1,896,240	27,069,280	-	28,965,520	-	(1,229,500)	-	(1,229,500)	27,736,020
Due from banks and financial institutions	1,526,482	-	1,232	1,527,714	(38)	-	(1,231)	(1,269)	1,526,445
Loans and advances to customers at amortized cost	3,931,517	460,540	1,189,175	5,581,232	(109,063)	(51,185)	(729,380)	(889,628)	4,691,604
Commercial loans	*1,637,519*	*283,373*	*712,396*	*2,633,288*	*(19,355)*	*(44,066)*	*(463,212)*	*(526,633)*	*2,106,655*
Consumer loans	*2,293,998*	*177,167*	*476,779*	*2,947,944*	*(89,708)*	*(7,119)*	*(266,168)*	*(362,995)*	*2,584,949*
Loans and advances to related parties at amortized cost	13,222	-	-	13,222	(4)	-	-	(4)	13,218
Debtors by acceptances	10,873	2	-	10,875	(84)	(1)	-	(85)	10,790
Financial assets at amortized cost	737,012	4,609,608	8,846	5,355,466	(200)	(33,957)	(8,398)	(42,555)	5,312,911
Financial guarantees and other commitments	1,006,752	25,252	1,152	1,033,156	(1,412)	(229)	(606)	(2,247)	1,030,909
Total	**9,122,098**	**32,164,682**	**1,200,405**	**42,487,185**	**(110,801)**	**(1,314,872)**	**(739,615)**	**(2,165,288)**	**40,321,897**

	Gross exposure				*Impairment allowance*				*Net*
	Stage 1	*Stage 2*	*Stage 3*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*	*exposure*
31 December 2019	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Cash and balances with central banks	2,948,847	28,636,608	-	31,585,455	(848)	(382,181)	-	(383,029)	31,202,426
Due from banks and financial institutions	1,921,641	-	1,232	1,922,873	(469)	-	(1,232)	(1,701)	1,921,172
Loans to banks and financial institutions	46,834	-	-	46,834	(264)	-	-	(264)	46,570
Loans and advances to customers at amortized cost	7,912,156	872,347	671,059	9,455,562	(103,590)	(172,513)	(432,915)	(709,018)	8,746,544
Commercial loans	*4,199,503*	*660,859*	*474,961*	*5,335,323*	*(51,702)*	*(158,710)*	*(318,412)*	*(528,824)*	*4,806,499*
Consumer loans	*3,712,653*	*211,488*	*196,098*	*4,120,239*	*(51,888)*	*(13,803)*	*(114,503)*	*(180,194)*	*3,940,045*
Loans and advances to related parties at amortized cost	18,259	-	-	18,259	(4)	-	-	(4)	18,255
Debtors by acceptances	142,611	2,216	-	144,827	(1,857)	(9)	-	(1,866)	142,961
Financial assets at amortized cost	1,050,990	4,859,931	8,398	5,919,319	(2,990)	(34,359)	(5,293)	(42,642)	5,876,677
Financial guarantees and other commitments	2,271,840	33,260	294	2,305,394	(11,810)	(466)	(143)	(12,419)	2,292,975
Total	16,313,178	34,404,362	680,983	51,398,523	(121,832)	(589,528)	(439,583)	(1,150,943)	50,247,580

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL) (continued)

48.2.10 Financial assets and ECLs by stage (continued)

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

	2020			
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million
Balance as of 1 January	103,590	172,513	432,915	709,018
Impairment loss for the year related to continued operations (note 12)	45,730	6,119	472,846	524,695
Impairment loss for the year related to discontinued operations	8,905	-	13,663	22,568
Recoveries related to continued operations (note 12)	(13,270)	(138,562)	(121,430)	(273,262)
Recoveries related to discontinued operations	(5,963)	-	(736)	(6,699)
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges") due to business activity and exposure changes	9,067	(4,465)	(297)	4,305
Net transfers between stages	(27,861)	29,026	(1,165)	-
Unrealized interest for the year	-	-	46,332	46,332
Transfer to off-financial position	-	-	(68,710)	(68,710)
Direct write-offs	-	-	(14,976)	(14,976)
Other adjustments	(2)	(1)	1,124	1,121
Transfer to assets held for sale	(11,405)	(13,505)	(34,062)	(58,972)
Foreign exchange difference	272	60	3,876	4,208
At 31 December 2020	109,063	51,185	729,380	889,628

	2019 restated			
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million
Balance as of 1 January	23,691	68,088	388,681	480,460
Impairment loss for the year related to continued operations (note 12)	70,265	80,340	149,089	299,694
Impairment loss for the year related to discontinued operations	4,385	-	8,511	12,896
Recoveries related to continued operations (note 12)	(5,950)	(2,649)	(79,293)	(87,892)
Recoveries related to discontinued operations	(6,009)	-	(168)	(6,177)
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges") due to business activity and exposure changes	8,407	20,344	56,071	84,822
Net transfers between stages	(9,498)	7,660	1,838	-
Unrealized interest for the year	-	-	30,628	30,628
Transfer to off-financial position	-	-	(111,648)	(111,648)
Direct write-offs	-	-	(2,222)	(2,222)
Economic uncertainty adjustments	18,040	(1,425)	494	17,109
Foreign exchange difference	259	155	(9,066)	(8,652)
At 31 December 2019	103,590	172,513	432,915	709,018

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

48 CREDIT RISK (continued)

48.2 Expected credit losses (ECL) (continued)

48.2.10 Financial assets and ECLs by stage (continued)

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

	2020 ***LL million***	*2019* *LL million*
Balance as of 1 January	**382,181**	79,748
Impairment loss for the year	**844,093**	277,641
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges") due to business activity and exposure changes	**3,226**	24,792
At 31 December	**1,229,500**	382,181

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

	2020 ***LL million***	*2019* *LL million*
Balance as of 1 January	**33,997**	12,627
Impairment loss for the year	**2,593**	5,428
Recoveries	**(172)**	-
Charge for the year (transfer from (to) excess provisions under "Provisions for risks and charges") due to business activity and exposure changes	-	19,037
Transfer arising from the Eurobonds reclassification (note 23)	-	(3,095)
At 31 December	**36,418**	33,997

48 CREDIT RISK (continued)

48.3 Analysis of risk concentration

Geographical Location Analysis

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

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

	2019		
	Lebanon	*Others*	*Total*
	LL million	*LL million*	*LL million*
Financial assets			
Cash and balances with central banks	28,254,429	2,947,997	31,202,426
Due from banks and financial institutions	186,840	1,734,332	1,921,172
Loans to banks and financial institutions	3,045	43,525	46,570
Derivative financial instruments	1,911	26,075	27,986
Financial assets at fair value through profit or loss	176,745	3,073	179,818
Treasury bills and bonds	*176,745*	-	*176,745*
Corporate debt securities	-	*3,073*	*3,073*
Net loans and advances to customers at amortized cost	5,097,625	3,648,919	8,746,544
Commercial loans	*2,220,435*	*2,586,064*	*4,806,499*
Consumer loans	*2,877,190*	*1,062,855*	*3,940,045*
Net loans and advances to related parties at amortized cost	11,965	6,290	18,255
Debtors by acceptances	111,631	31,330	142,961
Financial assets at amortized cost	4,804,849	1,071,828	5,876,677
Treasury bills and bonds	*2,988,042*	*802,853*	*3,790,895*
Certificates of deposit – Central Bank of Lebanon	*1,781,861*	*16,353*	*1,798,214*
Corporate debt securities	*34,946*	*252,622*	*287,568*
Financial assets at fair value through other comprehensive income	-	661,976	661,976
	38,649,040	10,175,345	48,824,385

48 CREDIT RISK (continued)

48.4 Credit quality

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

(i) External ratings from approved credit rating agencies for financial institutions and financial assets.

(ii) Internal rating models that take into account both financial as well as non-financial information such as management quality, operating environment and company standing.

(iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision-making process.

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

Sovereign

The Group applies two different PDs based on rating agencies' external studies.
A forward-looking adjustment is performed on both PDs via beta regression by considering the relevant macro-economic factors as published by International data sources. The resulting PiT and forward-looking PDs are then used in the ECL calculation under the base case. The Group then projects these factors under a lower and upper scenario. In 2019, and in compliance with the Central Bank of Lebanon Intermediary Circular 543, the Group applied the regulatory ECL's ceiling for sovereign exposures (i.e. ECL of 1.89% for Central Bank of Lebanon exposures in foreign currencies and ECL of 0% for sovereign and Central Bank of Lebanon exposures in local currency).

Banks and financial institutions

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

Debt securities

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

Commercial loans

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

Consumer loans

For the purpose of the loss rate calculation, the Group segregates its Consumer loans portfolio by product and displays the portfolio breakdown by DPD bucket. The Group adopts this approach for its Consumer facilities that fall within Stage 1. The Group then analyzes monthly net flow rates whereby the loss rate for each delinquency bucket is computed by considering the flow into the designated loss bucket at which write-off is assumed to occur. Forward looking loss rate is then projected through analysis of correlation with macro-economic factors and regressed under lower, base and upper scenarios.

48 CREDIT RISK (continued)

48.4 Credit quality (continued)

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

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

	2019			
	Stage 1 *LL million*	*Stage 2* *LL million*	*Stage 3* *LL million*	*Total* *LL million*
Financial assets				
Cash and balances with central banks	2,948,847	28,636,608	-	31,585,455
Due from banks and financial institutions	1,921,641	-	1,232	1,922,873
Loans to banks and financial institutions	46,834	-	-	46,834
Loans and advances to customers at amortized cost	7,912,156	872,347	671,059	9,455,562
Commercial loans	*4,199,503*	*660,859*	*474,961*	*5,335,323*
Consumer loans	*3,712,653*	*211,488*	*196,098*	*4,120,239*
Loans and advances to related parties at amortized cost	18,259	-	-	18,259
Debtors by acceptances	142,611	2,216	-	144,827
Financial assets at amortized cost	1,050,990	4,859,931	8,398	5,919,319
Treasury bills and bonds	*760,039*	*3,028,410*	*8,398*	*3,796,847*
Certificates of deposit – central banks	-	*1,831,521*	-	*1,831,521*
Corporate debt securities	*290,951*	-	-	*290,951*
	14,041,338	34,371,102	680,689	49,093,129
Contingent liabilities				
Financial guarantees	1,053,810	11,208	294	1,065,312
Documentary credits	157,994	45	-	158,039
Loan commitments	1,060,036	22,007	-	1,082,043
Total	2,271,840	33,260	294	2,305,394

48 CREDIT RISK (continued)

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

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

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

	2019							
	Maximum exposure LL million	*Cash LL million*	*Securities LL million*	*Letters of credit / guarantees LL million*	*Real estate LL million*	*Other LL million*	*Net credit exposure LL million*	*Associated ECL LL million*
Balances with central banks	31,202,426	-	2,342,765	-	-	-	28,859,661	383,029
Due from banks and financial institutions	1,921,172	-	-	-	-	-	1,921,172	1,701
Loans to banks and financial institutions	46,570	-	-	-	-	-	46,570	264
Derivative financial instruments	27,986	-	-	-	-	-	27,986	-
Financial assets at fair value through profit or loss	482,154	-	-	-	-	-	482,154	-
Net loans and advances to customers at amortized cost	8,746,544	895,378	129,368	77,460	4,123,352	2,315,697	1,205,289	709,018
Commercial loans	*4,806,499*	*831,927*	*129,368*	*77,460*	*1,541,524*	*1,199,525*	*1,026,695*	*528,824*
Consumer loans	*3,940,045*	*63,451*	-	-	*2,581,828*	*1,116,172*	*178,594*	*180,194*
Net loans and advances to related parties at amortized cost	18,255	8,235	106	-	4,723	23	5,168	4
Debtors by acceptances	142,961	-	-	-	-	-	142,961	1,866
Financial assets at amortized cost	5,876,677	-	-	-	-	-	5,876,677	42,641
Financial assets at fair value through other comprehensive income	661,976	-	-	-	-	-	661,976	586
	49,126,721	903,613	2,472,239	77,460	4,128,075	2,315,720	39,229,614	1,139,109
Guarantees received								
Utilized collateral		903,613	2,472,239	77,460	4,128,075	2,315,720	9,897,107	
Surplus of collateral before undrawn credit lines		200,313	7,675	174,789	4,838,670	6,211,912	11,433,359	
		1,103,926	2,479,914	252,249	8,966,745	8,527,632	21,330,466	

The schedules shown above exclude the undrawn commitments to lend of LL 527,445 million for the year ended 31 December 2020 (2019: LL 1,082,043 million).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

48 CREDIT RISK (continued)

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

Collateral and other credit enhancements (continued)
The main types of collateral obtained are as follows:

- *Securities:* the balances shown represent the fair value of the securities.

- *Letters of credit / guarantees:* The Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.

- *Real estate (commercial and residential):* The Group holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

In addition, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

49 MARKET RISK

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

Bank Risk Management is responsible for generating internal reports quantifying the Group's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Group's trading portfolio of fixed income securities to changes in market prices and / or market parameters. The Group's Asset and Liability Management (ALM) policy assigns authority for its formulation, revision and administration to the Asset / Liability Committee (ALCO) of BLOM Bank SAL. Bank Risk Management is responsible for monitoring compliance with all limits set in the ALM Policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits. The Group has an Asset and Liability Management system "Focus ALM" that automates the risk measurement of the Group's assets and liabilities including stress testing and extensive scenario analysis.

A. CURRENCY RISK

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices, fluctuations in interest rates, and exchange rate volatility in general. The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Lira. Most of these financial assets and liabilities are in US Dollars, Euros and Egyptian Pounds.

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

49 MARKET RISK (continued)

A. *CURRENCY RISK (continued)*

The following tables present the breakdown of assets and liabilities by currency as of 31 December. Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset.

	2020					
		Foreign currencies in Lebanese Lira				
	LL	*USD*	*EUR*	*Other foreign currencies*	*Total foreign currencies*	*Total*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
ASSETS						
Cash and balances with central banks	5,896,670	18,100,370	2,497,976	1,241,004	21,839,350	27,736,020
Due from banks and financial institutions	42,179	866,807	164,273	453,186	1,484,266	1,526,445
Derivative financial instruments	2	720	48	874	1,642	1,644
Financial assets at fair value through profit or loss	15,982	158,170	322	55,513	214,005	229,987
Net loans and advances to customers at amortized cost	1,623,745	1,525,446	257,414	1,284,999	3,067,859	4,691,604
Net loans and advances to related parties at amortized cost	3,020	846	4,938	4,414	10,198	13,218
Debtors by acceptances	-	4,791	1,575	4,424	10,790	10,790
Financial assets at amortized cost	2,786,705	2,097,263	55	428,888	2,526,206	5,312,911
Financial assets at fair value through other comprehensive income	-	25,760	28	20,586	46,374	46,374
Property, equipment and right-of-use assets	546,176	268	48,981	157,253	206,502	752,678
Intangible assets	1,530	109	99	2,493	2,701	4,231
Assets obtained in settlement of debt	(157)	38,851	-	13,347	52,198	52,041
Other assets	122,833	38,308	10,444	64,844	113,596	236,429
Goodwill	(88,655)	88,655	-	2,131	90,786	2,131
Assets held for sale	-	558,849	65,251	3,557,083	4,181,183	4,181,183
TOTAL ASSETS	10,950,030	23,505,213	3,051,404	7,291,039	33,847,656	44,797,686
LIABILITIES						
Due to central banks	2,754,484	75,345	-	85,419	160,764	2,915,248
Due to banks and financial institutions	2,062	141,736	62,554	138,932	343,222	345,284
Derivative financial instruments	11	2	542	10,318	10,862	10,873
Customers' deposits at amortized cost	4,081,964	23,430,397	2,192,992	1,935,698	27,559,087	31,641,051
Deposits from related parties at amortized cost	1,317	103,759	5,275	2,763	111,797	113,114
Debt issued and other borrowed funds	-	38,168	-	-	38,168	38,168
Engagements by acceptances	-	4,865	1,575	4,434	10,874	10,874
Other liabilities	597,272	279,106	15,441	76,098	370,645	967,917
Provisions for risks and charges	200,694	5,882	634	13,838	20,354	221,048
Liabilities held for sale	-	563,329	60,586	3,108,164	3,732,079	3,732,079
TOTAL LIABILITIES	7,637,804	24,642,589	2,339,599	5,375,664	32,357,852	39,995,656
NET EXPOSURE	3,312,226	(1,137,376)	711,805	1,915,375	1,489,804	4,802,030

	2019					
		Foreign currencies in Lebanese Lira				
	LL	*USD*	*EUR*	*Other foreign currencies*	*Total foreign currencies*	*Total*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
ASSETS						
Cash and balances with central banks	8,003,822	18,493,631	2,685,999	2,018,974	23,198,604	31,202,426
Due from banks and financial institutions	88,834	919,417	364,471	548,450	1,832,338	1,921,172
Loans to banks and financial institutions	3,045	43,525	-	-	43,525	46,570
Derivative financial instruments	1,911	25,346	661	68	26,075	27,986
Financial assets at fair value through profit or loss	17,485	386,230	269	78,170	464,669	482,154
Net loans and advances to customers at amortized cost	1,981,424	3,926,062	309,875	2,529,183	6,765,120	8,746,544
Net loans and advances to related parties at amortized cost	3,518	7,918	2,833	3,986	14,737	18,255
Debtors by acceptances	(10)	119,813	16,216	6,942	142,971	142,961
Financial assets at amortized cost	3,009,759	2,125,595	51	741,272	2,866,918	5,876,677
Financial assets at fair value through other comprehensive income	-	137,326	26,822	497,828	661,976	661,976
Property, equipment and right-of-use assets	560,951	98	45,670	212,570	258,338	819,289
Intangible assets	1,308	122	122	2,887	3,131	4,439
Assets obtained in settlement of debt	(19)	44,957	-	15,185	60,142	60,123
Other assets	53,196	50,848	8,966	67,498	127,312	180,508
Goodwill	(88,655)	88,655	-	2,004	90,659	2,004
TOTAL ASSETS	13,636,569	26,369,543	3,461,955	6,725,017	36,556,515	50,193,084
LIABILITIES						
Due to central banks	2,819,299	932,626	71,224	75,605	1,079,455	3,898,754
Due to banks and financial institutions	1,569	257,728	71,446	189,953	519,127	520,696
Derivative financial instruments	2,624	608	10,441	16,877	27,926	30,550
Customers' deposits at amortized cost	6,125,743	25,542,905	2,350,330	5,302,915	33,196,150	39,321,893
Deposits from related parties at amortized cost	21,136	81,826	5,900	4,447	92,173	113,309
Debt issued and other borrowed funds	-	456,545	-	-	456,545	456,545
Engagements by acceptances	-	121,661	16,216	6,950	144,827	144,827
Other liabilities	375,484	271,656	38,601	108,420	418,677	794,161
Provisions for risks and charges	116,008	7,337	386	31,000	38,723	154,731
TOTAL LIABILITIES	9,461,863	27,672,892	2,564,544	5,736,167	35,973,603	45,435,466
NET EXPOSURE	4,174,706	(1,303,349)	897,411	988,850	582,912	4,757,618

49 MARKET RISK (continued)

A. *CURRENCY RISK (continued)*

The Group's exposure to currency risk

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

	2020			
	USD	*EUR*	*Other*	*Total*
	LL Million	*LL Million*	*LL Million*	*LL Million*
Assets				
Cash and balances with central banks	18,063,310	2,090,288	2,681	20,156,279
Due from banks and financial institutions	80,193	4,034	12	84,239
Financial assets at fair value through profit or loss	51,300	79	-	51,379
Net loans and advances to customers at amortized cost	1,163,500	24,768	13,370	1,201,638
Net loans and advances to related parties at amortized cost	835	-	-	835
Debtors by acceptances	72	-	-	72
Financial assets at amortized cost	1,774,010	-	-	1,774,010
Assets obtained in settlement of debt	38,851	-	-	38,851
Other assets	24,967	1,319	378	26,664
Goodwill	88,655	-	-	88,655
Total assets	21,285,693	2,120,488	16,441	23,422,622
Liabilities				
Due to central banks	75,345	-	-	75,345
Due to banks and financial institutions	64,334	91	6,213	70,638
Engagements by acceptances	345	431	-	776
Other liabilities	271,053	2,492	855	274,400
Provisions for risks and charges	1,167	-	471	1,638
Total liabilities	412,244	3,014	7,539	422,797

	2019			
	USD	*EUR*	*Other*	*Total*
	LL Million	*LL Million*	*LL Million*	*LL Million*
Assets				
Cash and balances with central banks	18,298,903	2,016,570	367	20,315,840
Due from banks and financial institutions	96,714	1,284	8	98,006
Financial assets at fair value through profit or loss	232,867	48	-	232,915
Net loans and advances to customers at amortized cost	3,074,111	58,281	15,422	3,147,814
Net loans and advances to related parties at amortized cost	7,912	534	-	8,446
Debtors by acceptances	99,073	7,649	5,315	112,037
Financial assets at amortized cost	1,795,090	-	-	1,795,090
Assets obtained in settlement of debt	44,957	-	-	44,957
Other assets	34,712	46	(11,224)	23,534
Goodwill	88,655	-	-	88,655
Total assets	23,772,994	2,084,412	9,888	25,867,294
Liabilities				
Due to central banks	932,626	71,224	-	1,003,850
Due to banks and financial institutions	65,280	2,269	111	67,660
Engagements by acceptances	8,528	4,504	5,268	18,300
Other liabilities	263,373	6,018	(10,877)	258,514
Provisions for risks and charges	2,524	-	-	2,524
Total liabilities	1,272,331	84,015	(5,498)	1,350,848

49 MARKET RISK (continued)

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities that mature or are re-priced in a given period. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management.

Interest rate sensitivity

The table below shows the sensitivity of interest income to basis points changes in interest rates, all other variables held constant. Given the novel and prolonged nature of current economic crisis and the high levels of uncertainties, the Group expects lower interest rates during 2020. The Central Bank of Lebanon has already decreased interest rates though issuance of Intermediary Circulars 536 and 544 (refer to note 1). The Group is unable to determine what would be a reasonable possible change in interest rates; however, the Group has a sensitivity analysis based on a decrease in 100 basis points.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2020 and 2019. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Group expects the low interest rates environment to potentially prevail in Lebanon during 2021. The Group is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through its various intermediate circulars.

The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

The sensitivity of equity was calculated for a decrease in basis points whereby a similar decrease has an equal and offsetting effect on net interest income.

		Sensitivity of Net Interest Income	
	Decrease in Basis Points	*2020 LL million*	*2019 LL million*
Lebanese Lira	(100)	**3,696**	18,524
United States Dollar	(100)	**57,842**	38,800
Euro	(100)	**9,212**	9,356

Interest sensitivity gap

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customer demand deposits.

49 MARKET RISK (continued)

B. INTEREST RATE RISK (continued)

Interest sensitivity gap (continued)

2020	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 – 2) years LL million	(2 – 5) years LL million	More than 5 years LL million	Non-interest sensitive LL million	Total LL million
ASSETS								
Cash and balances with central banks	2,500,549	2,015,528	72,197	571,192	3,671,308	17,678,547	1,226,699	27,736,020
Due from banks and financial institutions	520,773	173,985	47,812	-	-	378	783,497	1,526,445
Derivative financial instruments	-	-	-	-	-	-	1,644	1,644
Financial assets at fair value through profit or loss	-	-	-	1	459	3,016	226,511	229,987
Net loans and advances to customers at amortized cost	1,452,227	930,935	1,317,419	413,853	144,401	11,177	421,592	4,691,604
Net loans and advances to related parties at amortized cost	9,088	-	-	-	-	4,134	(4)	13,218
Debtors by acceptances	-	-	-	-	-	-	10,790	10,790
Financial assets at amortized cost	44,986	107,730	299,895	1,486,968	2,077,811	1,255,647	39,874	5,312,911
Financial assets at fair value through other comprehensive income	-	-	25,664	-	-	-	20,710	46,374
Total assets	4,527,623	3,228,178	1,762,987	2,472,014	5,893,979	18,952,899	2,731,313	39,568,993
LIABILITIES								
Due to central banks	54,339	21,447	29,051	713,207	1,388,522	637,191	71,491	2,915,248
Due to banks and financial institutions	73,567	46,766	-	-	-	-	224,951	345,284
Derivative financial instruments	-	-	-	-	-	-	10,873	10,873
Customers' deposits at amortized cost	16,756,225	1,534,547	1,301,845	8,272	210	-	12,039,952	31,641,051
Deposits from related parties at amortized	104,251	948	1,826	-	-	-	6,089	113,114
Debt issued and other borrowed funds	-	-	-	-	37,688	-	480	38,168
Engagements by acceptances	-	-	-	-	-	-	10,874	10,874
Total liabilities	16,988,382	1,603,708	1,332,722	721,479	1,426,420	637,191	12,364,710	35,074,612
Total interest rate sensitivity gap	(12,460,759)	1,624,470	430,265	1,750,535	4,467,559	18,315,708	(9,633,397)	4,494,381

2019	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 – 2) years LL million	(2 – 5) years LL million	More than 5 years LL million	Non-interest sensitive LL million	Total LL million
ASSETS								
Cash and balances with central banks	2,448,843	2,689,311	97,234	6,030	4,098,615	19,731,147	2,131,246	31,202,426
Due from banks and financial institutions	841,086	108,122	17,903	-	-	169	953,892	1,921,172
Loans to banks and financial institutions	-	24,901	21,588	-	-	-	81	46,570
Derivative financial instruments	-	-	-	-	-	-	27,986	27,986
Financial assets at fair value through profit or loss	-	3,886	1,117	6,824	3,660	159,569	307,098	482,154
Net loans and advances to customers at amortized cost	3,778,802	1,674,840	1,996,648	579,569	446,224	151,723	118,738	8,746,544
Net loans and advances to related parties at amortized cost	13,411	28	146	84	116	4,474	(4)	18,255
Debtors by acceptances	-	-	-	-	-	-	142,961	142,961
Financial assets at amortized cost	82,863	71,163	327,878	356,462	3,550,249	1,431,663	56,399	5,876,677
Financial assets at fair value through other comprehensive income	89,179	79,447	291,263	45,197	62,294	58,866	35,730	661,976
Total assets	7,254,184	4,651,698	2,753,777	994,166	8,161,158	21,537,611	3,774,127	49,126,721
LIABILITIES								
Due to central banks	968,307	51,579	35,810	47,560	1,850,750	846,576	98,172	3,898,754
Due to banks and financial institutions	130,813	84,764	7,615	-	-	-	297,504	520,696
Derivative financial instruments	-	-	-	-	-	-	30,550	30,550
Customers' deposits at amortized cost	23,258,154	4,277,367	3,345,370	149,249	153,781	244	8,137,728	39,321,893
Deposits from related parties at amortized	110,761	1,721	822	-	-	-	5	113,309
Debt issued and other borrowed funds	-	-	-	-	451,248	-	5,297	456,545
Engagements by acceptances	-	-	-	-	-	-	144,827	144,827
Total liabilities	24,468,035	4,415,431	3,389,617	196,809	2,455,779	846,820	8,714,083	44,486,574
Total interest rate sensitivity gap	(17,213,851)	236,267	(635,840)	797,357	5,705,379	20,690,791	(4,939,956)	4,640,147

C. EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of a change in stock prices. Equity price risk exposure arises from equity securities classified at fair value through profit or loss. A 5 percent increase in the value of the Group's equities at 31 December 2020 would have increased net income by LL 6,185 million (2019: LL 8,795 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

D. PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as housing loans when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

50 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

Monitoring process

Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets rather than the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Group's activities. On a daily basis, a report of highly liquid assets is prepared showing the change in the position compared to the previous day, and submits it to the members of the ALCO. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly

A weekly report is prepared showing the expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Lebanon.

Monthly

The Group Market Risk Management prepares tables indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO.

Quarterly

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis.

Periodic

The liquidity position is assessed under various scenarios, including simulation of Group-specific crisis and market-wide crisis. The stress scenarios are applied to both on-balance sheet and off-balance sheet commitments, to provide a complete picture of potential cash outflows.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group funding crisis contingency plan, which sets out a response in the event of liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the Funding Crisis Committee.

The plan sets out the members of this Committee and a series of possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, are reviewed by ALCO. The latter submits the updated policy with its recommendations to the Board Risk Committee for approval.

As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

Liquidity ratios

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The ratio of FC liquid assets to FC total deposits and other liabilities falling due in the next month is prepared monthly by GMRM and monitored by ALCO. FC liquid assets are defined as FC bonds and placements with banks maturing within thirty days.

The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio.

50 LIQUIDITY RISK (continued)

Sources of funding

Customer deposits were the main funding source of the Group as at 31 December 2020 and 2019. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors. The Group monitors the percentage of time deposits that are renewed every quarter and aims to ensure that this percentage is maintained at high levels.

The Group stresses the importance of customers' deposits as sources of funds to finance its lending activities. This is monitored by using the advances to deposit ratio, which compares loans and advances to customers as a percentage of clients' deposits.

	Lebanese Lira		*Foreign currencies*	
	2020	*2019*	***2020***	*2019*
	%	*%*	*%*	*%*
Loans to deposits ratio				
Year-end	**39.84**	32.29	**11.11**	20.09
Average	**37.59**	28.37	**15.01**	22.40
Maximum	**39.84**	32.29	**18.02**	24.48
Minimum	**36.51**	26.17	**11.11**	20.09

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities as at 31 December based on their contractual undiscounted cash flows. The contractual maturities were determined based on the period remaining to each maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were being given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	31 December 2020					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	3,411,868	988,541	339,414	13,060,347	25,234,336	43,034,506
Due from banks and financial institutions	1,304,037	174,163	47,844	11	563	1,526,618
Derivative financial instruments	798	768	77	-	-	1,643
Financial assets at fair value through profit or loss	30	92	53,988	3,211	173,833	231,154
Net loans and advances to customers at amortized cost	1,167,995	604,611	1,433,376	1,192,469	775,186	5,173,637
Net loans and advances to related parties at amortized cost	6,419	153	650	2,834	5,031	15,087
Debtors by acceptances	3,692	6,312	786	-	-	10,790
Financial assets classified at amortized cost	89,575	117,933	498,134	4,333,384	1,675,251	6,714,277
Financial assets at fair value through other comprehensive income	60	119	663	19,157	29,508	49,507
Total undiscounted financial assets	5,984,474	1,892,692	2,374,932	18,611,413	27,893,708	56,757,219
Financial liabilities						
Due to central banks	76,885	48,836	91,324	2,198,546	685,105	3,100,696
Due to banks and financial institutions	281,799	53,400	11,066	-	-	346,265
Derivative financial instruments	2,678	7,920	275	-	-	10,873
Customers' deposits at amortized cost	21,645,085	7,270,226	2,380,159	457,227	39	31,752,736
Deposits from related parties at amortized cost	111,160	2,083	5,283	3,003	-	121,529
Debt issued and other borrowed funds	235	471	2,118	42,042	-	44,866
Engagements by acceptances	3,695	6,312	868	-	-	10,875
Total undiscounted financial liabilities	22,121,537	7,389,248	2,491,093	2,700,818	685,144	35,387,840
Net undiscounted financial assets (liabilities)	(16,137,063)	(5,496,556)	(116,161)	15,910,595	27,208,564	21,369,379

50 LIQUIDITY RISK (continued)

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

	31 December 2019					
	Up to 1 month LL million	*1 to 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial assets						
Cash and balances with central banks	3,187,889	1,105,901	1,576,467	14,890,174	29,984,619	50,745,050
Due from banks and financial institutions	1,795,735	108,487	17,449	-	169	1,921,840
Loans to banks and financial institutions	198	10,246	14,944	8,604	15,084	49,076
Derivative financial instruments	27,980	6	-	-	-	27,986
Financial assets at fair value through profit or loss	2,164	7,996	87,223	110,208	527,524	735,115
Net loans and advances to customers at amortized cost	2,702,110	974,754	2,424,020	2,932,224	806,628	9,839,736
Net loans and advances to related parties at amortized cost	13,512	86	405	1,502	4,788	20,293
Debtors by acceptances	40,064	67,696	35,201	-	-	142,961
Financial assets classified at amortized cost	112,325	125,128	598,784	5,124,402	1,695,437	7,656,076
Financial assets at fair value through other comprehensive income	-	-	-	13,971	5,842	19,813
Total undiscounted financial assets	7,881,977	2,400,300	4,754,493	23,081,085	33,040,091	71,157,946
Financial liabilities						
Due to central banks	1,048,867	44,543	84,883	2,031,731	927,077	4,137,101
Due to banks and financial institutions	427,895	45,472	8,490	45,125	-	526,982
Derivative financial instruments	30,543	6	-	-	-	30,549
Customers' deposits at amortized cost	20,686,165	10,752,465	6,677,825	1,850,486	2,175	39,969,116
Deposits from related parties at amortized cost	112,529	1,815	1,011	-	-	115,355
Debt issued and other borrowed funds	2,814	5,629	25,329	537,222	-	570,994
Engagements by acceptances	39,955	67,615	37,258	-	-	144,828
Total undiscounted financial liabilities	22,348,768	10,917,545	6,834,796	4,464,564	929,252	45,494,925
Net undiscounted financial assets (liabilities)	(14,466,791)	(8,517,245)	(2,080,303)	18,616,521	32,110,839	25,663,021

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2020					
	On demand LL million	***Less than 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***Over 5 years LL million***	***Total LL million***
Financial guarantees	**383,846**	**-**	**-**	**-**	**-**	**383,846**
Documentary credits	**-**	**24,900**	**-**	**-**	**-**	**24,900**
Loan commitments	**-**	**527,445**	**-**	**-**	**-**	**527,445**
Other commitments	**-**	**117,189**	**-**	**1,253,855**	**1,088,910**	**2,459,954**
Total	**383,846**	**669,534**	**-**	**1,253,855**	**1,088,910**	**3,396,145**

	2019					
	On demand LL million	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Total LL million*
Financial guarantees	957,323	-	-	-	-	957,323
Documentary credits	-	158,039	-	-	-	158,039
Loan commitments	-	1,082,043	-	-	-	1,082,043
Other commitments	-	149,952	-	1,750,453	592,312	2,492,717
Total	957,323	1,390,034	-	1,750,453	592,312	4,690,122

50 LIQUIDITY RISK (continued)

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Group's assets and liabilities as at 31 December is as follows:

	2020		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	3,095,442	24,640,578	27,736,020
Due from banks and financial institutions	1,525,882	563	1,526,445
Derivative financial instruments	1,644	-	1,644
Financial assets at fair value through profit or loss	53,886	176,101	229,987
Net loans and advances to customers at amortized cost	3,061,622	1,629,982	4,691,604
Net loans and advances to related parties at amortized cost	6,864	6,354	13,218
Debtors by acceptances	10,790	-	10,790
Financial assets at amortized cost	380,594	4,932,317	5,312,911
Financial assets at fair value through other comprehensive income	126	46,248	46,374
Property, equipment and right-of-use assets	366	752,312	752,678
Intangible assets	-	4,231	4,231
Assets obtained in settlement of debt	-	52,041	52,041
Other assets	223,531	12,898	236,429
Goodwill	-	2,131	2,131
Assets held for sale	3,059,494	1,121,689	4,181,183
TOTAL ASSETS	11,420,241	33,377,445	44,797,686
LIABILITIES			
Due to central banks	167,695	2,747,553	2,915,248
Due to banks and financial institutions	345,284	-	345,284
Derivative financial instruments	10,873	-	10,873
Customers' deposits at amortized cost	31,198,015	443,036	31,641,051
Deposits from related parties at amortized cost	113,114	-	113,114
Debt issued and other borrowed funds	-	38,168	38,168
Engagements by acceptances	10,874	-	10,874
Other liabilities	902,154	65,763	967,917
Provisions for risks and charges	179,195	41,853	221,048
Liabilities held for sale	3,198,429	533,650	3,732,079
TOTAL LIABILITIES	36,125,633	3,870,023	39,995,656
NET	(24,705,392)	29,507,422	4,802,030

	2019		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	3,878,280	27,324,146	31,202,426
Due from banks and financial institutions	1,921,003	169	1,921,172
Loans to banks and financial institutions	23,922	22,648	46,570
Derivative financial instruments	27,986	-	27,986
Financial assets at fair value through profit or loss	71,788	410,366	482,154
Net loans and advances to customers at amortized cost	5,759,858	2,986,686	8,746,544
Net loans and advances to related parties at amortized cost	13,581	4,674	18,255
Debtors by acceptances	142,961	-	142,961
Financial assets at amortized cost	455,247	5,421,430	5,876,677
Financial assets at fair value through other comprehensive income	459,448	202,528	661,976
Property, equipment and right-of-use assets	353	818,936	819,289
Intangible assets	-	4,439	4,439
Non-current assets held for sale	-	60,123	60,123
Other assets	164,792	15,716	180,508
Goodwill	-	2,004	2,004
TOTAL ASSETS	12,919,219	37,273,865	50,193,084
LIABILITIES			
Due to central banks	1,124,513	2,774,241	3,898,754
Due to banks and financial institutions	477,493	43,203	520,696
Derivative financial instruments	30,550	-	30,550
Customers' deposits at amortized cost	37,641,649	1,680,244	39,321,893
Deposits from related parties at amortized cost	113,309	-	113,309
Debt issued and other borrowed funds	-	456,545	456,545
Engagements by acceptances	144,827	-	144,827
Other liabilities	708,046	86,115	794,161
Provisions for risks and charges	74,113	80,618	154,731
TOTAL LIABILITIES	40,314,500	5,120,966	45,435,466
NET	(27,395,281)	32,152,899	4,757,618

51 OPERATIONAL RISK

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent Operational Risk Management department that operates in coordination with other support functions such as: Corporate Information Security and Compliance. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through periodic reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board-approved operational risk management framework. These principles and standards include at a minimum: segregation of duties, four-eye principle, and independency of employees performing controls, reconciliations, and awareness. Controls are also embedded within systems and formalized in policies and procedures.

Incidents are captured and analyzed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new operations, products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Board Risk Committees periodically as per the governance framework set in the Group Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

52 LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (note 43) and in the event that legal issues are not properly dealt with by the Group. Since 17 October 2019, the Group has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Group in relation to these restrictive measures. While there are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices, Management considers that the said claims seem unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

53 POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (note 1) and other countries may adversely affect the operations of the Group, its strategy and prospects. Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas. Given the above, the Group recognizes that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Group's activities, operating results and position.

54 CAPITAL MANAGEMENT

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

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

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

Type of financial instrument	*2020*	*2019*
Exposures to Central Bank of Lebanon in foreign currency	**1.89 %**	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	**0 %**	0 %
Lebanese government securities in foreign currency	**45 %**	9.45 %
Lebanese government securities in Lebanese Pounds	**0 %**	0 %

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier 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. Central Bank of Lebanon's Central Council may exceptionally approve a bank to complete 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction.
  As disclosed in note 1, the Bank submitted measures to the regulators for strengthening its standalone equity by 20%.

- Exceptionally during 2020 and 2021, allowing banks to drawn down the 2.5% capital conservation buffer on condition of rebuilding it progressively starting 2022 by 0.75% each year, to reach the minimum required level of 2.5% by the end of 2024.
  The Group did not draw down its capital conservation buffer as at 31 December 2020.

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

  Exceptionally for 2020 and 2021, allowing 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 over a period of 3 years starting 2022 and ending in 2024 by 25% yearly. *As a result, the levels of Common Equity Tier 1 reported below increased by LL 194,049 million at 31 December 2020 compared to 31 December 2019.*

54 CAPITAL MANAGEMENT (continued)

The following table shows the applicable regulatory capital ratios for BLOM Bank SAL Group, including the conservation buffer:

	Common Tier 1 Capital Ratio	*Tier 1 Capital Ratio*	*Total Capital Ratio*
31 December 2020			
Minimum required capital ratios	**4.50%**	**6.00%**	**8.00%**
With the full capital conservation buffer of 2.5%	**7.00%**	**8.50%**	**10.50%**
31 December 2019			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%

	2020 LL million	*2019 LL million*
Risk weighted assets:		
Credit risk	**37,800,270**	42,313,895
Market risk	**1,624,652**	2,100,942
Operational risk	**2,907,574**	2,529,779
Total risk weighted assets	**42,332,496**	46,944,616

The regulatory capital including net income for the year as of 31 December is as follows:

	2020 LL million	*2019 LL million*
Tier 1 capital	**4,896,576**	4,638,388
Of which: common Tier 1	***4,895,107***	*4,638,388*
Tier 2 capital	**11,252**	551,110
Total capital	**4,907,828**	5,189,498

The capital adequacy ratio including net income for the year as of 31 December is as follows:

	2020	*2019*
Capital adequacy – Common Tier 1	**11.56%**	9.88%
Capital adequacy – Tier 1	**11.56%**	9.88%
Capital adequacy – Total capital	**11.59%**	11.05%

The capital adequacy ratios as at 31 December 2020 and 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in note 1. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the platform rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its Group's capital adequacy. Management has concerns about the effects that the above matters will have on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.