

20

**ANNUAL
REPORT**

19

Table of Contents

1 STRATEGIC REPORT

| | |
|------------------------|---|
| 1.1 Chairman Statement | 5 |
|------------------------|---|

2 CORPORATE GOVERNANCE

| | |
|---|----|
| 2.1 Corporate Governance Landscape | 8 |
| 2.2 Board Governance Framework | 9 |
| 2.3 Corporate Governance Approach | 10 |
| 2.4 Ownership Breakdown | 11 |
| 2.5 Composition of the Board of Directors | 12 |
| 2.6 Board Biographies | 13 |
| 2.7 Board Committees | 18 |
| 2.8 High Level Structure | 20 |
| 2.9 Remuneration Policy | 21 |
| 2.10 Communicating with the Board | 22 |
| 2.11 Management Team | 23 |

Table of Contents

3 FINANCIAL STATEMENTS

| | |
|--|----|
| 3.1 Independent Auditor's Report | 26 |
| 3.2 Consolidated Financial Statements | 34 |
| 3.3 Notes to the Consolidated Financial Statements | 41 |

4 DIRECTORY

| | |
|-------------------------|----|
| 4.1 Correspondent Banks | 98 |
| 4.2 Addresses | 99 |

1

STRATEGIC REPORT

1.1
Chairman Statement

1.1

Chairman Statement



To our shareholders and clients,
To our colleagues and partners,

Though it has been often said, we are living through unprecedented times, and unprecedented times call for unprecedented measures.

In 2019, the world came under immense pressure. It was unquestionably one of the most challenging years for Lebanon and the global economy. Economic slowdown across the globe, deepening trade frictions and geopolitical tensions all weighed heavily on global growth, which, at 2.3% was the weakest in a decade. Anxiety increased as growing inequality triggered a wave of civic protests of a scale last seen in the late 1960s.

Lebanon now faces the most acutely challenging geopolitical, economic, financial, sanitary and social crises in its recent history. Since October 17, 2019, massive protests have erupted throughout the country, deepening political and economic uncertainties; the global pandemic has since added another layer of complexity and hardship.

Economic activity, severely affected by these events, appears to have contracted, and the ongoing dollar scarcity has reverberated across the entire Lebanese economy: importers are no longer able to pay for goods, resulting in shortages of food, fuel and medical supplies among others. Lending activity, an essential engine to reinvigorate the economy, has slowed as non-performing loans rise in number. The state's growing inability to cover its expenses and finance its debt has seen the country's credit rating considerably and repeatedly downgraded. Banks have enforced restrictions on transfers and withdrawals of foreign currency.

This financial volatility, combined with great political uncertainty both in Lebanon and abroad, is undeniably taking a toll on consumer confidence and behaviour. The spiking pandemic has wreaked havoc throughout Lebanon, aggravating deep existing economic, social and political grievances. Yet, this crisis has also seen ordinary Lebanese women and men again show extraordinary resilience and display immense courage, discipline and great sacrifice in confronting shared hardship.

Against this backdrop, sustainability considerations increasingly dominate the global discourse, with the private sector being called upon to be a change leader. A longstanding belief at Saradar Bank is that the *raison d'être* of businesses is to achieve sustainable growth while serving the interests not only of our shareholders, but also of our customers, employees, partners and communities. We recognize our responsibility toward the communities we live in and serve. And the need to serve those around us has never been greater. We have a deeply rooted tradition of active corporate citizenship across our businesses. We continue to make a difference by supporting NGOs, sponsoring fundraising events in the fields of health, culture, education and the environment, with a focus on children, women and persons with disabilities.

The strength and resilience we built into our organization over the past years, enabled us to navigate challenges in the 2019 operating environment, to continue our digital leadership, and ramp up our sustainability efforts.

Without a doubt, factors beyond our control heavily impacted the market and economy in which we operate. Our Management accordingly took drastic response measures, in line with the overall Banking sector. These included raising the USD 40 million required by the Central Bank Intermediate Circular no. 532, meaning, we are poised to become one of the first banks in Lebanon

**Annual Report
2019**

to have completed the capital increase. We also cleared our USD 88 million debt at the Central Bank and our current account now shows a positive balance with excess liquidity of USD 130 million. Significant effort was invested into reducing the loan portfolio by USD 387 million since October 2019, allowing the Bank to improve its liquidity and reduce the risk of non-performing loans. Cost reduction initiatives are being implemented to yield yearly savings of about USD 2.3 million. The Bank actively sought solutions and paid off all its letters of credit and fiduciary deposits. Today, Saradar Bank has a surplus of fresh USD liquidity abroad that can sustain the required regulatory transfers for the next 18 to 24 months. We worked hard to meet the requirement of the Central Bank to reach 3% of foreign currency deposits in liquidity abroad, and as of this writing we stand at 3.5%. Despite a challenging conjuncture, we further reinforced our position as one of the top banks in Lebanon by upholding the highest standards of corporate governance and integrity: good governance is vital in any sector, yet in the banking industry, it is the very foundation of a financially sound and well-run institution.

We are continuously adapting to the situation and making necessary changes, not only to navigate through these turbulent times, but to ultimately emerge as a well-positioned, stronger organization focused on delivering responsible growth. Another consistent focus area has been to rethink the customer journey through digital innovation, to make banking simple, seamless and effortless. In pursuing digital transformation, we have sought to be digital to the core and are becoming increasingly data-driven. One of our key achievements has been our ability to transform our culture, creating an environment that embraces innovation, and where experimentation is mainstream.

As we look back on recent months, the Banking sector has been in the news in a way no industry ever wants to be. While we are compliant with regulations, the question for many is not about doing only what the rules require, but to meet and surpass the expectations of our customers, shareholders, employees, and the broader community.

Despite our best efforts, we didn't always meet everyone's expectations. We profoundly regret the impact this is having on you, your families and your businesses. We are acutely aware of the painful consequences these measures are having and we take this very seriously, as the trust of our customers is our most valuable asset. We therefore offer our sincerest apologies. We also wish to express our heartfelt appreciation to our shareholders and customers for their continued support and loyalty, and to recognize each member of our team and the Board for their hard work and dedication.

Looking ahead, we expect the outlook to be challenging given continued macroeconomic and geopolitical headwinds. The Bank's performance in 2020 has been resilient so far and we have had a strong capital and liquidity position given the environment we are facing. Continued digital transformation and pursuing the sustainability agenda remain top priorities.

The banking sector has undergone substantial adversity, the extent of which is not yet fully known or measurable. As a result of the current adversity, the banking sector as we know it will necessarily adapt. We at Saradar are stepping up our game. Building on our digital head start, we must push forward in data analytics, artificial intelligence and machine learning, to deliver a differentiated customer experience.

While much remains to be done, our results reflect a strategy that builds a solid foundation for sustained growth. Let us redouble our efforts, at Lebanon's time of great need, to help each other emerge from these crises stronger, more united, safer, more prosperous, and above all, more confident in the promise of a dignified and better tomorrow.



MARIO SARADAR
Chairman and Chief Executive Officer

2

CORPORATE GOVERNANCE

2.1

Corporate Governance Landscape

2.2

Board Governance Framework

2.3

Corporate Governance Approach

2.4

Ownership Breakdown

2.5

Composition of the Board of Directors

2.6

Board Biographies

2.7

Board Committees

2.8

High Level Structure

2.9

Remuneration Policy

2.10

Communicating with the Board

2.11

Management Team

2.1

Corporate Governance Landscape

Good governance is vital in any sector. In the banking industry, it forms the bedrock of a financially sound and well-run institution.

Introduction

At Saradar Bank, we are committed to upholding the highest standards of corporate governance and integrity.

We believe that effective Board and management oversight, combined with solid corporate governance practices, drive the long-term success of our Bank. We continuously seek to enhance and promote exemplary core values and strong ethics throughout the organization.

Our systems, processes, and policies are aligned with industry-leading standards to ensure full compliance with laws and regulations. We continuously monitor our structures to identify potential improvements, and implement international best practices with regards to transparency and corporate governance.

We seek to lead by example: we have established high standards at all levels and make every effort to meet them. We understand that trust, confidence and engagement with our clients, employees, shareholders and the wider community are at the heart of our business; achievements are a source of pride when reached through the right set of values.

How We Operate

At Saradar Bank, the Board sets the tone at the top, working in close collaboration with management to ensure the proper conduct of business. The Board promotes integrity and corporate values, through a sound corporate governance framework.

OUR BOARD IN 2019

11 Number of Board Members

4 Number of Independent Board Members

Committees of the Board and Number of Meetings

4 Full Board | **1** Strategy Retreat

6 Remuneration, Nomination and Corporate Governance Committee

2 AML/CFT Committee

5 Audit Committee

5 Risk Committee

2.2

Board Governance Framework

Saradar Bank boasts a clear, well-structured governance framework to support the Board in achieving its long-term strategic goals and generating sustainable returns for shareholders. This framework defines the role of the Board and management by setting out their respective priorities and ensuring all critical concerns are addressed.



2.3

Corporate Governance Approach

The Board of Directors of the Bank is composed of highly qualified, independent and diverse members with a strong blend of experience and diverse expertise. They are leaders in their fields, bringing a wealth of knowledge to their role.

The Board is composed of a number of Directors sufficient for it to exercise its duties and responsibilities, and function efficiently. This number may vary between 3 and 12 members, and currently, stands at 11.

The Directors' deep commitment is essential to the Bank's successful performance. It is ultimately responsible for ensuring the proper conduct of business and for overseeing the management of the Bank. The Board is primarily responsible for improving the Bank's value to its shareholders by defining strategic direction and objectives, providing leadership and guidance, putting in place a sound corporate governance framework, promoting corporate values and ensuring that effective internal control processes are in place.

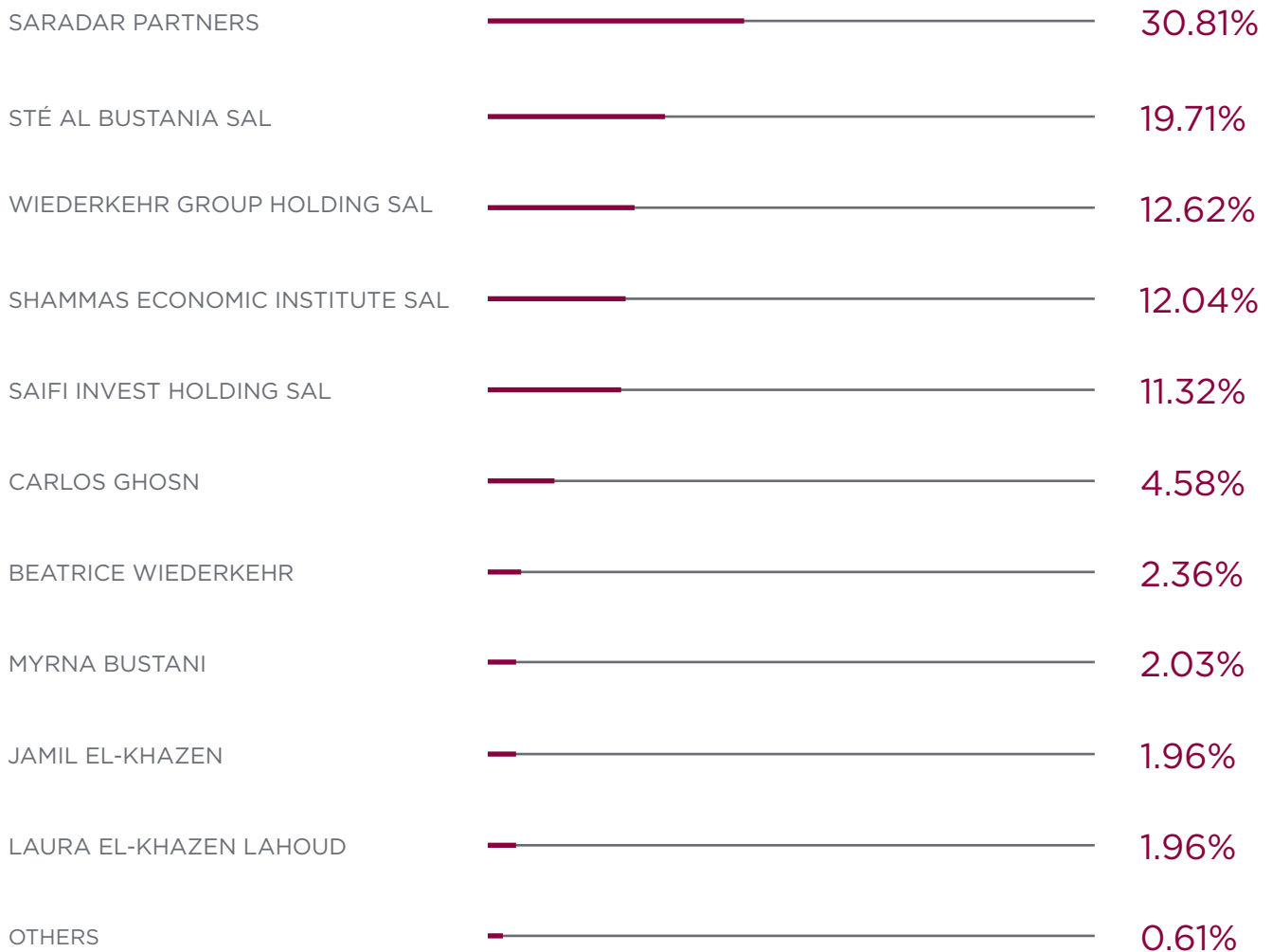
In order to preserve its necessary independence from management, the Board aims to increase its number of independent non-executive Directors in future exercises. The Corporate Governance standards set forth herein reflect best practices in the industry. In light of changing circumstances, the Board reevaluates governance principles from time to time and where deemed necessary, to ensure the Bank remains at the vanguard of leading corporate governance practices.

2.4

Ownership Breakdown

The Bank's shareholders are local and international visionaries, including global leaders, such as the Wiederkehr Group, and prominent figures on the Lebanese scene, including the Saradars, Bustanis, Mecattafs, Mikatis, El-Khazens and Shammass.

SHAREHOLDERS



2.5

Composition of the Board of Directors

A minimum of four Board meetings are scheduled per year, two of which should be held in Lebanon. Board members are required to attend all Board meetings, with exceptions made for extraordinary extenuating circumstances.

BOARD MEMBERS

| | | |
|--|---|----------------------------|
| MR. MARIO SARADAR | Chairman-CEO | Executive |
| MR. FADY AMATOURY | Member (pending BDL's approval) | Independent, Non-executive |
| MR. EDMOND CARTON | Member (Until November 2020) | Independent, Non-executive |
| SHEIKH JAMIL EL-KHAZEN | Member | Non-executive |
| MRS. LAURA EL-KHAZEN LAHOUD | Member | Non-executive |
| MR. MICHEL FERNEINI | Member | Independent, Non-executive |
| MR. CARLOS GHOSN | Member (Until February 2020) | Non-executive |
| MR. JOE ISSA-EL-KHOURY | Member | Non-executive |
| MR. JOSEPH SADDI | Member | Independent, Non-executive |
| MR. CHRISTIAN STEINFELS | Member | Non-executive |
| SAIFI INVEST HOLDING SAL represented by Mr. Nabil Moukattaf | Member | Non-executive |
| SHAMMAS ECONOMIC INSTITUTE SAL represented by Mr. Nizam Shammas | Member | Non-executive |
| MS. DINA SFEIR | Corporate Secretary and Secretary of the Board | |

2.6

Board Biographies

MARIO SARADAR
Chairman-CEO



Mr. Mario Saradar is Chairman-CEO of Saradar Bank sal. He is also Chairman-CEO of Marius Saradar Holding SAL - Saradar Group and other affiliates of the Group since 1992, when he was appointed Chairman and General Manager of Banque Saradar. Following the merger between Banque Saradar and Bank Audi in 2004 and until December 2010, he held the role of Chairman and General Manager of Audi Saradar Private Bank. During the same period, Mr. Saradar was appointed Chairman of Bank Audi Suisse.

A graduate of London's University College with a B.S. in Economics, Mr. Saradar also holds a diploma in Financial Instruments from "Institut des Techniques de Marché", and a diploma in Portfolio Management from "Institut de la Bourse et du Titre", both in Paris. He has repeatedly been elected to the Board of the Lebanese Banks Association, and is currently a member of the "Rassemblement des Dirigeants et des Chefs d'Entreprise Libanais", International Chamber of Commerce, and of the Young Presidents' Organization.

FADY AMATOURY

Member, elected since
May 2019
(pending BDL's approval)



Mr. Fady Amatory has more than 50 years of experience in the banking industry. Over the course of his career, he held various mandates notably Chairman and Managing Director of Bank Audi Qatar, Chairman-General Manager of Audi Private Bank sal in Lebanon, in addition to being Chairman of the Board of Bank Audi Monaco, Chairman-General Manager of CGI sal and Chairman-General Manager of Intercontinental Bank of Lebanon.

He is currently Chairman of Cedrar sal, and Independent Board member of several companies including, Ets F. A. Kettaneh, Malia Holding, Debbane-Saikali Group. He chairs the Audit Committee of AXA Middle East, and is Vice Chairman of Fondation Saradar.

Mr. Amatory is a former Board member of the Beirut Stock Exchange and former Vice-Chairman and board member of the "Rassemblement des Dirigeants et des Chefs d'Entreprise Libanais".

He holds a bachelor's degree in Economics from Université Saint-Joseph in Beirut.



EDMOND CARTON

Member

(Until November 2020)

Mr. Edmond Carton is the former Executive Chairman of Bank J. Safra Sarasin Asset Management entities in the Middle East and South Asia.

Out of his 45 years of experience in international commercial, corporate and private banking, Mr. Carton spent the last 30 years in the private banking industry. He has extensive work experience and been posted to the Middle East, Latin America, North America and Europe. He held senior management and various Board and Executive committee positions with Julius Baer, Credit Suisse, HSBC, Republic National Bank of New York and JP Morgan.

Before moving to Dubai with Bank Sarasin-Alpen, later Bank J. Safra Sarasin Asset Management, he was Head of the Middle East for Bank J. Safra Sarasin Ltd, Switzerland.

He holds degrees in Law and History from Université Saint-Joseph in Beirut.



JAMIL EL-KHAZEN

Member

In addition to being a board member of several institutions, Mr. El-Khazen is active in the Real Estate and Financial Investment fields.

He holds a Bachelor of Science in International Business from the University of Evansville, Indiana, USA.



**LAURA EL-KHAZEN
LAHOUD**

Member

Mrs. Laura Lahoud is involved in different family businesses, mainly the management of Al Bustan Hotel and the organisation of Al Bustan Festival.

She holds a Master's in Science in Mathematics & Operational research from the London School of Economics (London, UK).

2. Corporate Governance

**MICHEL FERNEINI**

Member

Mr. Michel Ferneini is the Chairman-General Manager of Société Financière du Liban, a financial group composed of 34 banks, providing Treasury Bills, certificates of deposit trading and interbank brokerage in the Lebanese market, as well as other financial structures in collaboration with the Central Bank of Lebanon.

Mr. Ferneini brings extensive banking experience including over 20 years with Merrill Lynch in their Beirut, Brussels and Paris offices. He is a Board member of several institutions including: Intra Investment Company, Société Immobilière du Port de Beyrouth, Société Générale d'Entreprises Touristiques and Vitas. He was awarded the Medal of the French National Assembly as a recognition of his outstanding contribution to cultural projects.

Mr. Ferneini holds a Bachelor's degree in Business Administration from the American University of Beirut.

**CARLOS GHOSN**

Member

(Until February 2020)

Mr. Carlos Ghosn is the former Chairman and CEO of Nissan Motor Corp., former Chairman and CEO of the Renault Group, former Chairman of Mitsubishi Motors, and former Chairman and CEO of the Renault-Nissan-Mitsubishi Alliance BV.

He joined Renault in 1996 as Executive Vice President of the Group and Nissan in 1999 as its Chief Operating Officer. He was appointed Chief Executive Officer in June 2001. From June 2013 to June 2016, Mr. Ghosn was also the Chairman of AvtoVAZ, a Russian car manufacturer. Following Nissan's acquisition of a 34% stake in Mitsubishi Motors in October 2016, Mr. Ghosn became the Chairman of Mitsubishi Motors. Mr. Ghosn spent 15 years with Michelin in various capacities from 1981 to 1996.

A national of Brazil, France and Lebanon, Mr. Ghosn holds Engineering Degrees from France's École Polytechnique (1974) and École des Mines de Paris (1978).

JOE ISSA- EL-KHOURY

Member



Following a degree in Civil Engineering from the American University of Beirut and an MBA from INSEAD, Mr. Issa-El-Khoury spent several years at Merrill Lynch in Paris, after which he joined the Méditerranée Group in Lebanon as advisor to the Chairman and Deputy General Manager of Méditerranée Investment Bank. For many years, he served as Chairman-General Manager of Saradar Investment House, the investment banking arm of Saradar Group.

His multi-disciplined assignments covered areas in portfolio and wealth management, project finance, corporate finance, mergers and acquisitions, capital markets as well as real estate investment. In Lebanon, Mr. Issa-El-Khoury was a pioneer in leading the first Euro Deposit program issued by a bank, the first convertible bond issued by an industrial group and the first REIT-like structure issued by a real estate company.

Currently an Executive Director and a member of the Investment Committee at M1 Group, he is a prominent leader in business development. Mr. Issa-El-Khoury is also the CEO of M1 Investments while holding board representations at institutions such as Saradar Bank, LibanPost, Hope Construction Materials, Jetscape, ITCC, Façonnable and Pepe Jeans Group.

NABIL MOUKATTAF

Member, *representing*
Saifi Invest Holding sal

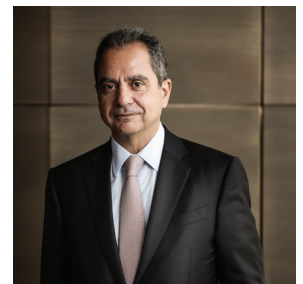


Mr. Nabil Moukattaf has a significant international experience in Gold and Foreign Exchange trading activities as well as Private Banking.

He is a graduate of L'Ecole des Hautes Etudes Commerciales in Paris (France).

JOSEPH SADDI

Member



Mr. Joseph Saddi is a former Partner and Chairman of Strategy&'s (formerly Booz & Company) Middle East business, with over 30 years of consulting experience in strategic, organizational, and restructuring services.

Over the years, he has led major privatization programs in such sectors as oil and gas, mining, steel and electricity; advised Middle East governments on sector deregulation and sector policy; and led the reorganization of national oil companies and large corporations. He also works closely with large family-owned companies to help design governance and portfolio strategies.

Mr. Saddi holds an MBA from Cornell University, New York, USA, and a Bachelor of Business Administration from ESSEC in France.

2. Corporate Governance

NIZAM SHAMMAS

Member, representing
*Shammas Economic
Institute sal*



Mr. Nizam Shammas is a seasoned engineer and businessman involved in construction with The C.A.T. Group (MEA), industry with STAL (LB), tourism with New Forest Hotels (UK) and St. Raphael Resort & Marina (CY), real-estate development through Rabieh Co. (LB) and Shammas Investment (LB), and banking as a MD of Shammas Economic Institute (LB) and shareholder in Saradar Bank (LB).

He holds a B.Sc. in Civil Engineering from the American University of Beirut (Beirut, LB), MBA from Brunel University (London, UK), and an Advanced Management Program from Cornell University (New York, USA).

**CHRISTIAN
STEINFELS**
Member



Mr. Christian Steinfels holds a Bachelor of Arts and an MBA degree. He has held various positions in banking in the USA, London, Frankfurt and Switzerland.

In addition, he has been a member of the Supervisory Boards of ASEA AB, ABB AG, Voest-Alpine AG and Böhler-Uddeholm AG.

He has acted as an independent financial advisor since 1996.

2.7

Board Committees

The composition of each Committee is approved by the Board, in line with applicable rules and procedures and any other relevant consideration. In endorsing suitable membership on Committees, the Board makes every effort to compose each Committee with Directors who strike the right balance of know-how, experience, and diversity of perceptions.

**BOARD
COMMITTEES****CHAIRPERSON****MEMBERS**

Audit Committee

Mr. Joseph Saddi

Mrs. Laura El-Khazen Lahoud
Saifi Invest Holding SAL
represented by Mr. Christian Mecattaf
Mr. Joe Issa-El-Khoury
Mr. Christian Steinfels

Remuneration,
Nomination
and Corporate
Governance
Committee

Mr. Joseph Saddi

Shammas Economic Institute
represented by Mr. Nizam Shammas
Saifi Invest Holding SAL
represented by Mr. Nabil Moukattaf
Mr. Joe Issa-El-Khoury

Risk Committee

Mr. Edmond Carton
(Until November 2020)

Saifi Invest Holding SAL
represented by Mr. Christian Mecattaf
Sheikh Jamil El-Khazen
Mr. Michel Ferneini

AML/CFT
Committee

Mr. Fady Amatoury
pending BDL's approval

Mrs. Laura El-Khazen Lahoud
Mr. Michel Ferneini

BOARD AUDIT COMMITTEE

Assists the Board in fulfilling its duties and supervisory roles regarding the requirements of internal control, internal audit, external audit and compliance with regulations.

Monitors the internal control efficiency and effectiveness.

Follows up on the implementation of remedial measures.

Oversees the internal audit department and supervises its performance.

Verifies that Senior Management tackles recommendations raised in the reports.

Approves the internal audit charter, the audit cycle, and the annual audit plan.

Assesses the external auditors' performance, autonomy and objectivity.

Discusses with Senior Management and external auditors the financial statements to be published.

Reviews the effectiveness of the system for monitoring compliance with laws and regulations and follows up on any instances of non-compliance.

BOARD RISK COMMITTEE

Assists the Board in fulfilling its oversight responsibilities with regards to risks inherent to the Bank's strategy and activity.

Monitors overall risk framework.

Reviews and monitors risk policies in line with the Bank's strategy and business plan.

Reviews and monitors the Risk appetite and tolerance statement.

Ensures that risks are identified, measured, monitored and managed in line with the Bank's risk appetite and the risk strategy.

BOARD REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Advises the Board in defining and overseeing the Bank's policy on remuneration, bonuses and incentives.

Ensures that compensation measures are consistent with the Bank's vision and values, and support the strategic goals of the Bank and allow for the recruitment, motivation and retention of senior executives.

Oversees the establishment, maintenance and administration of the Bank's remuneration programs and employee benefit plans.

Assesses on a regular basis the overall structure, size and composition of the Board and of its Committees taking into account the skills, attributes, experience and tenure of each Board member, and the results of the Board self-assessment process.

Reviews on an annual basis the adequacy of the Corporate Governance guidelines, monitors the Bank's compliance with these guidelines, and recommends changes when necessary.

BOARD AML/CFT COMMITTEE

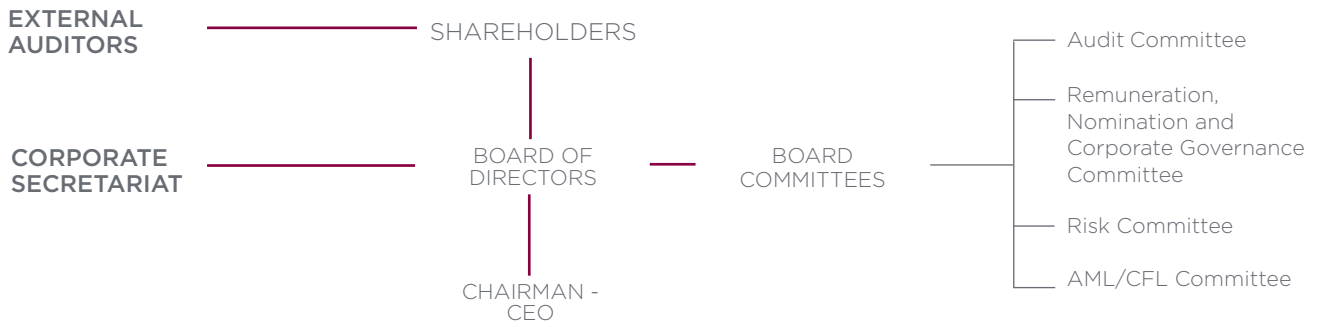
Assists the Board in exercising its functions and supervisory role, and in taking appropriate action to fight money laundering and terrorist financing.

Reviews Compliance and Internal Audit reports on adopted procedures, unusual operations and high risk accounts, and regulators and external auditors on the Bank's compliance with the AML/CFT regulations.

Identifies, assesses and mitigates AML/CFT risks.

2.8

High Level Structure



LEGAL ADVISORS

- El Khoury & Partners Law Firm
- Roger Najjar Law Firm
- Hachem Law Firm

AUDITORS

- Deloitte
- Ernst & Young

2.9

Remuneration Policy

The purpose of the remuneration policy is to reward competent, responsible, and independent behaviour, to promote integrity, and to support productivity and job satisfaction.

It establishes clear and transparent remuneration and benefits practices aligned with the Bank's culture, long-term business objectives, risk strategy, performance, and legislative and regulatory frameworks. The policy and general incentive structures reflect the Bank's goals for sound Corporate Governance and allow the Bank to strike a sustainable balance between short and long-term value creation and responsibility for its employees, shareholders and communities. It also ensures that employees are offered a competitive remuneration package in line with the market, encouraging them to generate sustainable results and aligning their interests with those of shareholders, clients and colleagues.

The Bank makes every effort to ensure that compensation packages are commensurate with the relevant duties and responsibilities of each individual, are fair and equitable, and integrate incentives clearly and measurably linked to performance both on an individual and corporate basis. Remuneration is designed to be sustainable in the long-term.

Structure

In the first quarter of every year, the Remuneration, Nomination and Corporate Governance Committee examines the Bank's remuneration strategy and plans in light of the Bank's performance, local industry practices and market conditions.

The Board reviews, assesses and endorses the remuneration, and incentive schemes for the coming year based on the recommendations of the Remuneration, Nomination and Corporate Governance Committee. The total bonus amount to be paid is reviewed by the Committee and approved by the Board. The cumulative consolidated remuneration disbursed by the Bank is incorporated in the Bank's budget and endorsed by the Board.

Performance Evaluation

The Bank believes that its main strength is its human capital. The professional growth of its employees is central to attaining the Bank's vision, mission and strategy. The Bank established a general assessment of its employees to systematically analyze the strong and weaker aspects of individual performance.

Annual performance evaluations are central to the development of employees and the determination of remuneration. Performance evaluations are designed to ensure transparency, and have well-defined, pre-determined KPIs in line with the Bank's overall remuneration and incentive strategy.

Remuneration Components

Fixed Remuneration

Fixed remuneration is established based on the role and position held by each employee, including but not limited to assigned responsibilities, professional experience, job complexity, seniority, expertise, skills, education, budgetary considerations, and local economic conditions. Fixed remuneration is payable through a direct deposit in the employee's salary account. Each employee receives a monthly salary payable 16 times per year in accordance with the Collective Labour Agreement.

Performance-Based Incentives

Performance-based incentives are designed to motivate and recognize high performers depending on their contribution to the Bank's results, performance in line with defined expectations and clear KPIs. Incentives are awarded based on the Bank's overall financial results, the performance of the business line and/or unit, and individual performance. Both financial and behavioural criteria are taken into account when defining the individual's bonus.

Employee Benefits

The Bank meets or exceeds benefits described in the Collective Labour Agreement. Various allowances are awarded to employees covering mainly individual and family medical coverage, family and education allowances, housing and transportation in addition to other auxiliary benefits.

2.10

Communicating with the Board

Shareholders, staff and other interested parties may communicate with the Board or any of its Committees through the Corporate Secretary. Depending on the content of the correspondence, the message will be either transmitted to the Director's attention or routed to the appropriate party if the subject matter is not related to Directors' responsibilities.

Correspondence may be addressed to:
Corporate Secretary
Saradar Bank sal
Saradar Building, Charles Malek Avenue
Ashrafieh, P.O. Box: 16-5677
Beirut, Lebanon

2.11

Management Team

General Management Committee

Mario Saradar
Chairman - CEO

Pierre Naggear (Until June 2019)
General Manager
Corporate & Commercial Banking

Ibrahim Salibi (From June 2019)
General Manager
Corporate & Commercial Banking

Youssef Dib
General Manager
Private & Investment Banking

Naim Hakim
General Manager
Retail, Operations, Finance & IT

Sami Abou Jamous
Chief Strategy & Planning Officer

Corporate & Commercial Banking

Hala Abou Jaoude (Until July 2019)
Assistant General Manager
Corporate & Commercial Banking

Nadine Merhej
Head of Commercial Banking & Factoring

Private & Investment Banking

Martine Hochar
Assistant General Manager
Private Banking

Fadi Chabo
Regional Manager
Private Banking

Emile Shalala
Head of Treasury & Capital Markets

Jean Tawile
Manager
Private Banking/Head of Fiduciary

Nelly Ghazal (until June 2020)
Head of Investment Advisory &
Portfolio Management

Rania El Khoury (Until December 2020)
Head of Business Development- West Africa

Retail Banking

Micheline Dib (Until May 2019)
Assistant General Manager
Retail Banking

Rania Tamraz
Senior Branch Manager
Charles Malek and Saifi

Lubna El Masri
Senior Regional Manager
Beirut West & South Lebanon

Inas Haidar (until March 2020)
Head of Retail Projects

Roula Abou Ghazaly
Regional Manager - Metn & Kesrouan

Head of Support Functions

Amale Choueri

Chief Audit Executive

Rababa Nohra

Chief Human Resources Officer

Youmna Moukarzel

Acting Chief Operations Officer

Maya Moujaes

Head of Correspondent Banking

Dina Sfeir

Head of Corporate Secretariat

Maya Tabet

Head of Internal Legal Affairs
(until October 2020)

Rawia Njeim

Head of Internal Legal Affairs
(From November 2020)

Jad Abou Rjeily

Head of Compliance

Henri Bouiller

Head of Risk Management

Carine Kouyoumji

Head of Credit Risk

Raghid Charara

Head of Digital Technology

Danielle Moutran

Head of Finance

Wael Badro

Head of Digital Banking
(until October 2020)

Hala Cabbabé

Head of Communication

Charbel Bouhabib

Head of Total Quality Management
(until October 2020)

Caline Chahine

Head of Organization & Network Management
Head of Administrative

Laurraine Hatem

Head of Internal Control
Head of Cash Management

3

FINANCIAL STATEMENTS

3.1

Independent Auditor's Report

3.2

Consolidated Financial Statements

3.3

Notes to the Consolidated Financial Statements

3.1

INDEPENDENT AUDITOR'S REPORT

Deloitte.Deloitte & Touche
Arabia House
131 Phoenicia Street
Ain Mreisseh, Beirut
P.O.Box 11-961
LebanonTel: +961 (1) 364700
Tel: +961 (1) 364701
Fax: +961 (1) 367087
Fax: +961 (1) 369820
www.deloitte.com**INDEPENDENT AUDITORS' REPORT**To the Shareholders
Saradar Bank S.A.L.
Beirut, Lebanon**Disclaimer of Opinion**

We were engaged to audit the consolidated financial statements of Saradar Bank S.A.L. (the "Bank") and its subsidiaries (together, the "Group") which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying consolidated financial statements of the Group for the year ended December 31, 2019. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

1. We draw attention to Note 1 to the accompanying consolidated financial statements, concerning the Group's ability to continue as a going concern. There is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole which has been triggered by the following events:
 - business disruption since the last quarter of 2019;
 - a series of Lebanese sovereign credit risk downgrades which started to deteriorate since the last quarter of 2019 and reached a default credit risk rating (to category "RD") by all major rating agencies in March 2020, after years of a stable credit risk rating at "B" category;
 - restrictions on the movement and withdrawal of funds in foreign currencies;
 - the inability to transfer foreign currency funds outside Lebanon;
 - the sharp fluctuation in the foreign currency exchange rates and creation of parallel markets with a wide range of price variances;
 - subsequent to the reporting date, on March 7, 2020, the Lebanese Government announced its decision to default on the 6.375% US\$1,200,000,000 bonds due on March 9, 2020;
 - an announcement on March 23, 2020 by the Lebanese Government to discontinue payments on all of its US Dollars denominated Eurobonds;
 - further deterioration in the market value of Lebanese Government bonds to junk status, resulting in the majority of the valuation of financial assets being adversely impacted in Lebanon;
 - prolonged severe inactivity in capital markets rendering markets illiquid; and
 - a devastating deadly blast occurred on August 4, 2020 at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, aggravating the financial crisis prevailing in the country.

3. Financial Statements

Basis for Disclaimer of Opinion (continued)

As the situation is rapidly evolving, the effect of the default of the Lebanese Government along with the published Lebanese Government financial recovery plan, has exposed the banking system to a significant degree of uncertainty, with the magnitude of the possible adverse effects on the Lebanese economy, the banking sector and the Bank, currently unknown.

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

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

Notwithstanding the above basis for a disclaimer of opinion, we identified the following departures from the requirements of IFRS that have a material and pervasive impact on the consolidated financial statements and that would have otherwise resulted in an adverse auditors' opinion:

2. We draw attention to Note 3 to the accompanying consolidated financial statements, which states that these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. Included in the consolidated statement of financial position at December 31, 2019, are financial assets measured at amortized cost, with a net carrying amount of LBP2,019million, which have significant exposure to sovereign debt in both Lebanese Pounds and foreign currencies; foreign currency deposits with and certificates of deposit issued by the Central Bank of Lebanon and deposits held with other Lebanese banks which are credit impaired as at December 31, 2019 due to the current uncertainty in the Lebanese banking industry and the Lebanese economy as a whole. Furthermore, the Group has not performed an appropriate credit assessment of the loans and advances to customers portfolio, amounting to LBP1,191million, taking into account the circumstances and available information that have led to additional impairment considerations as at December 31, 2019 to reflect the appropriate credit staging. Consequently the Group has not recognized the appropriate level of impairment losses under the expected credit loss model in relation to these financial assets, which constitutes a significant departure from IFRS 9 Financial Instruments. It is not possible to determine with reasonable certainty the exact value of the impairment losses as the Group has not performed an updated expected credit loss assessment considering the factors noted above. In these circumstances, we are unable to quantify the effect of the departure from the accounting standard and in our opinion the effects would be both material and pervasive to the consolidated financial statements as a whole.
- 3.a The Group's financial assets at fair value, which are carried in the consolidated statement of financial position at LBP9billion as at December 31, 2019, are mostly issued by corporate entities domiciled in the Republic of Lebanon. Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount.

Basis for Disclaimer of Opinion (continued)

- 3.b Management has not disclosed in the consolidated financial statements the fair value of its financial assets and financial liabilities measured at amortized cost and the valuation techniques as required by IFRS 13 *Fair Value Measurement*, which constitutes a departure from IFRSs. We were unable to determine the fair value or the details which should be disclosed in the consolidated financial statements.
4. As disclosed in Note 13, the Group holds an investment in a Lebanese associate carried at LBP11,720million, which operations are mainly concentrated in Lebanon. The Group did not carry out an impairment test, as required by IFRS, on the carrying amount of this investment and we did not obtain recent audited financial statements of this associate. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.

Other Matters

- a) The consolidated financial statements of the Group for the year ended December 31, 2019 were jointly audited with Ernst & Young who expressed an “adverse” opinion in their report dated September 15, 2020 (refer to the joint auditor’s opinion).
- b) With reference to Article 107 of the Lebanese Code of Commerce and given the adverse circumstances discussed in the Basis for Disclaimer of Opinion above and disclosed under Note 1 to the accompanying consolidated financial statements, we do not recommend that the Board of directors approve any distribution of dividends to any class of shares.

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

The Board of directors and those charged with governance (referred to hereafter as “management”) are 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, the 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.

3. Financial Statements

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the *Code of Ethics of the Lebanese Association of Certified Public Accountants* that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Beirut, Lebanon
September 15, 2020


Deloitte & Touche



Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800
Fax: +961 1 372 980/1
beirut@lb.ey.com
ey.com/mena

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SARADAR BANK SAL

Adverse opinion

We have audited the consolidated financial statements of Saradar Bank SAL (the "Bank"), and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, 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 the 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 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for adverse opinion

- As disclosed in Note 44 to the consolidated financial statements, the Group holds assets with the Central Bank of Lebanon, a portfolio of Lebanese government debt securities, a portfolio of loans to the private sector and other assets concentrated in Lebanon which represent 90% of the Group's total assets at 31 December 2019. As disclosed in Note 1, the accompanying consolidated financial statements do not include adjustments, as required by IFRS, to the carrying amounts of the above assets and related disclosures that would result from the resolution of the uncertainties described in Note 1 and the future effects of the economic crisis and the restructuring plan. In addition, as disclosed in Note 45, management was unable to produce faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements do not include the fair value disclosures required by IFRS. Had such adjustments and disclosures been determined and made, as would have been required by IFRS had the uncertainties described in Note 1 been resolved, many elements and related disclosures in the accompanying consolidated financial statements would have been materially affected. 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.
- As disclosed in Note 45 to the consolidated financial statements, the Group holds unquoted funds and equity instruments measured using unobservable data amounting to LBP 9,234 Million. It is not possible to determine the future effects that the economic crisis described in Note 1 would have on the carrying amounts of these assets. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.
- As disclosed in Note 12, the Group holds an investment in a Lebanese associate carried at LBP 11,720 Million, which operations are mainly concentrated in Lebanon. The Group did not carry out an impairment test, as required by IFRS, on the carrying amount of this investment and we did not obtain recent audited consolidated financial statements of this associate. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts.

**Basis for adverse opinion (continued)**

4. The events and conditions described in Note 1 and the matters described in paragraph 1 above, affect the liquidity, solvency and profitability of the Group 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 and the accompanying consolidated financial statements do not include an adequate disclosure of management's plan to deal with events and conditions giving rise to the material uncertainty.

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.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2019 were jointly audited with joint auditors Deloitte & Touche who expressed a "disclaimer" opinion in their report dated 15 September 2020 (refer to the joint auditors' opinion).

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 2019. Except for the matters described in the "Basis for adverse opinion" section, we have determined that there are no other key audit matters to communicate in our report.

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:

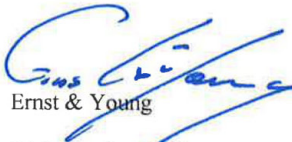
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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.

3. Financial Statements**Auditors' responsibilities for the audit of the consolidated financial statements (continued)**

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, related safeguards.

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

15 September 2020
Beirut, Lebanon

3.2

Consolidated Financial Statements

Consolidated Statement
of Financial Position

As at December 2019

| ASSETS | Notes | 2018 | 2019 |
|--|-------|------------------|------------------|
| | | LBP Million | LBP Million |
| Cash and balances with Central Bank of Lebanon | 5 | 2,336,992 | 1,866,945 |
| Dues from banks and financial institutions | 6 | 160,557 | 111,836 |
| Financial assets at fair value through profit or loss | 7 | 2,958 | 3,391 |
| Loans and advances to customers | 8 | 1,338,077 | 1,222,103 |
| Financial assets at amortized cost | 9 | 777,546 | 765,727 |
| Financial assets at fair value through other comprehensive income | 10 | 5,355 | 5,843 |
| Debtors by acceptances | 11 | 26,976 | 59,995 |
| Deferred tax asset | 38 | - | 82 |
| Investment in an associate | 12 | 12,191 | 11,720 |
| Assets acquired in settlement of loans | 13 | 43,926 | 49,716 |
| Property and equipment | 14 | 71,725 | 72,828 |
| Right-of-use assets | 15 | - | 30,278 |
| Intangible assets | 16 | 14,768 | 12,225 |
| Other assets | 17 | 15,946 | 17,829 |
| Goodwill | 18 | 1,988 | - |
| TOTAL ASSETS | | 4,809,005 | 4,230,518 |
| LIABILITIES | | | |
| Due to the Central Bank of Lebanon | 19 | 1,010,444 | 445,818 |
| Due to banks and financial institutions | 20 | 48,663 | 69,286 |
| Deposits from customers | 21 | 3,044,223 | 2,897,886 |
| Deposits from related parties | 22 | 248,733 | 322,975 |
| Engagements by acceptances | 11 | 26,976 | 59,995 |
| Income tax liability | 38 | 144 | 2,151 |
| Deferred tax liability | 38 | 755 | - |
| Lease liabilities | 15 | - | 29,099 |
| Other liabilities | 23 | 61,812 | 39,826 |
| Provisions | 24 | 11,101 | 9,969 |
| TOTAL LIABILITIES | | 4,452,851 | 3,877,005 |
| EQUITY | | | |
| Share capital | 25 | 10,600 | 10,600 |
| Share premium | 25 | 34,980 | 34,980 |
| Cash contribution to capital | 26 | 202,937 | 263,238 |
| Non-distributable reserves | 27 | 51,967 | 53,769 |
| Owned buildings revaluation surplus | 28 | 50,503 | 50,503 |
| Cumulative change in fair value of financial assets at fair value through other comprehensive income | 10 | 3,675 | 3,968 |
| Accumulated losses | | (2,259) | (1,776) |
| (Loss) profit for the year | | 2,208 | (61,648) |
| Equity attributable to the owners of the Bank | | 354,611 | 353,634 |
| Non-controlling interests | | 1,543 | (121) |
| TOTAL EQUITY | | 356,154 | 353,513 |
| TOTAL LIABILITIES AND EQUITY | | 4,809,005 | 4,230,518 |

3. Financial Statements

Consolidated Income Statement

For the year ended 31 December 2019

| | Notes | 2018 | 2019 |
|---|-------|-----------------|-----------------|
| | | LBP Million | LBP Million |
| Interest and similar income | 29 | 242,123 | 318,540 |
| Interest and similar expense | 30 | (194,556) | (255,467) |
| Net interest income | | 47,567 | 63,073 |
| Fee and commission income | 31 | 24,918 | 21,011 |
| Fee and commission expense | 32 | (1,687) | (1,849) |
| Net fee and commission income | | 23,231 | 19,162 |
| Income from financial assets at fair value through profit or loss | | 702 | - |
| Loss from derecognition of financial assets at amortized cost | | (61) | - |
| Other operating income | 33 | 2,200 | 1,738 |
| Total operating income | | 73,639 | 83,973 |
| Net impairment loss on financial assets | 34 | (2,590) | (76,750) |
| Recoveries on debts written-off | | 1,208 | - |
| Direct write-off of bad debts | | (71) | (62) |
| Net operating income after impairment | | 72,186 | 7,161 |
| Staff costs | 35 | (37,509) | (41,403) |
| General and administrative expenses | 36 | (27,518) | (18,311) |
| Depreciation of right-of-use assets | 15 | - | (8,530) |
| Depreciation and amortization | 14,16 | (4,703) | (7,040) |
| Other financing cost | 15 | - | (1,196) |
| Goodwill write off | 18 | - | (1,240) |
| Gain (loss) on sale of assets | | (157) | 3,082 |
| Loss from disposal of subsidiary | 41 | - | (5) |
| Other income (expense), net | 37 | (1,483) | 7,004 |
| Total operating expenses | | (71,370) | (67,639) |
| Share in profit of an associate | 12 | 1,722 | 45 |
| (Write back of provisions) provisions | 24 | (64) | 3 |
| (Loss) profit before tax | | 2,474 | (60,430) |
| Income tax | 38 | (144) | (1,208) |
| (Loss) profit for the year | | 2,330 | (61,638) |
| Attributable to: | | | |
| The owners of the Bank | | 2,208 | (61,648) |
| Non-controlling interests | | 122 | 10 |
| | | 2,330 | (61,638) |

**Consolidated Statement of
Comprehensive Income**

For the year ended 31 December 2019

| | Notes | 2018 LBP Million | 2019 LBP Million |
|---|-------|---------------------|---------------------|
| (Loss) profit for the year | | 2,330 | (61,638) |
| Other comprehensive income ("OCI"): Items that will not be reclassified subsequently to profit or loss: | | | |
| Gain (loss) on financial assets at fair value through other comprehensive income | 10 | (1,077) | 376 |
| Effect of taxes | 38 | 71 | (83) |
| Total other comprehensive income (loss) for the year | | (1,006) | 293 |
| TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR | | 1,324 | (61,345) |
| Attributable to: | | | |
| The owners of the Bank | | 1,202 | (61,355) |
| Non-controlling interests | | 122 | 10 |
| | | 1,324 | (61,345) |

3. Financial Statements

Consolidated Statement
of Changes in Equity

For the year ended 31 December 2019

| | Share capital | Share premium | Cash contribution to capital | Non distributable reserves | Owned buildings revaluation surplus | Cumulative change in fair value of financial assets at FVOCI |
|--|---------------|---------------|------------------------------|----------------------------|-------------------------------------|--|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at January 1, 2019 | 10,600 | 34,980 | 202,937 | 51,967 | 50,503 | 3,675 |
| Allocation of 2018 profit | - | - | - | 1,948 | - | - |
| Cash contribution to capital (note 26) | - | - | 60,300 | - | - | - |
| Total comprehensive loss for the year 2019 | - | - | - | - | - | 293 |
| Distribution to non-controlling shareholders | - | - | - | - | - | - |
| Disposal of a subsidiary | - | - | - | (148) | - | - |
| Other | - | - | 1 | 2 | - | - |
| Balance at 31 December 2019 | 10,600 | 34,980 | 263,238 | 53,769 | 50,503 | 3,968 |

| | Accumulated losses | (Loss) profit for the period | Equity attributable to owners of the Bank | Non-controlling interest | Total equity |
|--|--------------------|------------------------------|---|--------------------------|----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at January 1, 2019 | (2,259) | 2,208 | 354,611 | 1,543 | 356,154 |
| Allocation of 2018 profit | 260 | (2,208) | - | - | - |
| Cash contribution to capital (note 26) | - | - | 60,300 | - | 60,300 |
| Total comprehensive loss for the year 2019 | - | (61,648) | (61,355) | 10 | (61,345) |
| Distribution to non-controlling shareholders | - | - | - | (169) | (169) |
| Disposal of a subsidiary | 148 | - | - | (1,543) | (1,543) |
| Other | 75 | - | 78 | 38 | 116 |
| Balance at 31 December 2019 | (1,776) | (61,648) | 353,634 | (121) | 353,513 |

Annual Report
2019Consolidated Statement
of Changes in Equity

For the year ended 31 December 2019

| | Share capital | Share premium | Cash contribution to capital | Non distributable reserves | Owned buildings revaluation surplus | Cumulative change in fair value of financial assets at FVOCI |
|--|---------------|---------------|------------------------------|----------------------------|-------------------------------------|--|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at January 1, 2018 | 10,600 | 34,980 | 202,937 | 51,986 | 50,503 | 4,681 |
| Impact of adopting IFRS 9 at note 2 | - | - | - | (15,312) | - | - |
| Restated balance at 1 January 2018 | 10,600 | 34,980 | 202,937 | 36,674 | 50,503 | 4,681 |
| Allocation of 2017 profit | - | - | - | 15,293 | - | - |
| Total comprehensive income for the year 2018 | - | - | - | - | - | (1,006) |
| Distribution to non-controlling shareholders | - | - | - | - | - | - |
| Balance at 31 December 2018 | 10,600 | 34,980 | 202,937 | 51,967 | 50,503 | 3,675 |

| | Accumulated losses | (Loss) profit for the period | Equity attributable to owners of the Bank | Non-controlling interest | Total equity |
|--|--------------------|------------------------------|---|--------------------------|----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at January 1, 2018 | (1,902) | 14,997 | 368,782 | 1,570 | 370,352 |
| Impact of adopting IFRS 9 at note 2 | (61) | - | (15,373) | - | (15,373) |
| Restated balance at 1 January 2018 | (1,963) | 14,997 | 353,409 | 1,570 | 354,979 |
| Allocation of 2017 profit | (296) | (14,997) | - | - | - |
| Total comprehensive income for the year 2018 | - | 2,208 | 1,202 | 122 | 1,324 |
| Distribution to non-controlling shareholders | - | - | - | (149) | (149) |
| Balance at 31 December 2018 | (2,259) | 2,208 | 354,611 | 1,543 | 356,154 |

3. Financial Statements

Consolidated Statement
of Cash Flows

For the year ended 31 December 2019

| OPERATING ACTIVITIES | Notes | 2018 | 2019 |
|--|--------------|--------------------|--------------------|
| | | LBP Million | LBP Million |
| (Loss) profit for the year before income tax | | 2,474 | (60,430) |
| Adjustments for: | | | |
| Interest income | | (242,123) | (318,540) |
| Interest expense | | 194,556 | 255,467 |
| Depreciation of right-of-use assets | | - | 8,530 |
| Depreciation and amortization | | 4,703 | 7,040 |
| Other financing cost | | - | 1,196 |
| Loss on disposal of property and equipment | | - | 42 |
| Net impairment loss on financial asset | 34 | 2,590 | 76,750 |
| Write-off of bad debts | | 71 | 62 |
| Recognition of deferred income – subsidy | 37 | (2,904) | (8,454) |
| Loss on sale of subsidiary | 41 | - | 5 |
| Income from financial assets at fair value through profit or loss | | (702) | - |
| Loss on derecognition of financial assets measured at amortized cost | | 61 | - |
| Share of profits of an associate | 12 | (1,722) | (45) |
| Gain on sale of assets acquired in settlement of loans | 13 | (7) | (3,165) |
| Write off of tangible and intangible assets | 14,16 | 164 | 169 |
| Write-off of goodwill | 18 | - | 1,240 |
| Provision for employees' end-of-service indemnity | 24 | 637 | 943 |
| Provision for contingencies, net | 24 | 64 | (3) |
| Other | | - | 4 |
| | | (42,138) | (39,189) |
| Changes in operating assets and liabilities: | | | |
| Balances with the Central Bank of Lebanon | | (602,887) | (110,417) |
| Due from banks and financial institutions | | (36,501) | (852) |
| Financial assets at FVTPL | | 508 | (433) |
| Loans and advances to customers | | (169,401) | 82,220 |
| Other assets | | (2,647) | (2,917) |
| Balances with banks and financial institutions | | (69,343) | 30,918 |
| Deposits from customers | | 86,253 | (145,074) |
| Deposits from related parties | | 81,735 | 71,728 |
| Other liabilities | | 7,921 | (13,772) |
| Proceeds from maturity of financial assets at amortized cost | | - | 6,490 |
| Settlement of provision for contingencies | 24 | (576) | - |
| Settlement of provision for lawyer indemnities | 24 | (512) | - |
| Settlement of provision for employees' end-of-service indemnity | 24 | (2,057) | (1,214) |
| Cash used in operations | | (749,645) | (122,512) |
| Interest received | | 199,337 | 304,316 |
| Interest paid | | (169,107) | (249,008) |
| Income tax paid | | (144) | - |
| Net cash used in operating activities | | (719,559) | (67,204) |

**Consolidated Statement
of Cash Flows**

For the year ended December 31

| INVESTING ACTIVITIES | Notes | 2018 | 2019 |
|---|--------------|--------------------|--------------------|
| | | LBP Million | LBP Million |
| Purchase of property and equipment | 14 | (9,294) | (5,500) |
| Net increase in intangible assets | 16 | (2,745) | (950) |
| Proceeds from sale of property and equipment | | - | 25 |
| Proceeds from sale of assets acquired in settlement of loans | | 139 | 5,273 |
| Purchase of financial assets at fair value through other comprehensive income | | (48) | - |
| Dividends received | | - | 712 |
| Net cash outflow from disposal of subsidiary | | - | (1,908) |
| Net increase in investments in associate | | 394 | - |
| Net change in investment securities, other than trading | | 637,552 | - |
| Change in non-controlling interests | | (149) | - |
| Net cash (used in) generated from investing activities | | 625,849 | (2,348) |
| | | | |
| FINANCING ACTIVITIES | | | |
| Net increase in other borrowings | | - | 4,349 |
| Cash contribution to capital | | - | 60,300 |
| Lease liability payments | | - | (8,452) |
| Dividends paid to non-controlling interest | | - | (169) |
| Net cash generated from financing activities | | - | 56,028 |
| | | | |
| DECREASE IN CASH AND CASH EQUIVALENTS | | (93,710) | (13,524) |
| Cash and cash equivalents at 1 January | | 252,183 | 158,473 |
| | | | |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 42 | 158,473 | 144,949 |

3.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2019

1- GENERAL INFORMATION

Saradar Bank S.A.L. (the “Bank”) (Formerly Banque de l’Industrie et du Travail S.A.L. or “BIT”) was established in 1960 and registered in the Lebanese Commercial Register under No. 9849 and in the list of banks published by the Central Bank of Lebanon under No. 48. The Bank provides banking services through a network of 16 branches in the different regions of Lebanon. The Bank’s headquarters are located in Ashrafieh, Beirut, Lebanon.

1.1- Macroeconomic environment

All the Group’s operations in 2019 were in Lebanon which has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis as well as deep recession that have reached unprecedented levels.

Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US 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 and significantly reduced credit lines to companies and withdrawal 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\$/LBP. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Pound, impacting intensely the purchasing power of the Lebanese citizens, driving high inflation and rise in the consumer price index.

The economy has been contracting at an accelerating pace since the last quarter of 2019 and the coronavirus affecting Lebanon and the whole world is contributing to further deterioration of the economic environment, disruption of businesses, rise of unemployment, and rise in poverty lines.

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 1 May 2020, the Lebanese Prime Minister and the Lebanese Finance Minister signed a request for aid from the International Monetary Fund. The Government believes the Plan conveys good faith for negotiations with the International Monetary Fund. Lebanon began detailed discussions with the IMF on 1 May 2020. Multilateral intervention is expected to catalyze additional external support and unlock US\$ 11 billion in pledges from

international donors made in 2018 in the Conférence Economique pour le Développement par les Réformes et avec les Entreprises (CEDRE) as well as other external financial support to cover the net external financial needs for a gradual economic recovery and successful restructuring of the Government foreign currency debt.

On 4 August 2020, a devastating deadly blast occurred at the Beirut seaport causing severe property damages across a wide area of the capital along with a large number of casualties, aggravating the financial crisis prevailing in the country. On 10 August 2020, the Lebanese government resigned.

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 (BDL) and impairment of assets held at BDL; 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 by an international institution to assess the impairment losses on the private loans portfolio of the banking sector. The impact of losses and the recapitalization needs will be determined on a bank by bank basis, when a more granular plan is drawn, and further measures related to bank deposits are 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 obligation with no or limited interest

Banks will be asked to propose to the authorities and relevant supervisory bodies business plans and restructuring/recapitalization 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 reorganized banking sector.

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

1.2- Regulatory environment

Throughout this period and up to the date of the approval of the consolidated financial statements, the Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Intermediate Circular 532 issued on 4 November 2019 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020.
- Intermediate Circular 534 issued on 19 November 2019 extending the deadline for reaching the 25% ratio of "net loans granted in LBP / net deposits in LBP" from 31 December 2019 to 31 December 2020. Banks who believe to be unable to reach said ratio within the set time limit may refer to BDL Central Council before 31 December 2020.
- Intermediate Circular 536 issued on 4 December 2019 stating that the Central Bank of Lebanon will settle the interest on the banks' term deposits and certificates of deposits in US Dollars 50% in US Dollars and 50% in LBP. As for the deposits received or renewed after 4 December 2019, banks have to comply with the following interest rates:
 - 5 % for deposits in foreign currencies; and
 - 8.5 % for deposits in LBP
 As for the deposits received before the mentioned date, which conditions are maintained, banks have to pay interests divided as follows: 50 % in the account's currency and 50 % in LBP. This decision is applicable until 4 June 2020 (6 months from the circular's issuing date).

3. Financial Statements

- Intermediate Circular 542 issued on 3 February 2020 requiring that the ratios of expected credit losses for the years 2019 and 2020 on LBP and foreign currency-denominated investment portfolio at the Central Bank of Lebanon, including certificates of deposits and investments in Lebanese treasury bills denominated in LBP and foreign currency, not to exceed the regulatory expected credit losses ratios calculated as per the BDL Basic Circular no. 44 related to the “Capital Adequacy Ratio”.
- Intermediate Circular 543 issued on 3 February 2020, increasing the regulatory expected credit losses on foreign currency exposures to Lebanese Sovereign and exposures to resident corporates, retail and SMEs. The Circular also increased risk weights to be applied on exposures to the Central Bank of Lebanon in foreign currencies. Finally, the Circular imposed maximum expected credit losses on exposures to sovereign to be recorded in the banks’ financial statements as per the table below:

| <i>Type of financial instrument</i> | <i>Maximum loss rate</i> |
|--|--------------------------|
| Exposures to Central Bank of Lebanon in foreign currencies | Up to 1.89 % |
| Exposures to Central Bank of Lebanon in Lebanese Pounds | 0 % |
| Lebanese government securities in foreign currencies | Up to 9.45 % |
| Lebanese government securities in Lebanese Pounds | 0 % |

- Intermediate Circular 544 issued on 13 February 2020 requiring banks to abide with the maximum ceilings of interest rates on new or renewed deposits, as follows:
 - deposits in foreign currencies: 2% for 1-month deposits, 3% for 6 months deposits and 4% on deposits for a year and above
 - deposits in LBP: 5.5% on deposits for one month, 6.5 % for 6 months and 7.5% on deposits for one year and above.
 Banks are required to calculate the BRR based on the above creditor interest rates. This decision is applicable until 13 August 2020 (6 months from the circular’s issuing date).
- Basic Circular 148 issued on 3 April 2020 requesting banks to allow clients with small accounts to withdraw cash paid in LBP by first calculating the equivalent of the account balance in US Dollars at the official exchange rate, then paying an amount of cash in LBP equal to the counter value of the calculated amount as per the market exchange rate. US Dollars amounts resulting of these operations should be sold to the Central Bank of Lebanon as per the market exchange rate.
- 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 market rate. Money dealers (of “type A”) may adhere to this unit, upon Central Bank of Lebanon’s discretion. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations. Abrogating the article 18 which was introduced by Intermediate Circular no. 546 to Basic Circular no. 3 related to Money Dealers.
- Basic Circular 151 issued on 21 April 2020 concerning the clients that are not tackled in Basic Circular 148 who wish to withdraw amounts of cash from their foreign currencies accounts, banks should settle, with the client’s consent, the equivalent of those amounts in LBP as per the market exchange rate. 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. Banks should disclose daily their adopted market exchange rate.
- 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 current economic situation to 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, increasing the regulatory expected credit loss rates on exposures to the Central Bank of Lebanon and Lebanese Sovereign in foreign currencies to become a minimum of 1.89% and 45% respectively to be recorded gradually in the income statement over a period of 5 years. The Circular also extends the deadlines for the capital increase per intermediate Circular 532 from 31 December 2019 and 30 June 2020 to 31 December 2020; amends the capital

adequacy framework and details the deadlines for the reconstitution of the capital conservation buffer when it falls below the minimum required; and instructs banks to put in place a comprehensive plan for re-complying with the capital requirements and the regulations in force.

- Basic Circular 154 issued on 27 August 2020 related to exceptional procedures to restore banking operations in Lebanon; instructing banks to perform the following: a revaluation of assets liabilities in order to put in place a strategy in meeting the capital and liquidity regulatory requirements; return of a percentage of funds previously transferred abroad since 1 July 2017; maintaining 3% of foreign currency deposits as of 31 July 2020 in corresponding banks abroad by 28 February 2021; taking the necessary legal and regulatory procedures for the possibility of consenting customers to transform their deposits in capital instruments.
- Intermediate Circular 568 issued on 26 August 2020 providing guidance on settlement of loans to the private sector denominated in foreign currency.
- Intermediate Circular 569 issued on 26 August 2020 providing guidance on facilities granted to people affected by the Beirut explosion.

1.3- Particular situation of the Group

Assets and liabilities in foreign currency as of 31 December 2019 were valued at the official exchange rate of 1,507.5 US\$ / LBP. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official exchange rate: parallel exchange markets with high volatility, recently issued BDL circulars, estimation exchange rates detailed in the Plan, in addition to a wide range of exchange rates adopted for commercial transactions currently undertaken in the Lebanese territory. These consolidated financial statements do not include adjustments from any future change in the official exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognized in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese Government. FX currency mismatch is detailed in note 44 C to the consolidated financial statements.

Loss allowances on assets held at BDL and the portfolio of government securities held at amortized cost are recorded in these consolidated financial statements based on the guidelines issued on 4 February 2020 by BDL in its intermediate Circular 543 (refer to above). 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 BDL and Lebanese government and the recognized loss allowances, as well as their staging are detailed in note 44 A to the consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio has significantly deteriorated since the last quarter 2019. The Group is undergoing massive deleveraging by reducing its assets size and proactively reviewing and managing the quality of these assets. Loss allowances on the Group's portfolio of private loans have been estimated and recorded based on the best available information at the reporting date, about past events, current conditions and forecasts of economic conditions combined with expert judgments. The exercise being carried out by the Group is expected to reveal additional embedded losses in its private loans portfolios. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the results of the exercise undertaken by the Group are measurable and determinable. Maximum exposures to the credit risk of Group's portfolio of private loans and the recognized loss allowances, as well as their staging are detailed in note 44 A to the consolidated financial statements.

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

3. Financial Statements

In line with the comments issued by the Association des Banques du Liban on 1 May 2020, Management has determined the following uncertainties in relation to the assumptions of the Plan which might have an impact on the figures and estimations provided therein:

- Ability to successfully secure sufficient external financing (from the IMF, from CEDRE and from other international donors unspecified in the Plan)
- Ability to revamp the peg at the detailed estimated rates
- Parameters of the restructuring of BDL and restructuring of the government debt in foreign currencies
- Ability of issuing new laws with the constraints in the legal framework and the Lebanese constitution
- Finalization of the Asset Quality Review and determination of losses and recapitalization needs of the banks
- Ability to claw back sums which have unlawfully escaped the country
- Ability to claw back dividend and /or interest distributed over the last years

Besides, on 20 May 2020, the Association of Banks in Lebanon submitted an alternative approach in response to the present economic crisis that Lebanon, and particularly the banking sector, is experiencing. It rests on addressing the external financing needs, while avoiding an internal debt default; and the launch of long-overdue structural reforms to promote sustainable and inclusive growth as the result of economic diversification.

Until the above uncertainties are resolved and a plan is implemented, the Group will continue its operations as performed since 17 October 2019 and in accordance with the applicable 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 review the quality of its private loans portfolio and deleveraging it as appropriate, to reduce its commitments and contingencies to correspondent banks outside Lebanon and to secure its liquidity needs through mainly borrowing from BDL at the available rates.

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 restructuring of the government debt securities, the effects of the restructuring of BDL, and the effects on its private loan portfolio.

As disclosed in note 43 to the consolidated financial statements, the Group's capital adequacy ratio as at 31 December 2019 was calculated based on the recorded figures and does not take into consideration the adjustments that will result from the resolution of the uncertainties reflected above. On 20 May 2020, the Central Bank of Lebanon granted the Group with a preliminary approval to consider the cash contribution to capital executed in August 2019 (note 26) as part of the capital increase required per Intermediate Circular 532 (amended by Intermediate Circular 567). The final approval shall be obtained once the remaining required percentage (less than 2%) is achieved within the deadlines, subject to the verification of the BCC. The Group is currently assessing and developing restructuring and recapitalization plans based on the various available scenarios. However, a reasonable and credible plan can only be achieved once the above uncertainties are resolved and the amount of recapitalization needs is accurately determinable.

2- APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1- New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs and amendments to IFRSs and Interpretations, which became effective for annual periods beginning on or after January 1, 2019, have been adopted in these consolidated financial statements.

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The nature and the impact of each amendment is described below:

IFRS 16 Leases

Effective from 1 January 2019, the Group adopted IFRS 16 Leases, which supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

IFRS 16 introduces a single lessee accounting model and fundamentally changes how the Group accounts for operating leases when acting as a lessee, with a requirement to record a right-of-use asset and lease liability on the balance sheet. As permitted by the transition provisions of IFRS 16, the Group adopted IFRS 16 using the simplified modified retrospective method of adoption with the date of initial application of 1 January 2019 and has not restated comparative figures. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group is a lessee in a number of leases, primarily offices, retail branches and ATMs with a smaller number of IT hardware leases. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3L for the accounting policy prior to 1 January 2019.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). Refer to Note 3L for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously accounted for as operating leases

The Group recognized a lease liability at the date of initial application for leases previously classified as an operating lease under IAS 17. The Group measured the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group recognized a right-of-use asset at the date of initial application for leases previously classified as an operating lease under IAS 17. The Group chose to initially measure that right-of-use asset at an amount equal to the lease liability for leases previously classified as operating leases, adjusted for existing lease balances such as rent prepayments, rent accruals, lease incentives and onerous lease provisions, but excluding initial direct costs. The Group applied the following practical expedients that are permitted on transition to IFRS 16 where the Group is the lessee in a lease previously classified as an operating lease:

- applying the standard only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application;
- to rely on previous sale-and-leaseback assessments;
- adjust lease terms with the benefit of hindsight with respect to whether extension or termination options are reasonably certain of being exercised;
- to discount lease liabilities using the Group's incremental borrowing rate in each currency as at 1 January 2019; and
- to not apply IFRS 16 to leases whose remaining term will end within 12 months from the transition date.

As at 1 January 2019, the effect of adoption IFRS 16 is as follows:

| | Impact of IFRS 16 LBP Million |
|--|--|
| Right-of-use assets | 36,737 |
| Other assets | (2,453) |
| Lease liabilities | (34,284) |
| Effect on net assets and liabilities and net impact on equity | - |

3. Financial Statements

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of LBP 36,737 million were recognized and presented within right-of-use assets in the consolidated statement of financial position;
- Lease liabilities of LBP 34,284 million were recognized and presented within lease liabilities in the consolidated statement of financial position;
- Other assets of LBP 2,453 million related to previous operating leases were derecognized.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

| | LBP Million |
|--|-------------|
| Operating lease commitments as at 31 December 2018 | 43,262 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 7% |
| | 37,788 |
| Discounted operating lease commitments at 1 January 2019 | |
| Less: | |
| Commitments relating to short-term leases | (3,504) |
| | 34,284 |

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments do not have any significant impact on the Group's consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The IASB issued amendments to the guidance in IAS 19, Employee Benefits, in connection with accounting for plan amendments, curtailments and settlements. These amendments do not have any significant impact on the Group's consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. This interpretation does not have any significant impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Effective 1 January 2019, the Group adopted Annual Improvements to IFRS Standards 2015–2017 Cycle, which resulted in amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs. These improvements do not have any impact on the Group's consolidated financial statements.

2.2- Standards issued but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 to the definition of material is not expected to have a significant impact on the Group's financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

On 26 September 2019 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7' (the "amendments"). This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR"). The effective date of the amendments is for annual periods beginning on or after 1 January 2020, with early application permitted. These amendments do not have any significant impact on the Group's consolidated financial statements.

3- SIGNIFICANT ACCOUNTING POLICIES

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").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:

- Financial assets at fair value through profit or loss,
- Financial assets at fair value through other comprehensive income,
- Land and buildings under property and equipment

Presentation of the consolidated financial statements

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity. The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis – or to realize 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 statement of financial position.

Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements are disclosed in Note 19.

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Saradar Bank S.A.L. incorporate the financial statements of the Bank and entities which the bank controls. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. Financial Statements

The Bank reassesses 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 listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with 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 assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The consolidated subsidiaries of the Bank as of December 31, 2019 and 2018 consisted of the following:

| | | 31 December 2018 | 31 December 2019 |
|---|-------------------------|---------------------|---------------------|
| | Business activity | Ownership % | Ownership % |
| Société Immobilière pour la Construction S.A.L. (Lebanon) | Real Estate | 99.99 | 99.99 |
| CashUnited S.A.L. (Lebanon) | Money Transfer Services | 70.00 | - |
| United Group Brokers S.A.R.L. - (Lebanon) | Insurance Brokerage | 81.37 | 81.37 |

On August 29, 2019, the entire Bank's share in CashUnited S.A.L. were sold to Saradar Financial House (Holding) SAL, a related party (note 41).

B. Business Combinations:

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

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

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

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

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (Group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (Group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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, or groups of cash-generating units, that 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 or group of units.

D. Foreign Currencies:

The financial statements are presented in Lebanese Pounds ("LBP") which is also the Group's functional currency. Transactions in currencies other than Lebanese Pounds (foreign currencies) are recognized at the official rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

E. Recognition and Derecognition of Financial Assets and Liabilities:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3. Financial Statements

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

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

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

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

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

Debt Instruments:

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI).

Debt instruments which do not meet the amortized cost or FVTOCI criteria are measured at fair value through profit or loss ("FVTPL").

Even if a debt instrument meets the amortized cost or FVTOCI criteria, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets that comprise factoring facilities granted to clients are recognized net of guarantee account held as a margin.

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

Equity Instruments:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (“FVTOCI”). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Reclassification:

Debt instruments are reclassified between FVOCI, FVTPL and amortized cost or vice versa, if and only if, the Group’s business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date being the next reporting period.

Reclassification is not allowed where:

- the ‘other comprehensive income’ option has been exercised for an equity financial instrument, or
- the fair value option has been exercised in any circumstance for a financial instrument.

G. Financial Liabilities and Equity Instruments:**Classification as debt or equity:**

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

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

H. Financial Liabilities at Fair Value through Profit or Loss:

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;
- Contingent consideration recognized in a business combination in accordance with IFRS 3.

A financial liability may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement are recognized in profit or loss. Such gains or losses that are recognized in profit or loss incorporate any interest paid on the financial liabilities and are included in the “Net interest and gain and loss on liabilities at FVTPL” in the statement of profit or loss. Change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability’s credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss.

3. Financial Statements

I. Fair Value Measurement of Financial Instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value 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 fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

For the purpose of fair value disclosures, the Group 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.

J. Impairment of Financial Assets:

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

- Deposits with Central Bank, other banks and financial institutions;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

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

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

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

The Group's policy is always to measure loss allowances for lease receivables as lifetime ECL.

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

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down.

For financial guarantee contracts, the ECL is the present value of the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

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

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 are incorporated in ECL measurements.

Credit-impaired financial assets

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

- 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. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- 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.

Purchased or originated credit-impaired (POCI) financial assets

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

Write-off

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

3. Financial Statements

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for financial guarantees' and other commitments contracts: as a provision.

K. Derivative Financial Instruments:

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

L. Leases (Policy applicable from 1 January 2019)

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 recognizes 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 recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, 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 as a separate line item on the consolidated statement of financial position 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 right-of-use assets" on the consolidated statement of profit and loss.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognizes 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 recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are presented as a separate line item on the consolidated statement of financial position. Moreover, the interest charge on lease liabilities is presented within "other financing cost" in the consolidated statement of profit and loss.

(iii) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term. The Group does not have leases of low-value assets.

Other rental expenses are presented within other operating expenses.

Leases (Policy applicable before 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

M. Property and Equipment:

Land and buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Properties in the course of construction for administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

| | <u>Years</u> |
|---|--------------|
| Buildings | 40-50 |
| Installations and improvements | 16.6 |
| Electrical equipment | 16.6 |
| Hardware and computer equipment | 5 |
| Furniture fixtures and office equipment | 12.5 |
| Motor vehicles | 10 |

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. Financial Statements**N. Intangible Assets:**

Intangible assets consisting of purchased software, are amortized on a straight-line basis over their useful lives (i.e. 5 years). Intangible assets are subject to impairment testing.

O. Assets Acquired in Settlement of Loans:

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main Circular 78 and the Banking Control Commission Circulars 173 and 267, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the statement of profit or loss.

P. Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Q. Provision for Employees' End-of-Service Indemnity:

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

R. Provisions:

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

S. Revenue and Expense Recognition:

Interest income and expense are recognized in the income statement applying the effective interest rate (EIR) method for all financial instruments measured at amortized 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 amortized cost of a financial liability. When calculating the EIR for financial instruments other than purchased or originated credit impaired, an entity shall take into account all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. For purchased or originated credit impaired financial assets, a credit adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

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

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

Interest income, dividend income, realized and unrealized gains or losses, and exchange gain or loss on trading assets measured at fair value through profit or loss are presented separately in the statement of profit or loss.

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

T. Income Tax:

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

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

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

Deferred tax assets are recognized only when it is probable that taxable profits will be available against which the deferred tax asset can be utilized.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are not discounted.

U. Fiduciary Assets and Assets Under Management:

Fiduciary accounts and assets under management are held or invested on behalf of individuals and others either on a discretionary or non-discretionary basis and the related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

V. Cash and Cash Equivalents:

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

W. Investment in an Associate:

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

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

The results and assets and liabilities of associates, except where the Group has control over the associates' financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

4- CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

A. Critical Accounting Judgments in applying the Group's Accounting Policies

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.

Classification of Financial Assets:

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However, the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

The Group exercises judgment to assess the contractual cash flow characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and interest settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group include 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.

B. Key Sources of Estimation Uncertainty

The following are 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.

Impairment loss on Financial Instruments

The measurement of impairment losses 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 losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors and changes 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.

3. Financial Statements

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

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

Fair Value of Financial Instruments

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques. For financial instruments that traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Significant judgement in determining the lease term of contracts with renewal 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 the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 (e.g., a change in business strategy).

5- CASH AND BALANCES WITH CENTRAL BANK OF LEBANON

| | 2018 | 2019 |
|--|------------------|------------------|
| | LBP Million | LBP Million |
| Cash on hand | 21,281 | 7,021 |
| Current accounts with Central Bank of Lebanon | 46,562 | 160,768 |
| Term placements with Central Bank of Lebanon | 2,254,713 | 1,700,549 |
| Accrued interest receivable | 22,315 | 26,002 |
| | 2,344,871 | 1,894,340 |
| Less: Allowance for expected credit losses - note 44 | (7,879) | (27,395) |
| | 2,336,992 | 1,866,945 |

In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. 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.

As at 31 December 2019, the LBP obligatory reserves stood at LBP 25.77 billion (2018: LBP 21.15 billion) and the foreign currencies reserves stood at LBP 404.09 billion (2018: LBP 405.18 billion).

During 2019, the Group 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 2019, term placements with the Central Bank of Lebanon amounting to LBP 803.2 billion (2018: nil) and term borrowings from the Central Bank of Lebanon (note 19) are reported on a net basis on the statement of financial position by virtue of the general netting agreement. As at 31 December 2018, term placements in Lebanese Pounds in the amount of LBP 655 billion are blocked against term borrowings with the Central Bank of Lebanon with similar maturity and face amount (note 19).

6- DUE FROM BANKS AND FINANCIAL INSTITUTIONS

| | 2018 | 2019 |
|--|----------------|----------------|
| | LBP Million | LBP Million |
| Current accounts | 110,716 | 30,330 |
| Term placements | 23,852 | 65,805 |
| Reverse repurchase agreements (a) | 15,266 | - |
| Pledged deposits | 273 | 273 |
| Checks in course of collection from banks | 10,757 | 17,071 |
| Accrued interest receivable | 53 | 17 |
| | 160,917 | 113,496 |
| Less: Allowance for expected credit losses – note 44 | (360) | (1,660) |
| | 160,557 | 111,836 |

(a) The Group purchases certificates of deposit issued by the Central Bank of Lebanon under a commitment to resell them (reverse repurchase agreements). The securities are not included in the balance sheet of the Group, as the Group does not acquire the risk and rewards of ownership. Consideration paid (or cash collateral provided), is accounted for as a loan and amounts to nil as at 31 December 2019 (2018: LBP 15.3 billion).

7- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss stated at LBP 3.39 billion as at 31 December 2019 (LBP 2.96 billion as at 31 December 2018) represent the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding.

3. Financial Statements

8- LOANS AND ADVANCES TO CUSTOMERS

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

| | 31 December 2018 | | | 31 December 2019 | | |
|--|-----------------------|------------------------------------|---------------------|-----------------------|------------------------------------|---------------------|
| | Gross Carrying Amount | Allowance for Expected Credit Loss | Net Carrying Amount | Gross Carrying Amount | Allowance for Expected Credit Loss | Net Carrying Amount |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Performing loans: | | | | | | |
| Corporate & SME | 937,260 | (7,143) | 930,117 | 815,996 | (26,536) | 789,460 |
| Factoring facilities | 226,494 | (2,074) | 224,420 | 218,104 | (10,366) | 207,738 |
| Retail & Personal | 131,739 | (524) | 131,215 | 116,127 | (2,156) | 113,971 |
| Credit impaired loans | 139,451 | (88,519) | 50,932 | 198,339 | (104,995) | 93,344 |
| Pledged guarantee funds allocated to credit impaired loans | (2,120) | - | (2,120) | (2,273) | - | (2,273) |
| Accrued interest receivable | 3,513 | - | 3,513 | 19,863 | - | 19,863 |
| | 1,436,337 | (98,260) | 1,338,077 | 1,366,156 | (144,053) | 1,222,103 |

Loans and advances to customers include loans to related parties in the aggregate of LBP 34 billion as of 31 December 2019 (LBP 42 billion in 2018) which are secured by cash collaterals to the extent of LBP 15.18 billion (LBP 20.7 billion in 2018).

The table for the movement in allowances for expected credit losses of loans and advances to customers at amortized cost under IFRS 9 is presented in the Credit Risk section (note 44).

9- FINANCIAL ASSETS AT AMORTIZED COST

| | 2018 | 2019 |
|---|----------------|----------------|
| | LBP Million | LBP Million |
| Certificates of deposit issued by Central Bank of Lebanon | 42,126 | 41,997 |
| Lebanese treasury bills | 435,486 | 448,326 |
| Lebanese government Eurobonds | 292,647 | 292,496 |
| Lebanese corporate bonds | 2,261 | 2,261 |
| Accrued interest receivable | 10,354 | 8,628 |
| | 782,874 | 793,708 |
| Less: Allowance for expected credit losses - note 44 | (5,328) | (27,981) |
| | 777,546 | 765,727 |

(a) Lebanese treasury bills in the amount of LBP 138.5 billion and LBP 20 billion, maturing on November 17, 2022 and on March 28, 2024 respectively (2018: LBP 138.5 billion maturing on November 17, 2022), have been pledged against soft loans from the Central Bank of Lebanon with similar maturities and face amounts (note 19).

(b) Lebanese Treasury bills amounting to LBP 199.84 billion (LBP 199.66 billion in 2018) are pledged against term borrowings with the Central Bank of Lebanon (note 19).

10- FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 31 December 2018 | | | 31 December 2019 | | |
|----------------------------------|------------------|---------------------|---------------------------------|------------------|---------------------|---------------------------------|
| | Cumulative cost | Carrying fair value | Cumulative change in fair value | Cumulative cost | Carrying fair value | Cumulative change in fair value |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Unquoted equity securities | 925 | 5,355 | 4,430 | 1,037 | 5,843 | 4,806 |
| Deferred tax liability (note 38) | - | - | (755) | - | - | (838) |
| | | | 3,675 | | | 3,968 |

The movement of financial assets at fair value through other comprehensive income during 2019 and 2018 was as follows:

| | 2018 | 2019 |
|-------------------------------|--------------|--------------|
| | LBP Million | LBP Million |
| Balance at January 1 | 6,384 | 5,355 |
| Additions | 48 | - |
| Change in fair value | (1,077) | 376 |
| Other | - | 112 |
| Balance at December 31 | 5,355 | 5,843 |

11- DEBTORS BY ACCEPTANCES

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

12- INVESTMENT IN AN ASSOCIATE

In August 2017, the Group acquired 49% equity interest in Vitas S.A.L., a micro-lending financial institution, incorporated in Lebanon, for a total consideration of LBP10.3 billion.

The summarized financial information of the associate as of 31 December 2019 and 2018 is provided below:

| | 2018 | 2019 |
|----------------------------|-------------|-------------|
| | LBP Million | LBP Million |
| Total assets | 81,414 | 94,032 |
| Total liabilities | 62,202 | 75,888 |
| Net assets | 19,212 | 18,144 |
| Net profit for the year | 3,904 | 103 |
| Bank's share of net assets | 9,598 | 8,890 |
| Bank's share of net profit | 1,722 | 45 |

3. Financial Statements

The movement of investment in an associate is as follows:

| | 2018 | 2019 |
|---------------------------------|---------------|---------------|
| | LBP Million | LBP Million |
| Balance at January 1 | 10,863 | 12,191 |
| Share in profit of an associate | 1,722 | 45 |
| Dividend distribution | (394) | (516) |
| Balance at December 31 | 12,191 | 11,720 |

13- ASSETS ACQUIRED IN SETTLEMENT OF LOANS

Assets acquired in settlement of loans represent real estate and shares acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in settlement of loans during 2019 and 2018 was as follows:

| | Land | Shares | Total |
|------------------------------------|---------------|--------------|---------------|
| | LBP Million | LBP Million | LBP Million |
| Balance at 1 January 2019 | 35,920 | 8,006 | 43,926 |
| Additions | 7,898 | - | 7,898 |
| Disposals | (2,108) | - | (2,108) |
| Balance at 31 December 2019 | 41,710 | 8,006 | 49,716 |

| | Land | Shares | Total |
|------------------------------------|---------------|--------------|---------------|
| | LBP Million | LBP Million | LBP Million |
| Balance at 1 January 2018 | 32,946 | 8,006 | 40,952 |
| Additions | 3,106 | - | 3,106 |
| Disposals | (132) | - | (132) |
| Balance at 31 December 2018 | 35,920 | 8,006 | 43,926 |

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% of the gross cost for certain assets when the Group meets certain conditions linked to the restructuring of non-performing loans' portfolio and for the outstanding assets which their liquidation period ends after 20 July 2018. This regulatory reserve is reflected in "Non-distributable reserves" under equity (note 27). Gains or losses on liquidation are recognized in the consolidated statement of profit or loss.

The fair value of the Group's assets acquired in settlement of loans amounted to approximately LBP 79 billion as at 31 December 2019 (LBP 73 billion as at 31 December 2018) which has been arrived at on the basis of a valuation carried out in November 2015 and February 2016 by licensed independent real estate appraisers having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

Annual Report
2019

14- PROPERTY AND EQUIPMENT

| | Land and building | Furniture fixtures and motors vehicles | Hardware and computer equipment | Installations and improvement | Office equipment | Advance payments | Electrical equipment | Total |
|----------------------------|-------------------|--|---------------------------------|-------------------------------|------------------|------------------|----------------------|-----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Cost or revaluation: | | | | | | | | |
| At 1 January 2019 | 59,858 | 3,208 | 8,712 | 18,226 | 5,854 | 5,064 | 617 | 101,539 |
| Additions | - | 255 | 834 | 103 | 199 | 4,109 | - | 5,500 |
| Transfers | - | - | - | 2,047 | - | (2,047) | - | - |
| Disposals | - | - | (90) | - | (43) | - | - | (133) |
| Write offs | - | (147) | (251) | (3) | (472) | - | - | (873) |
| Disposal of a subsidiary | 1 | (208) | (452) | (845) | (1,369) | - | - | (2,873) |
| At 31 December 2019 | 59,859 | 3,108 | 8,753 | 19,528 | 4,169 | 7,126 | 617 | 103,160 |
| Accumulated depreciation: | | | | | | | | |
| At 1 January 2019 | (10,115) | (1,671) | (6,321) | (7,706) | (3,384) | - | (617) | (29,814) |
| Depreciation | (1,370) | (234) | (704) | (1,087) | (281) | - | - | (3,676) |
| Related to disposals | - | - | 23 | - | 43 | - | - | 66 |
| Related to write offs | - | 136 | 242 | - | 455 | - | - | 833 |
| Disposal of a subsidiary | - | 133 | 119 | 657 | 1,350 | - | - | 2,259 |
| At 31 December 2019 | (11,485) | (1,636) | (6,641) | (8,136) | (1,817) | - | (617) | (30,332) |
| Net book value: | | | | | | | | |
| At 31 December 2019 | 48,374 | 1,472 | 2,112 | 11,392 | 2,352 | 7,126 | - | 72,828 |

| | Land and building | Furniture fixtures and motors vehicles | Hardware and computer equipment | Installations and improvement | Office equipment | Work in progress | Electrical equipment | Total |
|----------------------------|-------------------|--|---------------------------------|-------------------------------|------------------|------------------|----------------------|-----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| At 1 January 2018 | 59,858 | 2,539 | 6,818 | 11,846 | 4,268 | 7,107 | 617 | 93,053 |
| Additions | - | 146 | 1,096 | 426 | 291 | 7,335 | - | 9,294 |
| Transfers | - | 538 | 798 | 6,583 | 1,355 | (9,378) | - | (104) |
| Write offs | - | (15) | - | (629) | (60) | - | - | (704) |
| At 31 December 2018 | 59,858 | 3,208 | 8,712 | 18,226 | 5,854 | 5,064 | 617 | 101,539 |
| Accumulated depreciation: | | | | | | | | |
| At 1 January 2018 | (8,705) | (1,501) | (5,768) | (7,536) | (3,228) | - | (617) | (27,355) |
| Additions | (1,410) | (176) | (553) | (670) | (216) | - | - | (3,025) |
| Related to transfers | - | - | - | - | - | - | - | - |
| Related to write offs | - | 6 | - | 500 | 60 | - | - | 566 |
| At 31 December 2018 | (10,115) | (1,671) | (6,321) | (7,706) | (3,384) | - | (617) | (29,814) |
| Net book value: | | | | | | | | |
| At 31 December 2018 | 49,743 | 1,537 | 2,391 | 10,520 | 2,470 | 5,064 | - | 71,725 |

3. Financial Statements

During 2016, the Group revalued its owned real estate properties which resulted in a revaluation surplus of LBP 10.6 billion recorded under “owned buildings revaluation surplus” under equity, net of applicable tax. The fair value of the revalued properties has been arrived at on the basis of a valuation carried out in 2016 by licensed independent real estate appraisers having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The revaluation was approved by the Central Bank of Lebanon in May 2016.

15- LEASES

The Group is a lessee in a number of leases, primarily comprising offices, retail branches, and IT services leases. Leases of buildings and freehold improvements generally have lease terms between 2 and 12 years, while IT services generally have lease terms of 3 years. The Group’s obligations under its leases are secured by the lessor’s title to the leased assets. There are several lease contracts that include extension and termination options.

The Group also has certain leases with lease terms of 12 months or less. The Group applies the ‘short-term lease’ recognition exemption for these leases.

Set out below is the breakdown of the carrying amounts of the Group’s right-of-use assets and the movements during the period:

| | <u>Buildings and freehold improvements</u> LBP Million | <u>IT services</u> LBP Million | <u>Total</u> LBP Million |
|----------------------------|---|-----------------------------------|-----------------------------|
| At 1 January 2019 | 31,138 | 5,599 | 36,737 |
| Additions | 2,992 | - | 2,992 |
| Contract adjustment | (921) | - | (921) |
| Depreciation expense | (5,730) | (2,800) | (8,530) |
| At 31 December 2019 | 27,479 | 2,799 | 30,278 |

Set out below is the breakdown of the carrying amounts of the Group’s lease liabilities and the movements during the period:

| | <u>2019</u> LBP Million |
|----------------------------|----------------------------|
| At 1 January 2019 | 34,284 |
| Additions | 2,992 |
| Contract adjustment | (921) |
| Interest expense | 1,196 |
| Payments | (8,452) |
| At 31 December 2019 | 29,099 |

16- INTANGIBLE ASSETS

Intangible assets represent purchased software and software under development.

| | 2018 | 2019 |
|-----------------------|---------------|---------------|
| | LBP Million | LBP Million |
| Cost: | | |
| At 1 January | 17,228 | 18,981 |
| Additions | 2,745 | 950 |
| Write offs | (1,096) | (534) |
| Transfers | 104 | - |
| At 31 December | 18,981 | 19,397 |

| | 2018 | 2019 |
|------------------------------|----------------|----------------|
| | LBP Million | LBP Million |
| Amortization | | |
| At 1 January | (3,605) | (4,213) |
| Amortization during the year | (1,678) | (3,364) |
| Related to write-offs | 1,070 | 405 |
| At 31 December | (4,213) | (7,172) |

Net book value at 31 December

| | |
|---------------|---------------|
| 14,768 | 12,225 |
|---------------|---------------|

17- OTHER ASSETS

| | 2018 | 2019 |
|--|---------------|---------------|
| | LBP Million | LBP Million |
| Medical costs due from National Social Security Fund (a) | 3,976 | 4,512 |
| Prepayments (b) | 5,994 | 2,838 |
| Salaries paid in advance | 42 | - |
| Assets in process of acquisition in settlement of loans | 719 | 5,672 |
| Sundry account receivables | 5,215 | 4,807 |
| | 15,946 | 17,829 |

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to its employees.

(b) Effective 1 January 2019, upon adoption of IFRS 16, prepaid operating leases amounting to LBP 2,453 million were reclassified to right-of-use assets.

18- GOODWILL

Goodwill in the amount of LBP 1,988 million as at 31 December 2018 included an amount of LBP 1,240 million resulted from the acquisition of the entire shares of Near East Commercial Bank (NECB) during 2015 that was completely written-off during 2019 and recorded under "Goodwill write off" in the consolidated statement of profit or loss.

In addition, goodwill as at 31 December 2018 included an amount of LBP 748 million relating to CashUnited S.A.L., a subsidiary of the Bank. The entire Bank's share in CashUnited S.A.L. were sold during 2019 (note 41).

3. Financial Statements

19- DUE TO THE CENTRAL BANK OF LEBANON

| | 2018 | 2019 |
|--------------------------------|------------------|----------------|
| | LBP Million | LBP Million |
| Soft loans (a) | 112,751 | 119,350 |
| Leverage arrangements (b) | 854,920 | 199,835 |
| Subsidized loans (c) | 39,884 | 36,513 |
| Short term loans (d) | - | 52,763 |
| Advance in current account (e) | - | 16,256 |
| Bankers' checks | 232 | 19,193 |
| Accrued interest payable | 2,657 | 1,908 |
| | 1,010,444 | 445,818 |

(a) On June 16, 2016, and as a result of the merger with NECB, the Group was granted a soft loan denominated in Lebanese Pound in the amount of LBP 138.5 billion from Central Bank of Lebanon for a period of 6.5 years maturing on 17 November 2022, carrying interest at the rate of circa. 1.41%. The loan was earmarked to purchase Lebanese Treasury Bills of the same face amount and maturity and which are pledged as security against the loan. The soft loan is presented net of a discount resulting from the present value of net future cash flows. The discount represents the subsidy granted by BDL through the soft loan pursuant to article 6 of law 192/93 and related decree 1423 dated 23 February 2009 (note 23).

(b) Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate of 2% per annum and having maturities ranging between 2022 and 2029, fully invested in pledged Lebanese Treasury Bills and blocked term placements with Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5% per annum. Simultaneously the Group has deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies) carrying the same maturities. During 2019, the Group and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placements in LBP. This agreement qualifies for netting under the requirements of IAS 32.

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

| | 2018 | 2019 |
|---|----------------|----------------|
| | LBP Million | LBP Million |
| Leverage arrangements: | | |
| Gross amounts | 854,920 | 1,003,029 |
| Amounts offset against | | |
| Term placements with Central Bank of Lebanon (1) - note 5 | - | (803,194) |
| Net amounts reported on balance sheet | 854,920 | 199,835 |
| Financial collateral: | | |
| Term placements with Central Bank of Lebanon - note 5 | 655,085 | - |
| Lebanese treasury bills - note 9 | 199,835 | 199,835 |
| | 854,920 | 199,835 |

**Annual Report
2019**

⁽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.

(c) Following the Central Bank of Lebanon issued Intermediate Circulars 313, 331 and 318, the Central Bank of Lebanon granted the Group facilities amounting to LBP 37 billion (2018: LBP 40 billion). Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis.

(d) During December 2019, the Group was granted short term loans in the aggregate amount of USD 35 million (LBP 52.76 billion) from the Central Bank of Lebanon. The purpose of the loans is to cover commitments required by the Group. The loan is subject to 20% interest rate per annum.

(e) On 4 April 2019, the Group was granted an advance in current account denominated in Lebanese Pound in the amount of LBP 20 billion from the Central Bank of Lebanon, carrying interest at the rate of circa. 2.62%, for a period of 1 year, automatically renewable once. The loan was earmarked to Lebanese Treasury Bills of the same face amount pledged as security against the advance.

20- DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | 2018 | 2019 |
|--|---------------|---------------|
| | LBP Million | LBP Million |
| Current deposits | 38,256 | 3,931 |
| Current deposits - related parties | 235 | 10,503 |
| Acceptances payable | - | 30,918 |
| Overnight borrowings | - | 10,000 |
| Term deposits | 56 | - |
| Term deposits - related parties | 10,031 | 13,888 |
| Accrued interest payable | 1 | 3 |
| Accrued interest payable-related parties | 84 | 43 |
| | 48,663 | 69,286 |

21- DEPOSITS FROM CUSTOMERS

| | 2018 | 2019 |
|--|------------------|------------------|
| | LBP Million | LBP Million |
| Current / demand deposits | 132,243 | 401,754 |
| Term deposits | 2,652,567 | 2,303,009 |
| Collateral against loans and advances | 156,842 | 97,058 |
| Deposits from factoring activities | 4,102 | 7,540 |
| Margins for irrevocable import letters of credit | 68,118 | 60,002 |
| Margins on letters of guarantee | 2,808 | 2,908 |
| Other margins | 5,919 | 4,230 |
| Accrued interest payable | 21,624 | 21,385 |
| | 3,044,223 | 2,897,886 |

3. Financial Statements

22- DEPOSITS FROM RELATED PARTIES

| | 2018 | 2019 |
|--|----------------|----------------|
| | LBP Million | LBP Million |
| Current / demand deposits | 29,660 | 36,882 |
| Term deposits | 197,206 | 245,308 |
| Collateral against loans and advances to related parties | 20,616 | 15,117 |
| Collaterals against other loans and advances | - | 23,244 |
| Margins on letters of guarantee | 168 | 1,140 |
| Other margins | - | 109 |
| Accrued interest payable | 1,083 | 1,175 |
| | 248,733 | 322,975 |

23- OTHER LIABILITIES

| | 2018 | 2019 |
|--|---------------|---------------|
| | LBP Million | LBP Million |
| Escrow account (Note 26) | 8,583 | - |
| Deferred income - Subsidy from the Central Bank of Lebanon (a) | 16,997 | 13,066 |
| Accrued expenses | 10,628 | 7,444 |
| Withheld taxes payable | 4,104 | 8,179 |
| Due to the National Social Security Fund | 346 | 411 |
| Due to shareholders (b) | 8,141 | 8,141 |
| Sundry creditors | 13,013 | 2,585 |
| | 61,812 | 39,826 |

(a) The Central Bank of Lebanon granted the Group a subsidy equivalent to USD 28.1 million or LBP 42.36 billion in lieu of a) the value of the merged bank's license to be cancelled due to the merger, b) the additional compensations paid to the merged bank's employees whose employment contracts have been terminated capped at the limit specified in Law 192/93, and c) a lump sum compensation for costs resulting from the merger operation computed per article 2 of Decree 1423. An additional subsidy was obtained during 2019 amounting to USD 3 million or LBP 4.52 billion. The subsidy was granted by way of granting the Group an advance in current account at below-market rate of interest.

The Group is recognizing deferred income on a systematic and rational basis against merger expenses incurred. During the year ended 31 December 2019, the Group recognized LBP 3.9 billion reflected in the statement of profit or loss under "Other income" (note 37) to match merger related costs (LBP 2.9 billion during the year ended 31 December 2018).

(b) Some of the Group's shareholders agreed to purchase shares acquired in settlement of loans (note 13) at carrying value as at initial acquisition date as part of the merger deal between the Group and NECB completed on 1 June 2016 and thus no impairment allowance was set up on these shares as at 31 December 2019 and 2018. This transaction is still pending certain legal formalities.

**Annual Report
2019**

24- PROVISIONS

| | 2018 | 2019 |
|---|---------------|--------------|
| | LBP Million | LBP Million |
| Provision for employees' end-of-service indemnity | 7,304 | 6,788 |
| Provision for contingencies | 1,625 | 1,599 |
| Provision for lawyers' indemnity | 100 | 206 |
| Provision for ECL on financial guarantees and other commitments-note 44 | 2,027 | 1,331 |
| Provision for loss on foreign currency position | 45 | 45 |
| | 11,101 | 9,969 |

The movement of provisions is summarized as follows

| | Provision for employees end of service benefits | Provision for contingencies | Provision for lawyer indemnities | Provision for ECL on financial guarantees and other commitments | Provision for loss on foreign currency position | Total |
|---|---|-----------------------------|----------------------------------|---|---|---------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| At 1 January 2019 | 7,304 | 1,625 | 100 | 2,027 | 45 | 11,101 |
| Provision for employees' end of service indemnity (note 35) | 837 | - | 106 | - | - | 943 |
| Write back of provision for ECL on financial guarantees and other commitments (note 34) | - | - | - | (696) | - | (696) |
| Write-back of provision for contingencies | - | (3) | - | - | - | (3) |
| Settlements | (1,214) | - | - | - | - | (1,214) |
| Disposal of a subsidiary | (139) | (23) | - | - | - | (162) |
| At 31 December 2019 | 6,788 | 1,599 | 206 | 1,331 | 45 | 9,969 |
| At 1 January 2018 | 8,724 | 2,137 | 612 | - | 45 | 11,518 |
| Impact of IFRS 9 at 1 January 2018 | - | - | - | 1,252 | - | 1,252 |
| Provision for employees' end of service indemnity (note 35) | 637 | - | - | - | - | 637 |
| Provision for contingencies | - | 64 | - | - | - | 64 |
| Provision for ECL on financial guarantees and other commitments (note 34) | - | - | - | 775 | - | 775 |
| Settlements | (2,057) | (576) | (512) | - | - | (3,145) |
| At 31 December 2018 | 7,304 | 1,625 | 100 | 2,027 | 45 | 11,101 |

25- SHARE CAPITAL

The capital of the Group amounting to LBP10.6 billion as at 31 December 2019 and 2018 is composed of 10,600,000 shares of LBP 1,000 par value each, authorized, issued and fully paid. Premium on these shares amounts to LBP 34.98 billion as at 31 December 2019 and 2018.

The extraordinary general assembly of the Group's shareholders held on 30 September 2019 resolved to increase the Group's capital from LBP 10.6 billion to LBP 147 billion, representing an increase of LBP 136.4 billion to be transferred from cash contribution to capital and share premium accounts which was approved by the Central Bank of Lebanon on 21 November 2019.

Due to the COVID-19 pandemic, Parliament enacted on May 8, 2020 Law No. 160, published in the Official Gazette No. 20 dated May 14, 2020, pursuant to which all contractual, legal and administrative deadlines were

3. Financial Statements

suspended during the period extending from 18/10/2019 until 30/7/2020. In light of this law, the Group has still not finalized the process.

26- CASH CONTRIBUTION TO CAPITAL

Cash contribution to capital amounts to LBP 202.9 billion (USD 134.6 million) as at 31 December 2018. This contribution is interest free and was made by the shareholders to support the Group in developing its activities. According to local banking laws and regulations, this shareholders' cash contribution to capital is considered as Common Equity Tier I for the purpose of computation of the risk-based capital ratio.

On 1 August 2019, the Group obtained the approval of the Central Bank of Lebanon to increase the cash contribution to capital by an amount of LBP 60.3 billion (USD 40 million). The Group will pay a return on these contributions at the rate of 7% per annum, which shall be resolved by a general assembly of shareholders and paid out of free profits approved by the Banking Control Commission. Cash contribution to capital accordingly increased from LBP 202.9 billion to LBP 263.2 billion. The amount of this increase is considered as Tier I for the purpose of the computation of the risk-based capital ratio and the Group has obtained the approval of BDL to consider this amount part of the capital increase required by Intermediate Circular 532 (amended by Intermediate Circular 567).

27- NON-DISTRIBUTABLE RESERVES

The movement of non-distributable reserves during 2019 and 2018 was as follows:

| | Reserve for unspecified banking risk | Legal reserves | General reserves | Regulatory reserve for profit sale of assets acquired in settlement of loans | Regulatory reserve for assets acquired in settlement of loans | Other | Total |
|--|--|-------------------|---------------------|---|--|----------------|----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at 1 January 2019 | - | 3,571 | 42,761 | 3,434 | 2,201 | - | 51,967 |
| Appropriation of 2018 profit | - | 219 | - | - | 1,729 | - | 1,948 |
| Transfer to retained earnings upon disposal of a subsidiary | - | (148) | - | - | - | - | (148) |
| Other | - | - | - | - | - | 2 | 2 |
| Balance at 31 December 2019 | - | 3,642 | 42,761 | 3,434 | 3,930 | 2 | 53,769 |

| | Reserve for unspecified banking risk | Legal reserves | General reserves | Regulatory reserve for profit sale of assets acquired in settlement of loans | Regulatory reserve for assets acquired in settlement of loans | Other | Total |
|---------------------------------------|--|-------------------|---------------------|---|--|----------------|----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at 1 January 2018 | 9,188 | 1,990 | 11 | 581 | 216 | 40,000 | 51,986 |
| Impact of IFRS9 adoption | (2,362) | - | - | - | - | (12,950) | (15,312) |
| Restated balance at 1 January 2018 | 6,826 | 1,990 | 11 | 581 | 216 | 27,050 | 36,674 |
| Appropriation of 2017 profit | 8,874 | 1,581 | - | 2,853 | 1,985 | - | 15,293 |
| Transfers to general reserves | (15,700) | - | 42,750 | - | - | (27,050) | - |
| Balance at 31 December 2018 | - | 3,571 | 42,761 | 3,434 | 2,201 | - | 51,967 |

Legal reserve:

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit. This reserve is not available for distribution.

Regulatory reserve for assets acquired in settlement of loans:

In compliance with the Central Bank of Lebanon Basic Circular no. 78, banks are required to appropriate from retained earnings an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt, in case the Bank failed to liquidate the properties within 2 years from the date of acquisition. This reserve is not considered as part of the Bank's Tier Capital and is not available for distribution (note 13).

General reserves:

According to the Central Bank of Lebanon Main Circular 143, the Bank is required to transfer to general reserves the balance of reserves for unspecified banking risk and other reserves amounting to LBP 42,750 million. This reserve is part of the Bank's equity and is not available for distribution.

28- OWNED BUILDINGS REVALUATION SURPLUS

| | 2018 | 2019 |
|------------------------------------|---------------|---------------|
| | LBP Million | LBP Million |
| Bank premises | 14,665 | 14,665 |
| Subsidiary owned properties (SIPC) | 35,838 | 35,838 |
| | 50,503 | 50,503 |

29- INTEREST AND SIMILAR INCOME

| | 2018 | 2019 |
|--|----------------|----------------|
| | LBP Million | LBP Million |
| Deposits with Central Bank of Lebanon | 67,869 | 156,929 |
| Deposits with banks and financial institutions | 2,737 | 2,994 |
| Financial assets at amortized cost | 75,037 | 52,164 |
| Loans and advances to customers | 82,880 | 94,860 |
| Loans and advances to related parties | 1,182 | 1,497 |
| Factoring activities | 19,750 | 29,370 |
| | 249,455 | 337,814 |
| Withheld tax on interest | (7,332) | (19,274) |
| | 242,123 | 318,540 |

Accrued interest income on Lebanese government Eurobonds as at 31 December 2019 that were not paid within the first quarter of 2020, were reversed in line with the decision of the Lebanese government during March 2020 to stop payments of coupons on all Lebanese government Eurobonds.

30- INTEREST AND SIMILAR EXPENSE

| | 2018 | 2019 |
|---|----------------|----------------|
| | LBP Million | LBP Million |
| Due to the Central Bank of Lebanon | 13,175 | 16,014 |
| Due to banks and financial institutions | 879 | 1,600 |
| Deposits from customers | 172,236 | 216,422 |
| Deposits from related parties | 8,266 | 21,431 |
| | 194,556 | 255,467 |

3. Financial Statements

31- FEE AND COMMISSION INCOME

| | 2018 | 2019 |
|---|---------------|---------------|
| | LBP Million | LBP Million |
| Service fees on customers' transactions | 15,536 | 10,158 |
| Factoring fees | 5,717 | 5,559 |
| Commission on documentary credits | 881 | 778 |
| Commission on letters of guarantee | 1,443 | 1,390 |
| Commission from fiduciary deposits | - | 139 |
| Asset management fees | 1,341 | 1,554 |
| Other commissions | - | 1,433 |
| | 24,918 | 21,011 |

32- FEE AND COMMISSION EXPENSE

| | 2018 | 2019 |
|---------------------------------------|--------------|--------------|
| | LBP Million | LBP Million |
| Commission on transactions with banks | 435 | 642 |
| Factoring commission expense | 27 | 25 |
| Other commission expense | 1,225 | 1,182 |
| | 1,687 | 1,849 |

33- OTHER OPERATING INCOME

| | 2018 | 2019 |
|--|--------------|--------------|
| | LBP Million | LBP Million |
| Dividends on financial assets at fair value through other comprehensive income | 143 | 13 |
| Net foreign exchange gains | 2,057 | 1,725 |
| | 2,200 | 1,738 |

34- NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

| | 2018 | 2019 |
|--|--------------|---------------|
| | LBP Million | LBP Million |
| Balances with Central Bank of Lebanon | 2,742 | 19,516 |
| Due from banks and financial institutions | (235) | 1,363 |
| Loans and advances to customers | 3,404 | 33,914 |
| Financial assets at amortized cost | (4,096) | 22,653 |
| Financial guarantees and other commitments (note 24) | 775 | (696) |
| | 2,590 | 76,750 |

35- STAFF COSTS

| | 2018 | 2019 |
|--|---------------|---------------|
| | LBP Million | LBP Million |
| Salaries and related benefits | 28,951 | 31,602 |
| Schooling allowances | 548 | 1,229 |
| Transportation | 1,024 | 878 |
| Social Security contribution | 3,873 | 3,865 |
| Provision for staff and lawyers' indemnity costs (note 24) | 637 | 943 |
| Board of Directors remuneration fees | 531 | 555 |
| Representation fees | 506 | 536 |
| Other benefits | 1,439 | 1,795 |
| | 37,509 | 41,403 |

36- GENERAL AND ADMINISTRATIVE EXPENSES

| | 2018 | 2019 |
|---|---------------|---------------|
| | LBP Million | LBP Million |
| Maintenance and repairs | 2,753 | 2,827 |
| Printings, subscriptions and stationery | 2,099 | 2,057 |
| Communication and marketing fees | 2,160 | 2,022 |
| Premium of guarantee of deposits | 1,549 | 1,644 |
| IT outsourcing services | 4,562 | 1,611 |
| Rent charges under operating leases | 7,007 | 1,569 |
| Professional and consultancy fees | 3,432 | 1,533 |
| Insurance | 1,012 | 1,100 |
| Telecommunication expenses | 900 | 997 |
| Fines and taxes | 526 | 658 |
| Transportation and travel | 470 | 325 |
| Electricity, water and fuel | 117 | 243 |
| Other expenses | 931 | 1,725 |
| | 27,518 | 18,311 |

37- OTHER INCOME (EXPENSE), NET

| | 2018 | 2019 |
|---------------------------------|----------------|--------------|
| | LBP Million | LBP Million |
| Subsidy income (note 23) | 2,904 | 8,454 |
| Other income, net | 649 | 84 |
| Staff severance indemnities (a) | (5,036) | (1,534) |
| | (1,483) | 7,004 |

(a) Represents compensations paid to certain terminated employees as a result of the restructuring of certain branches.

3. Financial Statements

38- INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

| | 2018 | 2019 |
|---|-------------|--------------|
| | LBP Million | LBP Million |
| Current tax | | |
| Current income tax | 144 | 2,128 |
| Deferred tax | | |
| Relating to origination and reversal of temporary differences | - | (920) |
| | 144 | 1,208 |

The reconciliation between accounting (loss) profit and taxable profit is summarized as follows:

| | 2018 | 2019 |
|---------------------------------------|-------------|---------------|
| | LBP Million | LBP Million |
| (Loss) profit before tax | 2,474 | (60,430) |
| Non-deductible expenses | 6,603 | 80,181 |
| Non-taxable income | (8,526) | (7,610) |
| Taxable result | 551 | 12,141 |
| Income tax based on enacted rate- 17% | 94 | 2,064 |
| Property tax (subsidiary) | 50 | 64 |
| Total income tax expense | 144 | 2,128 |

The components of income tax liability recorded in the statement of financial position are as follows:

| | 2018 | 2019 |
|--------------|-------------|--------------|
| | LBP Million | LBP Million |
| Income tax | 94 | 2,064 |
| Property tax | 50 | 64 |
| Other taxes | - | 23 |
| | 144 | 2,151 |

Deferred taxes recorded in the statement of financial position result from the following items:

| | 31 December 2019 | | |
|---------------------------------|---|---------------------|----------------------------------|
| | Deferred tax assets (liabilities) | Income statement | Other comprehensive income |
| | LBP Million | LBP Million | LBP Million |
| Financial instruments at FVTOCI | (838) | - | (83) |
| Other temporary differences | 920 | 920 | - |
| | 82 | 920 | (83) |

31 December 2018

| | Deferred tax assets (liabilities) | Income statement | Other comprehensive income |
|---------------------------------|---|---------------------|----------------------------------|
| | LBP Million | LBP Million | LBP Million |
| Financial instruments at FVTOCI | (755) | - | 71 |

The tax returns of the Near East Commercial Bank S.A.L., for the years 2015 and up to May 31, 2016 (merger date) are currently being examined by the tax authorities. Any additional tax liability depends on the result of this review and will be borne by the Group.

The tax returns of Saradar Bank S.A.L., from the year 2015 to 2019 (inclusive) remain subject to examination and final review by the tax authorities. Any additional tax liability depends on the results of these reviews.

The tax returns of the remaining subsidiaries for the years 2015 until 2019 remain subject to examination and final assessment by the tax authorities.

Management believes that the effect of reviews conducted by regulatory authorities on open years will not have a significant effect on the financial statements.

39- CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

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

| | 2018 | 2019 |
|--|-------------|-------------|
| | LBP Million | LBP Million |
| Documentary and commercial letters of credit | 53,624 | 6,928 |
| Guarantees and standby letters of credit | 87,114 | 74,087 |

40- FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

| | 2018 | 2019 |
|-------------------------|----------------|----------------|
| | LBP Million | LBP Million |
| Back-to-back lending | 4,691 | 44,185 |
| Assets under management | 305,639 | 317,573 |
| | 310,330 | 361,758 |

3. Financial Statements

41- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, and related companies. Balances with related parties consist of the following:

| | 2018 | 2019 |
|---|-------------|-------------|
| | LBP Million | LBP Million |
| Shareholders, directors and other key management personnel and close family members: | | |
| <i>Direct facilities and credit balances:</i> | | |
| Unsecured loans and advances | 5,856 | 5,614 |
| Loans and advances against real estate mortgage | 1,063 | - |
| Loans and advances against cash collateral | 9,035 | 4,340 |
| Deposits | 110,490 | 225,166 |
| Related companies: | | |
| <i>Direct facilities and credit balances:</i> | | |
| Unsecured loans and advances | 15,026 | 15,002 |
| Loans and advances against cash collateral | 11,025 | 8,800 |
| Deposits from customers | 148,593 | 97,809 |
| Deposits from banks and financial institutions | - | 24,434 |
| <i>Indirect facilities:</i> | | |
| Fiduciary assets and assets under management | 22,312 | 17,560 |
| Letters of guarantee | 1,288 | 2,460 |

As of 31 December 2019, pledged guarantee funds amounting to LBP 1.48 billion (2018: LBP 1.48 billion) were deposited by some shareholders of the Group in order to cover any shortfall in the amount of provisions set up for loans and advances to certain customers. During 2018, the Group offset an amount of LBP 10.8 billion against corresponding loans as per agreement with the concerned shareholders.

Interest income from loans and advances to related parties amounted to LBP 1.5 billion for 2019 (2018: LBP 1.2 billion) (note 29).

Interest expense on deposits from related parties amounted to LBP 21.4 billion during 2019 (2018: LBP 8.3 billion) (note 30).

Placement fees income amounted to LBP 680 million for 2019 (2018: LBP 105 million), and advisory services fees amounted to LBP 209 million for 2019 (2018: LBP 353 million) with Saradar Family Office SAL.

Secured loans and advances are covered by pledged deposits to the extent of LBP 15.18 billion as of 31 December 2019 (LBP 20.7 billion in 2018).

During 2018, the Group granted a loan to Vitas SAL, an associate, in the amount of LBP 15 billion under BDL Intermediate Circular 313, subject to interest at the rate of 4% per annum and matures on 31 December 2025.

On 29 August 2019, the Bank sold its entire shares in CashUnited S.A.L. for a consideration equal to the invested capital of LBP 4,714 million (equivalent to US\$ 3.1 million) to Saradar Financial House (Holding) S.A.L., a related party, following the approval of the Central Bank of Lebanon received on August 29, 2019.

Loss recognized for this transaction amounted to LBP 5 million and was reflected under "loss from disposal of a subsidiary" in the consolidated statement of profit or loss. The result of CashUnited S.A.L. for the period ended 29 August 2019 was a profit of LBP 635 million.

**Annual Report
2019**

| | 2019 |
|---|--------------------|
| | LBP Million |
| Consideration received | 4,714 |
| Less: Cash and cash equivalents | (6,622) |
| Net cash outflow from disposal of a subsidiary | (1,908) |

Executive management and the Board of Directors benefits for the year were as follows:

| | 2018 | 2019 |
|-------------------------|--------------------|--------------------|
| | LBP Million | LBP Million |
| Short term benefits | 7,965 | 13,649 |
| End of service benefits | 73 | 505 |
| | 8,038 | 14,154 |

Advisory commission income received from Sarinvest Holding Limited amounted to LBP 88 million during the year ended 31 December 2019 (LBP 73 million during the year ended 31 December 2018).

During 2019, dividends received from United Group Brokers S.A.R.L., a subsidiary, amounted to LBP 662 million (LBP nil during 2018).

During 2019, dividends received from Vitas S.A.L., an associate, amounted to LBP 516 million (LBP 394 million during 2018) (note 12).

Related party expenses incurred during the year were as follows:

| | 2018 | 2019 |
|---------------------------------|--------------------|--------------------|
| | LBP Million | LBP Million |
| Lease payments and rent expense | 3,368 | 2,987 |
| Building charges | 397 | 549 |
| Subscription fees | 231 | 230 |
| Membership fees | 23 | 48 |
| Travel expenses | 242 | 247 |
| Office aid services | 86 | 72 |
| Financial advisory services | 352 | 209 |
| Advertisement | - | 15 |
| | 4,699 | 4,357 |

Advance payment to Conseil et Gestion Immobilière S.A.L. (a related party) for construction and renovation services amounted to LBP 544 million as at 31 December 2019 (LBP 3,647 million as at 31 December 2018).

On 16 January 2014, the Group signed a rent contract with Clover Building SAL (an entity under common control) to rent sections 14 to 19 and portion of section 22 of Clover Building property, Rmeil, plot number 144, for the period from 16 January 2014 to 15 January 2024. The annual rental fees were subject to (i) a fixed increase of 3% in the second and third years, (ii) 5% increase for the remaining 7 years. The contract can be terminated by the lessee at the end of the third year.

3. Financial Statements

42- CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flows consist of the following:

| | 2018 | 2019 |
|---|----------------|----------------|
| | LBP Million | LBP Million |
| Cash on hand (note 5) | 21,281 | 7,021 |
| Current accounts with Central Bank of Lebanon (excluding compulsory reserve) (note 5) | 25,410 | 135,000 |
| Checks in course of collection from banks (note 6) | 10,757 | 17,071 |
| Reverse repurchase agreement (note 6) | 15,266 | - |
| Current accounts with banks and financial institutions (note 6) | 110,716 | 30,330 |
| Term placements with banks and financial institutions (note 6) | 23,853 | 65,805 |
| | 207,283 | 255,227 |
| Less: | | |
| Current accounts and short term loans due to the Central Bank of Lebanon (note 19) | 232 | 71,956 |
| Current accounts due to banks and financial institutions (note 20) | 38,491 | 24,434 |
| Term deposits due to banks and financial institutions (note 20) | 10,087 | 13,888 |
| | 48,810 | 110,278 |
| | 158,473 | 144,949 |

Term placements with banks and financial institutions represent inter-bank placements with an original term of 90 days or less.

The following activities that represent non-cash items were excluded from the statement of cash flows:

- Positive change in fair value of investment securities at fair value through other comprehensive income of LBP 397 million (31 December 2018: LBP 1,112 million) and related deferred tax liability of LBP 86 million (31 December 2018: LBP 78 million) against investment securities.
- Assets acquired in settlement of loans in the amount of LBP 7.9 billion (31 December 2018: LBP 3 billion) against loans and advances to customers, and LBP 5 billion from other assets.
- Addition of right-of-use assets and lease liabilities for the amount of LBP 36,737 million.

43- CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business, retain sufficient financial strength and flexibility to support new business growth, and meet national and international regulatory capital requirements at all times. 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.

On 3 February 2020, the Central Bank of Lebanon issued Intermediate Circular 543 in which it decreased the minimum regulatory capital adequacy ratios levels as reflected in the table below. Under the same Circular, the regulator has increased the risk weight on foreign currency exposures to the Central Bank of Lebanon from 50% to 150%, excluding deposits with original maturities less than one year, which are still subject to a 50% risk weight.

The Central Bank of Lebanon also requires minimum levels of 7%, 8.5% and 10.5% for CET1, Tier 1 and Total CAR respectively, and 4.5%, 6% and 8% respectively, excluding the capital conservation buffer. The capital conservation buffer of 2.5%, comprised of Common Equity Tier 1, is established above the regulatory minimum capital requirement. When capital levels fall within this range, banks are required to increase capital levels above the conservation range. In addition, constraints related to distributions are imposed.

**Annual Report
2019**

The following table shows the applicable regulatory capital ratios:

| | Common Tier 1 Capital Ratio | Tier 1 Capital Ratio | Total Capital Ratio |
|----------------------------------|--|---------------------------------|--------------------------------|
| 31 December 2019 | | | |
| Minimum required capital ratios | 4.50% | 6.00% | 8.00% |
| With capital conservation buffer | 7.00% | 8.50% | 10.50% |
| 31 December 2018 | | | |
| Minimum required capital ratios | 5.50% | 8.50% | 10.50% |
| With capital conservation buffer | 10.00% | 13.00% | 15.00% |

The Group's capital adequacy ratio is determined at consolidation basis and was as follows:

| | 2018 | 2019 |
|--|--------------------|--------------------|
| | LBP Million | LBP Million |
| Common Equity Tier I capital | 277,712 | 198,911 |
| Tier I capital | - | 60,300 |
| Tier II capital | 48,748 | 68,318 |
| Total regulatory capital (Tier I + Tier II) | 326,460 | 327,529 |
| Credit risk | 2,276,041 | 3,636,460 |
| Market risk | 24,465 | 30,326 |
| Operational risk | 128,701 | 174,719 |
| Total Risk-weighted assets | 2,429,207 | 3,841,505 |
| Common Equity Tier I Ratio | 11.43% | 5.18% |
| Tier I Ratio | 11.43% | 6.75% |
| Total Capital Ratio | 13.44% | 8.53% |

On 4 November 2019 the Central Bank of Lebanon issued Intermediate Circular 532 requiring Lebanese banks not to distribute dividends from the profits of the financial year 2019, and to increase the regulatory capital by 20% of the common equity tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, in two phases: 10% by 31 December 2019 and another 10% by 30 June 2020. The deadlines of 31 December 2019 and 30 June 2020 were extended to 31 December 2020 through Intermediate Circular 567. The Group has obtained the approval of BDL to consider the cash contribution to capital part of the capital increase required by Intermediate Circular 532 (amended by Intermediate Circular 567).

The capital adequacy ratios as at 31 December 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. The Group is currently assessing the impact of the future effects of the economic crisis and the restructuring plan on its capital adequacy ratios, based on the various available scenarios. However, until all uncertainties are resolved, the amount of the recapitalization needs that will be required cannot be determined presently.

44- FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Other risks faced by the Group include operational risk, concentration risk, reputation risk, legal risk, political risk and business strategic risk.

3. Financial Statements

The risk management framework is briefly outlined as follows:

The Board of Directors

The Board of Directors, through the General Management Committee, is responsible for establishing the Group's goals and objectives and overseeing the establishment, implementation and review of the Group's risk management system.

The Chairman of the Board and the Managing Director are responsible for the efficient functioning of the corporate governance structure and for developing the Group's risk strategies that direct the Group's ongoing activities to achieve goals and objectives.

The Risk Management Department

The Risk Management Department is responsible for drawing a risk management strategy that addresses identified risks such as credit risk on a portfolio level, liquidity risk and interest rate risk in the banking book and operational risk. It cooperates with the Group's managers at all levels across the organization namely, the Credit Risk Management Department, the Capital Market, the Treasury Department, the Financial Department and the Internal Audit Department and the Information Security Unit.

A. 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. It arises principally from the Group's loans and advances, due from banks and financial institutions, non-trading debt investments, and certain other assets. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the departments, 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.

In measuring credit risk for loans and advances, the Group considers the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdue and related reasons and the counterparty's financial position;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty;
- Available collaterals, coverage ratio, and the ability of the Group to convert them to liquid money;

During 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,
- iv) setting-up an independent, centralized and specialized remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified Stage 3.

The restrictive measures and capital control measures which started during the 4th quarter of 2019, are constraining private sector activity. More borrowers are expected to default leading to increased levels of non-performing loans and allowances for expected credit losses. The Group's strategy is to address the operating environment challenges through deleveraging and reducing the portfolio significantly to a more manageable one. The General Management Committee, the Credit Committee and the Non-Performing Loan Committee actively review the portfolio and in particular the most significant exposures. The role of the Recovery Unit is expected to be further reinforced aiming to proactively and efficiently manage delinquencies and problem loan recoveries in order to contain the increase of problem loans and provisions for impairment expected to arise from the ongoing economic slowdown.

Expected Credit Losses

Model risk management

The Group has utilized models in its Expected Credit Loss (ECL) estimation under the IFRS 9 accounting standards. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk through monitoring the performance of the model, and proposing post-model adjustments to address model weaknesses or to account for situations where known or expected risk factors and information have not been considered in the modelling process.

Definition of default and cure

The Group may consider a financial asset in default 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. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- 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. The definition of default largely aligns with that applied by the Group for regulatory disclosure purposes.

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 specified period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is made on a case by case basis and depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant decrease in credit risk.

The Group's internal rating and PD estimation process

The Group's independent Credit Risk Department operates its internal rating methodology. The Group rates its customers based on both qualitative and quantitative information and, in addition to information specific to the borrower, based on supplemental external information that could affect the borrower's behavior. The ratings are mapped to PDs using historical default observations that are specific to each loan portfolio. Each exposure is allocated to a credit risk rating on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. Following the issuance on 3 February 2020 of BDL Intermediate Circulars 543, the expected credit losses on exposures in foreign currency to the Lebanese sovereign and Central Bank of Lebanon as at 31 December 2019 are subject to maximum levels of 9.45% and 1.89% respectively, and those in Lebanese Pounds are subject to maximum level of 0%.

Exposure at default (EAD)

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

Loss given default (LGD)

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, external benchmark information is used to supplement the internally available data.

Significant increase in credit risk (SICR)

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, 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.

3. Financial Statements

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward Looking Information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group formulates three economic scenarios: a base case, which is the median scenario and two less likely scenarios, one upside and one downside.

The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The forecast of these three scenarios including the weight attributable to each scenario are determined by an expert credit judgement. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

The Group has identified the real GDP growth among other, as the key driver of ECL. The environment in Lebanon is subject to rapid change due to the effects of the economic crisis and uncertainties disclosed in Note 1. Forecasts and scenarios are based on the best available information at the reporting date, combined with expert judgment. It is not practical at this time to determine and provide sensitivity analysis that is reasonably possible.

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

Forbearance is when the Group renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This 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. Generally, forbearance is a qualitative indicator of a significant increase in credit risk.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case by case basis.

Financial Assets and ECLs by stage

| | Gross Exposure | | | | Impairment Allowance | | | | Net Exposure |
|--|------------------|----------------|----------------|------------------|----------------------|-----------------|------------------|------------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| 31 December 2019 | | | | | | | | | |
| Cash and balances with Central Bank of Lebanon | 1,894,340 | - | - | 1,894,340 | (27,395) | - | - | (27,395) | 1,866,945 |
| Due from banks and financial Institutions | 113,496 | - | - | 113,496 | (1,660) | - | - | (1,660) | 111,836 |
| Loans and advances to customers | 983,045 | 187,045 | 196,066 | 1,366,156 | (25,357) | (13,701) | (104,995) | (144,053) | 1,222,103 |
| Financial assets at amortized cost | 500,777 | 292,931 | - | 793,708 | (299) | (27,682) | - | (27,981) | 765,727 |
| Financial guarantees and other Commitments | 59,146 | 21,869 | - | 81,015 | (319) | (1,012) | - | (1,331) | 79,684 |
| | 3,550,804 | 501,845 | 196,066 | 4,248,715 | (55,030) | (42,395) | (104,995) | (202,420) | 4,046,295 |

Annual Report
2019

| | Gross Exposure | | | | Impairment Allowance | | | | Net |
|--|------------------|----------------|----------------|------------------|----------------------|----------------|-----------------|------------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | Exposure |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| 31 December 2018 | | | | | | | | | |
| Cash and balances with Central Bank of Lebanon | 2,344,871 | - | - | 2,344,871 | (7,879) | - | - | (7,879) | 2,336,992 |
| Due from banks and financial Institutions | 160,917 | - | - | 160,917 | (360) | - | - | (360) | 160,557 |
| Loans and advances to customers | 1,141,370 | 157,636 | 137,331 | 1,436,337 | (5,730) | (4,011) | (88,519) | (98,260) | 1,338,077 |
| Financial assets at amortized cost | 782,874 | - | - | 782,874 | (5,328) | - | - | (5,328) | 777,546 |
| Financial guarantees and other Commitments | 121,022 | 19,716 | - | 140,738 | (200) | (1,827) | - | (2,027) | 138,711 |
| | 4,551,054 | 177,352 | 137,331 | 4,865,737 | (19,497) | (5,838) | (88,519) | (113,854) | 4,751,883 |

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at 1 January 2019 | 5,730 | 4,011 | 88,519 | 98,260 |
| Net re-measurements and reallocations | 19,627 | 9,690 | 4,597 | 33,914 |
| Write offs | - | - | (1,331) | (1,331) |
| Interest in suspense | - | - | 13,210 | 13,210 |
| Balance at 31 December 2019 | 25,357 | 13,701 | 104,995 | 144,053 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | LBP Million | LBP Million | LBP Million | LBP Million |
| Balance at 1 January 2018 | 4,149 | 4,858 | 80,079 | 89,086 |
| Net re-measurements and reallocations | 1,581 | (847) | 2,670 | 3,404 |
| Write offs | - | - | (662) | (662) |
| Interest in suspense | - | - | 6,432 | 6,432 |
| Balance at 31 December 2018 | 5,730 | 4,011 | 88,519 | 98,260 |

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.

The allowance for impairment includes interest in suspense on non-performing loans in the amount of LBP 86 billion as of 31 December 2019 (LBP 72 billion as of 31 December 2018).

Analysis of risk concentrations

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The Group focuses its lending activity to the Lebanese sector with very limited exposure to countries outside of Lebanon.

The maximum on balance sheet credit exposure to any client (or group of clients) or counterparty as of 31 December 2019 was LBP 99.53 billion (2018: LBP 88.76 billion), before taking into account collaterals or other credit enhancements, and LBP 0 billion (2018: LBP 7.36 billion) net of such protection.

3. Financial Statements

Geographical location analysis (where applicable, Lebanon and Foreign)

The Group controls credit risk by maintaining close monitoring credit of its asset exposures by geographic location. The distribution of financial assets by geographic region as of 31 December 2019 and 2018 is as follows:

| | 31 December 2018 | | | 31 December 2019 | | |
|--|------------------|----------------|------------------|------------------|----------------|------------------|
| | Lebanon | Overseas | Total | Lebanon | Overseas | Total |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Cash and balances with Central Bank of Lebanon | 2,336,992 | - | 2,336,992 | 1,866,945 | - | 1,866,945 |
| Due from banks and financial institutions | 33,709 | 126,848 | 160,557 | 83,974 | 27,862 | 111,836 |
| Loans and advances to customers | 1,256,790 | 81,287 | 1,338,077 | 1,016,305 | 205,798 | 1,222,103 |
| Financial assets at amortized cost | 777,546 | - | 777,546 | 765,727 | - | 765,727 |
| Debtors by acceptances | 583 | 26,393 | 26,976 | 59,995 | - | 59,995 |
| Total | 4,405,620 | 234,528 | 4,640,148 | 3,792,946 | 233,660 | 4,026,606 |

Industrial Analysis

The Group controls credit risk by maintaining close monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as of December 31, 2019 and 2018 is as follows:

| | 31 December 2019 | | | | | | | | |
|--|------------------|----------------|-------------------|-------------------------------------|-------------------------------------|--------------------------|--------------------------------|----------------|------------------|
| | Sovereign | Consumer loans | Financial service | Real Estate Development and Trading | Consumer Goods Trading and Services | Manufacturing Industries | Recreation and Health Services | Other | Total |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Cash and balances with Central Bank of Lebanon | 1,866,945 | - | - | - | - | - | - | - | 1,866,945 |
| Due from banks and financial institutions | - | - | 111,836 | - | - | - | - | - | 111,836 |
| Loans and advances to customers | - | 113,282 | 119,125 | 441,000 | 303,558 | 134,745 | 100,568 | 9,825 | 1,222,103 |
| Financial assets at amortized cost | 763,466 | - | 2,261 | - | - | - | - | - | 765,727 |
| Debtors under acceptances | - | - | - | - | 59,806 | 189 | - | - | 59,995 |
| Total | 2,630,411 | 113,282 | 233,222 | 441,000 | 363,364 | 134,934 | 100,568 | 9,825 | 4,026,606 |

| | 31 December 2018 | | | | | | | | |
|--|------------------|----------------|-------------------|-------------------------------------|-------------------------------------|--------------------------|--------------------------------|----------------|------------------|
| | Sovereign | Consumer loans | Financial service | Real Estate Development and Trading | Consumer Goods Trading and Services | Manufacturing Industries | Recreation and Health Services | Other | Total |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Cash and balances with Central Bank of Lebanon | 2,336,992 | - | - | - | - | - | - | - | 2,336,992 |
| Due from banks and financial institutions | - | - | 160,557 | - | - | - | - | - | 160,557 |
| Loans and advances to customers | - | 89,513 | 126,947 | 423,574 | 298,457 | 152,501 | 107,153 | 139,932 | 1,338,077 |
| Financial assets at amortized cost | 775,292 | - | 2,254 | - | - | - | - | - | 777,546 |
| Debtors under acceptances | - | 313 | - | 143 | 26,393 | - | - | 127 | 26,976 |
| Total | 3,112,284 | 89,826 | 289,758 | 423,717 | 324,850 | 152,501 | 107,153 | 140,059 | 4,640,148 |

**Annual Report
2019**

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.

Below are the details of the Group's gross exposure to credit risk with respect to loans and advances to customers (excluding accrued interest receivable):

| 31 December 2019 | | | | |
|-----------------------------------|------------------|-----------------|----------------------|----------------|
| Fair Value of Collateral Received | | | | |
| | Gross Exposure | Cash Collateral | Mortgage of Property | Total |
| | LBP Million | LBP Million | LBP Million | LBP Million |
| Corporate and SME | 815,996 | 85,155 | 244,567 | 329,722 |
| Factoring facilities | 218,104 | - | - | - |
| Retail and Personal | 116,127 | 20,228 | 74,574 | 94,802 |
| Credit impaired | 198,339 | 14 | 56,790 | 56,804 |
| | 1,348,566 | 105,397 | 375,931 | 481,328 |

| 31 December 2018 | | | | |
|-----------------------------------|------------------|-----------------|----------------------|----------------|
| Fair Value of Collateral Received | | | | |
| | Gross Exposure | Cash Collateral | Mortgage of Property | Total |
| | LBP Million | LBP Million | LBP Million | LBP Million |
| Corporate and SME | 937,260 | 93,648 | 257,893 | 351,541 |
| Factoring facilities | 226,494 | - | - | - |
| Retail and Personal | 131,739 | 23,320 | 74,614 | 97,934 |
| Credit impaired | 139,451 | 330 | 19,661 | 19,991 |
| | 1,434,944 | 117,298 | 352,168 | 469,466 |

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. The Group recognizes that its ability to meet its liquidity requirements may come under increasing pressure under the deteriorating operating environment.

The Group manages the liquidity risk through a well-defined policy and procedure set by the Assets and Liabilities Management Committee (ALCO). The objective is to monitor the maturity profile of the Group's financial assets and liabilities and enable management to ensure that the liquidity ratio is in compliance with the required limit set by the regulatory authorities. Management follows up on liquidity by reviewing, on a weekly basis, the amount of obligatory reserve and the expected liquidity situation for the week. Moreover, on a monthly basis the liquidity ratio is calculated in accordance with Circular No. 236 of the Banking Control Commission and No. 72 of Central Bank of Lebanon.

3. Financial Statements

Monitoring process

Daily

Due to the economic crisis, management focused its monitoring efforts on cash flows and highly liquid assets, because those will ensure the uninterrupted operation of the Group's activities. On a daily basis, the Group Market Risk Management monitors the liquidity balances in LBP and FCY with BDL and with local and international banks. The movement of deposits is also monitored on a daily basis and any significant variations are investigated and forwarded to ALCO or to the relevant parties. Also, Group's Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly

ALCO meets on a weekly basis and reviews reports prepared by Finance, Treasury departments and when relevant by Risk Management. Treasury prepares a weekly report of expected outflows for the current period.

The Board of Directors is informed through the Board Risk Committee of compliance with internal and regulatory liquidity ratios on at least a quarterly basis, through financial dashboards and the Risk Appetite report.

The reports disclose several risk indicators, such as but not limited to:

- Deposits maturities in each currency
- Maturity mismatch in each currency
- Concentration in single name depositors (at a client group level)
- Outflows and inflows of deposits over the period
- The variation of funding by depositors through the LTD ratio

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.

The Group maintains a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Group must retain obligatory reserves with the Central Bank of Lebanon.

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 liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by Risk Management Department and reported on a quarterly basis. Liquid assets are defined as cash, interbank deposits maturing within thirty days and debt and equity securities at discounts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next twelve months.

Sources of funding:

Customer deposits were the main funding source of the Group as at 31 December 2019 and 2018. 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 source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of client's deposits.

Loans to Deposits

| | 2018 | 2019 |
|----------|-------|-------|
| Year-end | 39.1% | 35.1% |
| Maximum | 40.8% | 39.2% |
| Minimum | 38.2% | 35.1% |
| Average | 39.3% | 37.6% |

**Annual Report
2019**

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

31 December 2019

| | Up to 3 months | 3 months to 1 year | 1 to 5 year | Over 5 years | Total |
|---|---------------------------|-------------------------------|------------------------|-------------------------|------------------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Due to Central Bank of Lebanon | 19,667 | 52,763 | 160,362 | 213,026 | 445,818 |
| Due to banks and financial institutions | 69,286 | - | - | - | 69,286 |
| Deposits from customers and related parties | 2,272,475 | 750,284 | 198,102 | - | 3,220,861 |
| Engagements by acceptances | 382 | 59,613 | - | - | 59,995 |
| Lease liabilities | 4,660 | 4,121 | 21,154 | 4,477 | 34,412 |
| | 2,366,470 | 866,781 | 379,618 | 217,503 | 3,830,372 |

FINANCIAL LIABILITIES

31 December 2018

| | Up to 3 months | 3 months to 1 year | 1 to 5 year | Over 5 years | Total |
|---|---------------------------|-------------------------------|------------------------|-------------------------|------------------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| Due to Central Bank of Lebanon | 26,562 | 255 | 139,894 | 843,733 | 1,010,444 |
| Due to banks and financial institutions | 48,663 | - | - | - | 48,663 |
| Deposits from customers and related parties | 1,884,246 | 1,098,268 | 310,442 | - | 3,292,956 |
| Engagements by acceptances | - | - | 26,976 | - | 26,976 |
| | 1,959,471 | 1,098,523 | 477,312 | 843,733 | 4,379,039 |

FINANCIAL LIABILITIES

C. Market Risk

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

The non-availability of assets for trading in the banking book renders the market risk limited to the foreign exchange risk and interest rate risk. The Group covers the exchange risk that might affect its financial position and its profitability. In this respect, the exchange position limits are set and authorized by the ALCO.

Currency risk:

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound (mainly in USD). As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official exchange rate, and due to the high volatility and the significant variance in exchange rates between the multiple markets, management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the change in the official exchange rate is implemented by the Lebanese Government.

3. Financial Statements

Below is the carrying value of the assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end. Impairment allowances are reflected in the table below in the currency in which they were recorded, which might differ from the original currency of the impaired asset.

| | 31 December 2019 | | | | |
|---|------------------|------------------|----------------|----------------|------------------|
| | LBP | USD | EUR | Other | Total |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| ASSETS | | | | | |
| Cash and balances with Central Bank of Lebanon | 349,301 | 1,468,401 | 46,139 | 3,104 | 1,866,945 |
| Due from banks and financial institutions | 57,876 | 45,740 | 4,020 | 4,200 | 111,836 |
| Financial assets at fair value through profit or loss | - | 3,391 | - | - | 3,391 |
| Loans and advances to customers | 183,204 | 972,455 | 52,469 | 13,975 | 1,222,103 |
| Financial assets at amortized cost | 454,784 | 310,943 | - | - | 765,727 |
| Financial assets at fair value through other comprehensive income | 5,723 | 73 | 47 | - | 5,843 |
| Debtors by acceptances | - | 59,613 | 382 | - | 59,995 |
| Investments in subsidiaries and associate | - | 11,720 | - | - | 11,720 |
| Assets acquired in settlement of loans | 820 | 48,896 | - | - | 49,716 |
| Property and equipment | 71,997 | 831 | - | - | 72,828 |
| Right- of- use assets | - | 30,278 | - | - | 30,278 |
| Goodwill and intangible assets | 12,225 | - | - | - | 12,225 |
| Other assets | 7,809 | 10,020 | - | - | 17,829 |
| Deferred tax asset | 82 | - | - | - | 82 |
| | 1,143,821 | 2,962,361 | 103,057 | 21,279 | 4,230,518 |
| LIABILITIES | | | | | |
| Due to Central Bank of Lebanon | 375,706 | 69,963 | 149 | - | 445,818 |
| Due to banks and financial institutions | 13,890 | 51,400 | 3,996 | - | 69,286 |
| Deposits from customers and related parties | 495,425 | 2,601,776 | 100,690 | 22,970 | 3,220,861 |
| Engagements by acceptances | - | 59,613 | 382 | - | 59,995 |
| Other liabilities | 38,672 | 13,155 | 76 | 43 | 51,946 |
| Lease liabilities | - | 29,099 | - | - | 29,099 |
| | 923,693 | 2,825,006 | 105,293 | 23,013 | 3,877,005 |
| Equity | 55,295 | 298,218 | - | - | 353,513 |
| Net exchange position | 164,833 | (160,863) | (2,236) | (1,734) | - |

**Annual Report
2019**

31 December 2018

| | LBP | USD | EUR | Other | Total |
|---|------------------|------------------|----------------|----------------|------------------|
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| ASSETS | | | | | |
| Cash and balances with Central Bank of Lebanon | 1,060,902 | 1,217,303 | 58,188 | 599 | 2,336,992 |
| Due from banks and financial institutions | 2,826 | 133,371 | 15,673 | 8,687 | 160,557 |
| Financial assets at fair value through profit or loss | - | 2,958 | - | - | 2,958 |
| Loans and advances to customers | 212,617 | 1,052,366 | 57,276 | 15,818 | 1,338,077 |
| Financial assets at amortized cost | 471,144 | 306,402 | - | - | 777,546 |
| Financial assets at fair value through other comprehensive income | 5,307 | 48 | - | - | 5,355 |
| Debtors by acceptances | - | 26,476 | 500 | - | 26,976 |
| Investments in an associate | - | 12,191 | - | - | 12,191 |
| Assets acquired in settlement of loans | 900 | 43,026 | - | - | 43,926 |
| Property and equipment | 71,685 | 40 | - | - | 71,725 |
| Goodwill and intangible assets | 16,756 | - | - | - | 16,756 |
| Other assets | 12,939 | 3,007 | - | - | 15,946 |
| | 1,855,076 | 2,797,188 | 131,637 | 25,104 | 4,809,005 |
| LIABILITIES | | | | | |
| Due to Central Bank of Lebanon | 1,005,259 | 5,185 | - | - | 1,010,444 |
| Due to banks and financial institutions | 10,015 | 2,275 | 34,911 | 1,462 | 48,663 |
| Deposits from customers and related parties | 543,781 | 2,631,533 | 95,457 | 22,185 | 3,292,956 |
| Engagements by acceptances | - | 26,476 | 500 | - | 26,976 |
| Other liabilities | 43,258 | 29,353 | - | 1,201 | 73,812 |
| | 1,602,313 | 2,694,822 | 130,868 | 24,848 | 4,452,851 |
| Equity | 118,236 | 237,918 | - | - | 356,154 |
| Net exchange position | 134,527 | (135,552) | 769 | 256 | - |

Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in interest rates on its financial position and cash flows. Interest rate risk arises as a result of mismatches or gaps in the amounts of assets and liabilities that mature or are subject to interest rate change on a given date. The Group manages this risk by monitoring the effect of the changes in interest rates on interest earning assets and liabilities.

3. Financial Statements

Below is the distribution of major financial assets and liabilities by re-pricing time bands:

| 31 December 2019 | | | | | | |
|---|----------------------|--------------------|----------------|------------------|------------------------|------------------|
| | Non-Interest Bearing | Up to 1 year | 1 to 5 years | Over 5 years | Total Interest Bearing | Grand Total |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| FINANCIAL ASSETS | | | | | | |
| Cash and balances with Central Bank of Lebanon | 81,911 | 554,228 | 57,023 | 1,173,783 | 1,785,034 | 1,866,945 |
| Due from banks and financial institutions | 47,117 | 64,719 | - | - | 64,719 | 111,836 |
| Financial assets at fair value through profit or loss | 3,391 | - | - | - | - | 3,391 |
| Loans and advances to customers | 127,546 | 691,195 | 238,073 | 165,289 | 1,094,557 | 1,222,103 |
| Financial assets at amortized cost | - | 639 | 254,500 | 510,588 | 765,727 | 765,727 |
| Financial assets at fair value through other comprehensive income | 5,843 | - | - | - | - | 5,843 |
| Debtors by acceptances | - | 59,995 | - | - | 59,995 | 59,995 |
| | 265,808 | 1,370,776 | 549,596 | 1,849,660 | 3,770,032 | 4,035,840 |
| FINANCIAL LIABILITIES | | | | | | |
| Due to Central Bank of Lebanon | 19,667 | 52,763 | 160,362 | 213,026 | 426,151 | 445,818 |
| Due to banks and financial institutions | - | 69,286 | - | - | 69,286 | 69,286 |
| Deposits from customers and related parties | 523,332 | 2,499,427 | 198,102 | - | 2,697,529 | 3,220,861 |
| Engagements by acceptances | - | 59,995 | - | - | 59,995 | 59,995 |
| Lease liabilities | - | 8,781 | 21,154 | 4,477 | 34,412 | 34,412 |
| | 542,999 | 2,690,252 | 379,618 | 217,503 | 3,287,373 | 3,830,372 |
| Net Gap Position | (277,191) | (1,319,476) | 169,978 | 1,632,157 | 482,659 | 205,468 |

| 31 December 2018 | | | | | | |
|---|----------------------|--------------------|----------------|------------------|------------------------|------------------|
| | Non-Interest Bearing | Up to 1 year | 1 to 5 years | Over 5 years | Total Interest Bearing | Grand Total |
| | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million |
| FINANCIAL ASSETS | | | | | | |
| Cash and balances with Central Bank of Lebanon | 61,943 | 413,885 | 25,522 | 1,835,642 | 2,275,049 | 2,336,992 |
| Due from banks and financial institutions | 119,862 | 40,695 | - | - | 40,695 | 160,557 |
| Financial assets at fair value through profit or loss | 2,958 | - | - | - | - | 2,958 |
| Loans and advances to customers | 36,797 | 882,102 | 256,632 | 162,546 | 1,301,280 | 1,338,077 |
| Financial assets at amortized cost | (5,328) | 6,612 | 215,986 | 560,276 | 782,874 | 777,546 |
| Financial assets at fair value through other comprehensive income | 5,355 | - | - | - | - | 5,355 |
| Debtors by acceptances | - | - | 582 | 26,394 | 26,976 | 26,976 |
| | 221,587 | 1,343,294 | 498,722 | 2,584,858 | 4,426,874 | 4,648,461 |
| FINANCIAL LIABILITIES | | | | | | |
| Due to Central Bank of Lebanon | 25,115 | 1,702 | 139,894 | 843,733 | 985,329 | 1,010,444 |
| Due to banks and financial institutions | - | 48,663 | - | - | 48,663 | 48,663 |
| Deposits from customers and related parties | 211,171 | 2,771,343 | 310,442 | - | 3,081,785 | 3,292,956 |
| Engagements by acceptances | - | - | 582 | 26,394 | 26,976 | 26,976 |
| | 236,286 | 2,821,708 | 450,918 | 870,127 | 4,142,753 | 4,379,039 |
| Net Gap Position | (14,699) | (1,478,414) | 47,804 | 1,714,731 | 284,121 | 269,422 |

Interest Rate Sensitivity

The table below shows the sensitivity of interest income to reasonably possible parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the prolonged nature of the economic crisis and the high levels of uncertainty the Group expects lower interest rates during 2020. However, the Group is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through Intermediate Circulars 536 and 544 (refer to Note 1). In addition, during 2020, ABL recommended all Lebanese banks to decrease the interest rates on both assets (loans) and liabilities (deposits). This was followed by a decision by ABL to cap the rates to BRR + 2 until the end of 2020. As a result, all interest rates on deposits across Lebanese banks were virtually the same, eliminating the competition. This means that the below exercise for the year 2020 is only indicative. 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 behavior. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

| | Change in Basis Points | Sensitivity of Net Interest Income | |
|-----|---------------------------|------------------------------------|-------------------------|
| | | 2018 | 2019 |
| | | LBP Million Decrease | LBP Million Decrease |
| LBP | ± 100 | 11,210 | 5,458 |
| FCY | ± 50 | 7,268 | 6,060 |
| FCY | ± 25 | 3,634 | 3,030 |

45- FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows fair values of financial assets carried at fair value recognized in the consolidated financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are not measured at fair value.

| | 31 December 2019 | | | | | Valuation techniques and key inputs |
|---|--------------------|----------------|----------------|----------------|----------------|--|
| | Carrying Amount | Fair Value | | | Total | |
| | | Level 1 | Level 2 | Level 3 | | |
| LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | |
| Financial assets at fair value through profit or loss | | | | | | |
| Funds- Unlisted | 3,391 | - | - | 3,391 | 3,391 | Unadjusted net asset value |
| Financial assets that are measured at fair value through other comprehensive income: | | | | | | |
| Unquoted equity securities | 5,843 | - | - | 5,843 | 5,843 | Unadjusted net book value |

3. Financial Statements

| | 31 December 2018 | | | | | Valuation techniques and key inputs |
|---|------------------|-------------|-------------|-------------|-------------|-------------------------------------|
| | Carrying Amount | Fair Value | | | Total | |
| | | Level 1 | Level 2 | Level 3 | | |
| LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | LBP Million | |
| Financial assets at fair value through profit or loss | | | | | | |
| Funds- Unlisted | 2,958 | - | - | 2,958 | 2,958 | Unadjusted net asset value |
| Financial assets that are measured at fair value through other comprehensive income: | | | | | | |
| Unquoted equity securities | 5,355 | - | - | 5,355 | 5,355 | Unadjusted net book value |

There have been no transfers between Level 1, Level 2 and Level 3 during the year.

Funds and Equity Shares and Non-listed Entities

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-part information (NAV or financial statements of non-listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93(d). The movement of major items categorized within Level 3 is disclosed in Note 10.

Financial assets and liabilities not carried at fair value:

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, 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, credit spreads. Due to the situation described in note 1 and the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities.

46- 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 and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it. 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 the increased risk and considers that it is unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

47- 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 prospect.

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 neighboring countries and/or other overseas areas.

Given the above, the Group recognizes that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which will result in significant impact on Group's activities, operating results and position.

48- SUBSEQUENT EVENTS

In addition to events explained in Note 1, Lebanon was also affected by the COVID-19 pandemic, which has and continues to have, a material impact on businesses around the world and the economic environment in which they operate. It has caused disruption to businesses and economic activities and increased 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 Group, similar to many entities for which the operating environment is in Lebanon, the impact of COVID-19 cannot be isolated and assessed independently from the economic crisis that the country is witnessing, which is described in Note 1.

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 Group's head offices situated within the area were badly hit and 2 branches were completely damaged. Nevertheless, the Group was operational and opened to its customers on 6 August and the head offices were accessible to the employees as of 10 August. Losses are still being assessed at the date of the authorization of issuance of the consolidated financial statements.

Major businesses were heavily impacted by the blast which will add up, on top of the pandemic, 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 described in Note 1, may be subject to further uncertainty and volatility as a result of COVID-19 pandemic and related containment measures as well as the adverse effects of the explosion. More adverse economic scenarios and macro-economic variables, with higher probabilities than as at 31 December 2019 will be considered for Expected Credit Losses financial impact in the first half of 2020.

It remains unclear how this will evolve through 2020 and thereafter, and the Group continues to monitor the situation closely. Any and all such events mentioned above will add up to the already material adverse prospects on the Group's business, financial condition, results of operations, prospects, liquidity, capital position which are disclosed in Note 1.

49- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 15 September 2020.

4

DIRECTORY

4.1

Correspondent Banks

4.2

Addresses

4.1

CORRESPONDENT BANKS 2019

| CURRENCY | CORRESPONDENT BANK | CITY | COUNTRY |
|-----------------|--|-------------|----------------------|
| AED | STANDARD CHARTERED BANK | DUBAI | UNITED ARAB EMIRATES |
| AUD | STANDARD CHARTERED BANK | LONDON | UNITED KINGDOM |
| CAD | BANK OF MONTREAL | TORONTO | CANADA |
| CHF | STANDARD CHARTERED BANK | LONDON | UNITED KINGDOM |
| CNY | STANDARD CHARTERED BANK (CHINA) | SHANGHAI | CHINA |
| EUR | AL KHALIJI FRANCE S.A. | PARIS | FRANCE |
| EUR | BANCO DE SABADELL S.A. | SABADELL | SPAIN |
| EUR | COMMERZBANK AG | FRANKFURT | GERMANY |
| EUR | INTESA SANPAOLO SPA | MILANO | ITALY |
| EUR | J.P. MORGAN AG | FRANKFURT | GERMANY |
| EUR | STANDARD CHARTERED BANK AG | FRANKFURT | GERMANY |
| GBP | JPMORGAN CHASE BANK NATIONAL ASSOCIATION | LONDON | UNITED KINGDOM |
| GBP | STANDARD CHARTERED BANK | LONDON | UNITED KINGDOM |
| JOD | ARAB BANK PLC | AMMAN | JORDAN |
| JPY | STANDARD CHARTERED BANK | TOKYO | JAPAN |
| KWD | NATIONAL BANK OF KUWAIT S.A.K.P. | KUWAIT CITY | KUWAIT |
| QAR | DUKHAN BANK (PREVIOUSLY BARWA BANK) | DOHA | QATAR |
| USD | JPMORGAN CHASE BANK NATIONAL ASSOCIATION | NEW YORK | UNITED STATES |
| USD | STANDARD CHARTERED BANK | NEW YORK | UNITED STATES |

CUSTODIANS 2019

UBP
CREDIT SUISSE
MIDCLEAR

4.2

ADDRESSES

HEAD OFFICE

Saradar Building, Charles Malek Avenue,
Ashrafieh
Phone: +961 1 339 000
Fax: +961 1 339 000

1. Ashrafieh - Charles Malek

Main Branch/Smart ATM
Senior Manager: Rania Tamraz
Saradar Building, Charles Malek Avenue
Phone & Fax: +961 1 214 604
Monday - Friday 8:30am - 12:30p.m

2. S17 New Branch Format/Smart ATM

Sodeco 1 Building, Sodeco Street
Phone: +961 1 214 617
Fax: +961 1 214 604

3. Verdun Branch/Smart ATM

Manager: Ghada Arabi
Verdun Heights, Rashid Karamah Street
Phone & Fax: +961 1 800 998
Monday - Friday 8:30am - 12:30p.m

4. Dora Branch/Smart ATM

Manager: Gloria Saade
Cebaco Center, Block B, Dora Highway
Phone & Fax: +961 1 269 950
Monday - Friday 8:30am - 12:30p.m

5. Jounieh Branch/Smart ATM

Manager: Lara Achkar Salameh
La Cité Center, Block A, Jounieh
Phone: +961 9 830 219
Fax: +961 9 830 218
Monday - Friday 8:30am - 12:30p.m

6. Rabieh Branch/Smart ATM

Manager: Gilbert Bounader
Square Center, Rabieh Main Road
Phone & Fax: +961 4 525 968
Phone 2: +961 81 725 999
Monday - Friday 8:30am - 12:30p.m

7. Sin El Fil Branch/Smart ATM

Manager: Milad Mitri
Sin El Fil Boulevard, Horsh Tabet
Phone & Fax: +961 1 482 950
Monday - Friday 8:30am - 12:30p.m

8. Tripoli Branch/Smart ATM

Manager: Nadine Khadij
Nahas Building, El Tall, Muhamad El Jisr Street
Phone & Fax: +961 6 409 712
Monday - Friday 8:30am - 12:30p.m

Offsite ATMS

Ashrafieh/Smart ATM

Saint Charbel Bldg, Saint Louis Street
24/7

Hamra/Smart ATM

1866 Court & Suites, Bliss Street
24/7

Baabda/Smart ATM

Total Station,
Damascus International Highway,
after the Military Academy
24/7

Beit Mery/Smart ATM

Al Bustan Hotel, Beit Mery Main Road
24/7

Dbayeh/Smart ATM

Zeidan 867 Center, Le Royal Hotel bridge
24/7

Jal El-Dib

Abou Jaoudeh Building, Main Road
24/7

Jdeideh

Developers Tower Center, New Jdeideh Street
24/7

Kaslik/Smart ATM

ATCL, Jounieh
24/7

Kfardebian/Smart ATM

Le Montagnou, Oyouun El Siman
24/7

Okaibeh

Chalfoun Center, Nahr Ibrahim
24/7

Zouk/Smart ATM

Town Center, Zouk Mosbeh Main Road
24/7

Saida/Smart ATM

Al Saiid Center, Housam Hariri Street
24/7

SARADARBANK.COM
