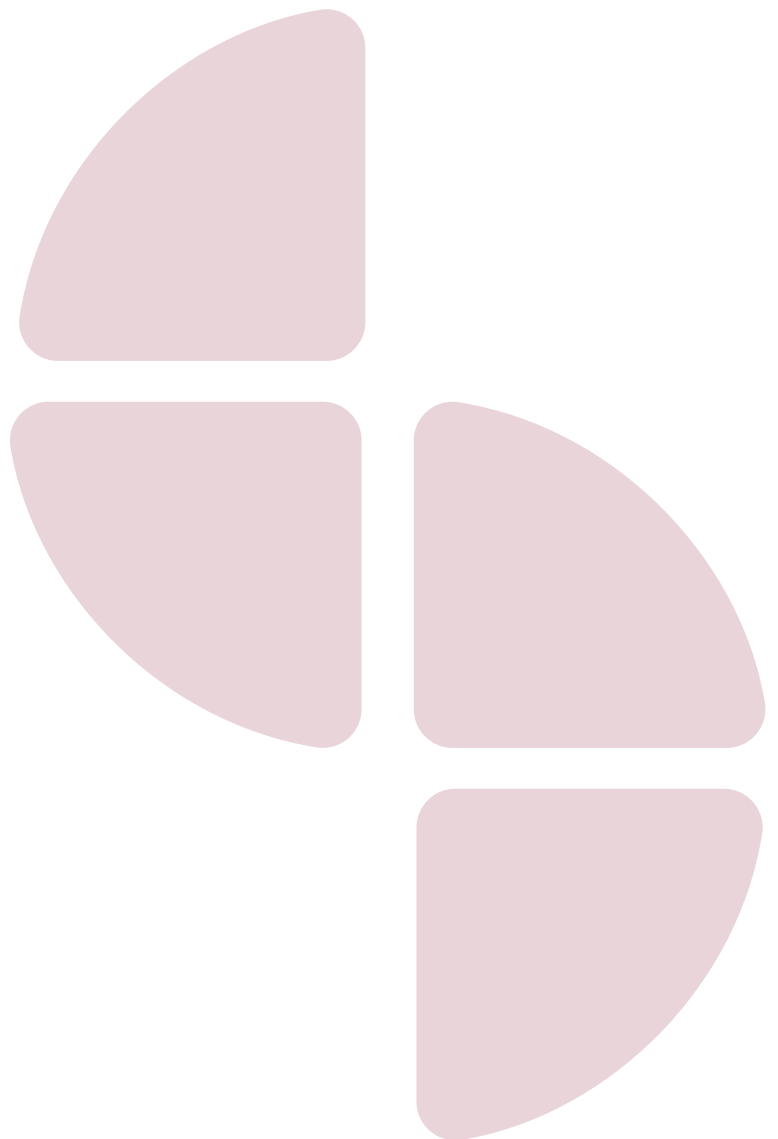


# ANNUAL REPORT 2021





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# SECTION 1

## **CHAIRMAN STATEMENT**

## 1.1 | CHAIRMAN STATEMENT



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

We are still facing many challenges during this complex period. The ongoing systemic crisis in Lebanon has worsened in 2021, characterized by an economic and financial collapse, political instability, unprecedented currency devaluation, governance challenges and hyperinflation among others. The effects on our country have been devastating. The World Bank ranked the Lebanese crisis to be “in the top three most severe crises episodes globally since the mid-nineteenth century.”

In the absence of any government action in terms of implementing a global reform plan and adopting necessary measures – mainly a capital control law – the banking sector remains under huge pressure and finds itself compelled to apply restrictive measures on withdrawals and transfers abroad. This situation has severely undermined the relationship between the Banks and their customers and exposes all banks to litigation risks in Lebanon and abroad. In such turbulent times, Saradar Bank has acted with utmost attention to ethics and best practices, applying the highest standards of corporate governance, and making sure that all regulatory requirements are met. We have maintained a continuous dialogue with our clients, committed to serving them in the best way possible during this difficult period.

We also continued to implement in 2021 our crisis-management-strategy as per our roadmap focusing on the following areas:

- Pursuing the de-risking strategy by reducing the loans' portfolio and ensuring a proper coverage in Expected Credit Losses and in provisions for both the performing and non-performing loans;
- Maintaining adequate buffers on the capital adequacy ratios and meeting all regulatory requirements issued by BDL in the multitude of basic and intermediary circulars;
- Reducing our physical footprint and cost-base while enhancing our digital offering;
- Managing the short and long-term liquidity especially in 'fresh' foreign currencies;
- Monitoring on a day-to-day basis the customers' needs in banknotes in Lebanese pounds which became another major issue in the market.

Given these persisting and deepening uncertainties, with the multitude of exchange rates and the hyperinflation, and until a national recovery plan is established, it remains difficult for management to reasonably estimate the adverse and potentially material impact of this situation on the Bank's financial position and equity as per IFRS.

As such, and based on the official exchange rate of 1 USD = 1507.5 LBP, as published by the Central Bank of Lebanon, total consolidated assets decreased by 174 USD million in 2021 to reach USD 2,041 million, a contraction of around 8%. The latter related mainly to the reduction in the lending portfolio. The net performing loans reached USD 229 million as at 31 December 2021, down from USD 406 million as at 31 December 2020. This decrease is due to the active settlement of facilities while maintaining an adequate risk coverage in terms of Expected Credit Losses. On the liabilities side, the Bank continued abiding by the directives of the Central Bank for the withdrawals of deposits in foreign currencies. Therefore, total deposits were reduced by around 8%, going from USD 1,891 million to USD 1,732



million over 2021. The consolidated equity remained relatively stable around USD 123 million and capital adequacy ratios above the regulatory requirements of BDL (CET1: 6.54%, Tier 1: 8.78% and total CAR: 9.76%).

On the profitability level, Saradar Bank registered a consolidated net loss of USD 380,000 in 2021, against an all-time high loss of USD 115 million in 2020. The latter was essentially linked to the provisioning charges as well as the high cost that the Bank paid in 2020 in anticipation for meeting its liquidity needs.

For a few years now, Saradar Bank has focused on developing its digital strategy. We were a precursor in the digital transformation, which has allowed us to serve our customers during crises such as the 2019 uprising and Covid-19 pandemic. The Bank has relied and will continue to rely more and more on its digital offer. We strongly believe that in the near future digital platforms will become the main banking channel in our country.

Lebanon's economy will only be revived if strong political and economic leadership are re-established and substantial reforms are implemented. Negotiations with the IMF will hopefully lead to a clear plan for the coming years and to more visibility for the banking sector. We look forward for better days, and I am confident that Lebanon will rise again, playing a pivotal role in the region.

I would like to thank our shareholders and Board Members for their clear guidance and support. I am deeply grateful for the exceptional dedication and commitment of our talented teams. I would like to thank our customers for their patience and understanding.

**MARIO SARADAR**  
Chairman and Chief Executive Officer



# SECTION 2

# CORPORATE GOVERNANCE

- 2.1 Corporate Governance Landscape
- 2.2 Ownership Breakdown
- 2.3 Composition of the Board of Directors
- 2.4 Board Biographies
- 2.5 Board Committees
- 2.6 High Level Structure
- 2.7 Remuneration Policy
- 2.8 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.

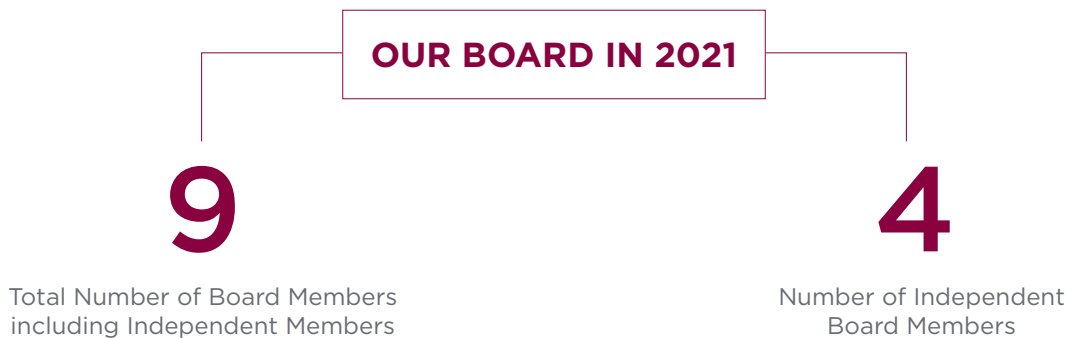
Our systems, processes, and policies are aligned with industry-leading standards to ensure full compliance with laws and regulations. We continuously monitor

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.



Committees of the Board and Number of Meetings				
<b>6</b> Full Board	<b>6</b> Remuneration, Nomination and Corporate Governance Committee	<b>2</b> AML/CFT Committee	<b>5</b> Audit Committee	<b>7</b> Risk Committee



## 2.2 | OWNERSHIP BREAKDOWN

The Bank's shareholders include local and international visionaries with a proven track record of excellence and innovation in multiple industries.

### SHAREHOLDERS

SARADAR PARTNERS		38.45%
STÉ AL BUSTANIA SAL		12.07%
WIEDERKEHR GROUP HOLDING SAL		12.62%
SHAMMAS ECONOMIC INSTITUTE SAL		12.04%
SAIFI INVEST HOLDING SAL		11.32%
CARLOS GHOSN		4.58%
BEATRICE WIEDERKEHR		2.38%
MYRNA BUSTANI		2.03%
JAMIL EL-KHAZEN		1.96%
LAURA EL-KHAZEN LAHOUD		1.96%
OTHERS		0.59%

## 2.3 | 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.

MR. MARIO SARADAR	<b>Chairman-CEO</b>	Executive
MR. FADY AMATOURY	<b>Member</b> (From April 2021)	Independent, Non-executive
SHEIKH JAMIL EL-KHAZEN	<b>Member</b> (Until June 2021)	Non-executive
MRS. LAURA EL-KHAZEN LAHOUD	<b>Member</b> (Until June 2021)	Non-executive
MR. MICHEL FERNEINI	<b>Member</b>	Independent, Non-executive
MR. JOE ISSA-EL-KHOURY	<b>Member</b>	Independent, Non-executive
MR. JOSEPH SADDI	<b>Member</b> (Until 29 December 2021)	Independent, Non-executive
MR. CHRISTIAN STEINFELS	<b>Member</b>	Non-executive
SAIFI INVEST HOLDING SAL represented by Mr. Nabil Moukattaf	<b>Member</b>	Non-executive
SHAMMAS ECONOMIC INSTITUTE SAL represented by Mr. Nizam Shammass	<b>Member</b>	Non-executive
MR. HENRI BOUILLER	<b>Head of Governance and Corporate Affairs</b>	

## 2.4 | 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 (From April 2021)

Mr. Fady Amatoury 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. Amatoury 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.



**JAMIL EL-KHAZEN** | Member *(Until June 2021)*

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 *(Until June 2021)*

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).

**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.

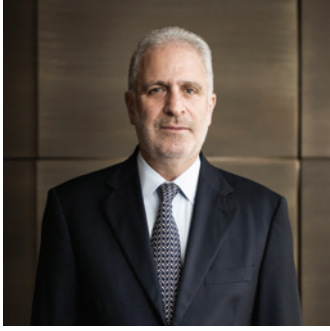
Mr. Ferneini holds a Bachelor's degree in Business Administration from the American University of Beirut.

**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 *(Until 29 December 2021)*

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.

**NIZAM SHAMMAS**Member, *representing Shammam Economic Institute sal*

Mr. Nizam Shammam 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 Shammam Investment (LB), and banking as a MD of Shammam 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.

## 2.5 | 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 <i>(Until June 2021)</i> 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. Michel Ferneini	Saifi Invest Holding SAL represented by Mr. Christian Mecattaf <i>(Until June 2021)</i> Sheikh Jamil El-Khazen <i>(Until June 2021)</i> Mr. Joe Issa-El-Khoury <i>(From July 2021)</i> Shammas Economic Institute represented by Mr. Nizam Shammas <i>(From July 2021)</i>
AML/CFT Committee	Mr. Fady Amatoury	Mrs. Laura El-Khazen Lahoud <i>(Until June 2021)</i> Mr. Antoine Nohra <i>(pending BDL approval)</i> Mr. Michel Ferneini



## BOARD AUDIT COMMITTEE

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- 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 REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

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- 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 RISK COMMITTEE

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- 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.

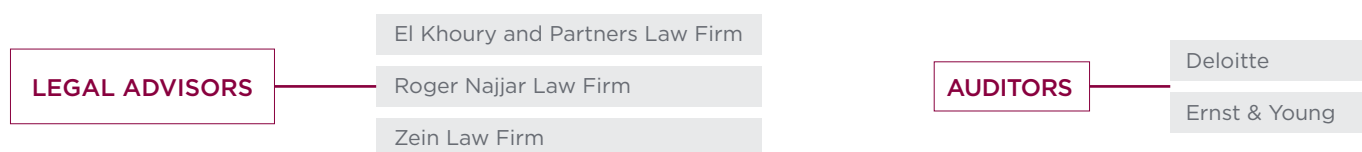
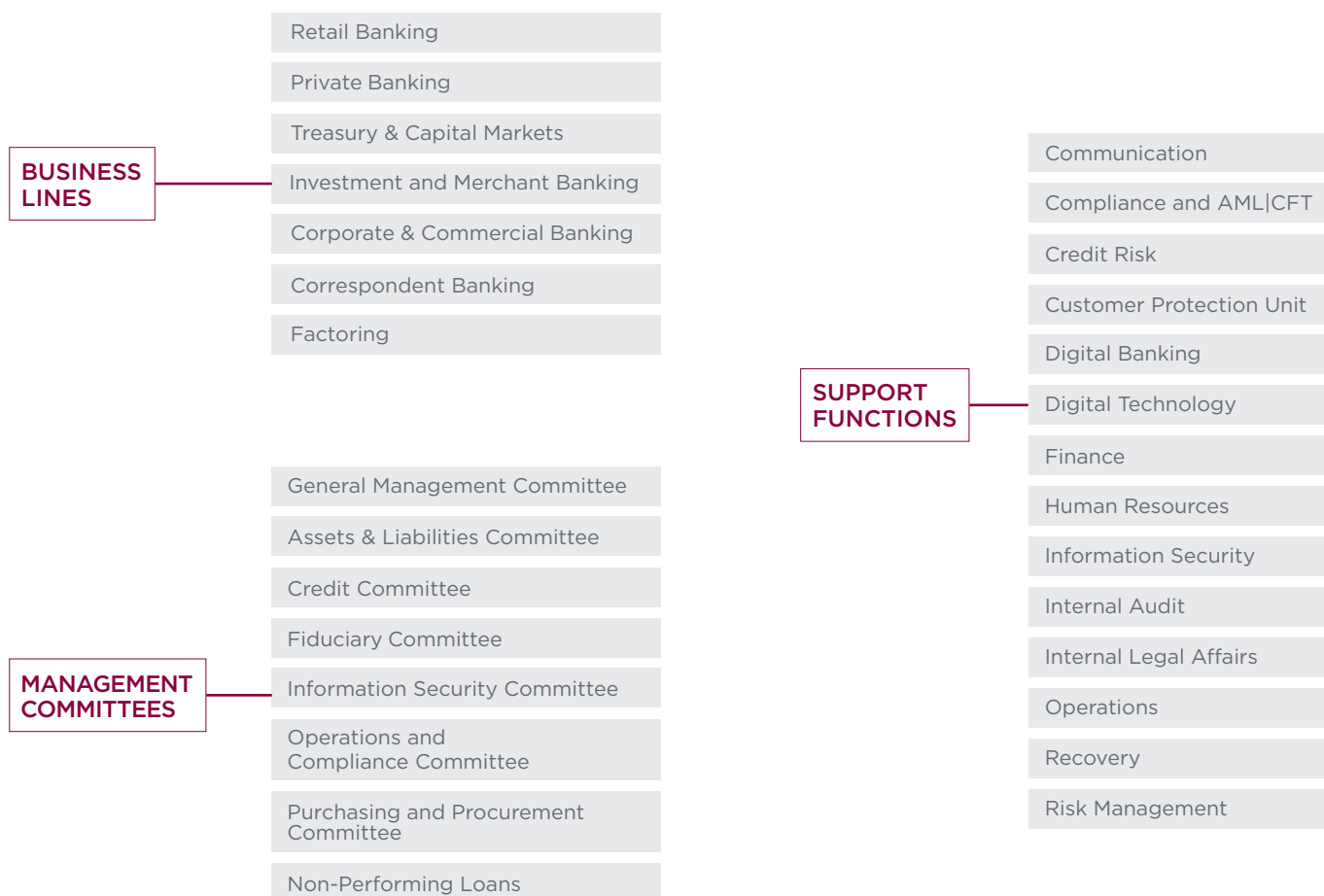
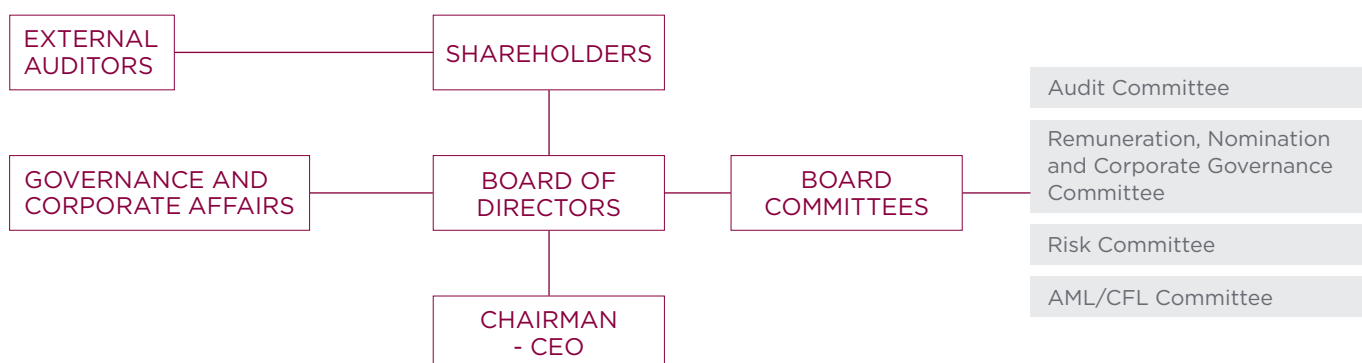
## BOARD AML/CFT COMMITTEE

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- 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.



## 2.6 | HIGH LEVEL STRUCTURE



## 2.7 | 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.

## 2.8 | MANAGEMENT TEAM

### General Management Committee

**Mario Saradar**  
Chairman - CEO

**Naim Hakim**  
Deputy CEO

**Sarah Ferneini El Rami**  
Managing Director - Corporate & Merchant Banking

**Youmna Moukarzel**  
Chief Operating Officer

### Corporate & Merchant Banking

**Nadine Merhej**  
Head of Commercial Banking & Factoring

### Private Banking

**Martine Hochar**  
Assistant General Manager  
Head of Private Banking

**Fadi Chabo**  
Senior Manager - Private Banking & Fiduciary

### Treasury & Capital Markets

**Emile Shalala**  
Head of Treasury & Capital Markets

### Head of Support Functions

**Amale Choueri**  
Chief Audit Executive

**Rababa Nohra**  
Chief Human Resources Officer

**Danielle Moutran**  
Acting Chief Financial Officer

**Maya Moujaes**  
Head of Correspondent Banking

**Hala Cabbabé**  
Head of Communication

**Jad Abou Rjeily** (Until June 2022)  
Head of Compliance

**Henri Bouiller**  
Head of Governance and Corporate Affairs

**Stephanie Dammous**  
Head of Credit Risk

**Rawia Njeim**  
Head of Internal Legal Affairs

**Rita Bedirian**  
Head of Digital Technology

**Caline Chahine**  
Head of Organization, Network Management & Administrative

**Laurraine Hatem**  
Head of Trade Finance, Cash Management & Clearing

**Aimee Daou**  
Acting Head of Digital Banking

**Abdallah Chbeir**  
Manager - Risk Management



# SECTION 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.**

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C.R. 61

### 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 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

#### Basis for adverse opinion

1. As at 31 December 2020, the Group holds balances with the Central Bank of Lebanon amounting to LBP 1,689,235 Million, a portfolio of Lebanese government treasury securities and certificate of deposits (under financial assets at amortized cost) totaling LBP 549,535 Million, a portfolio of loans to the private sector amounting to LBP 791,449 Million and other balances with banks amounting to LBP 40,105 Million, concentrated in Lebanon which represent 92% of the Group's total assets at 31 December 2020 (31 December 2019: 90%).

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

Also, as disclosed in Note 45, management was unable to produce a faithful estimation of the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

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

**Basis for adverse opinion (continued)**

2. Further, as disclosed in Note 3 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies in the accompanying consolidated financial statements for the year ended 31 December 2020. Had the Group applied IAS 29, many elements in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2019, would have been materially different and also the disclosures for the year ended 31 December 2020 and 31 December 2019 would have been materially affected. The effects on the consolidated financial statements arising from the failure to apply IAS 29 have not been determined.
3. 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 9,330 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. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.
4. As disclosed in Note 12 to the consolidated financial statements, the Group holds an investment in a Lebanese associate carried at LBP 11,760 Million, whose operations are mainly concentrated in Lebanon. The Group did not carry out an impairment test, as required by IAS 36 – Impairment of Assets, 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. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.
5. Note 1 to the consolidated financial statements indicates that there is currently a high degree of uncertainty triggered by the severe financial crisis and unprecedented economic downturn in Lebanon. The events and conditions, and practices that would not qualify as normal course of business in a non-crisis environment described in Note 1 and the matters described in paragraph 1 above, affect the liquidity, solvency and profitability of the Group, expose the Group to increased litigation and regulatory risks and represent events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern. Our opinion for the year ended 31 December 2019 was modified for same reasons explained above.

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

**Emphasis of Matter**

We draw attention to Notes 1 and 44 to the consolidated financial statements, which describe that the Group's assets and liabilities denominated in foreign currency are translated to Lebanese Pounds as per the accounting policy on foreign currency transactions, at the official exchange rate prevailing at the end of the reporting period and that the actual realization and settlement of these assets and liabilities, respectively, could be materially different.

**Key audit matters**

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

**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 Bank'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.

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

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

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

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

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

  
Deloitte & Touche  
Ernst & Young

4 June 2021  
Beirut, Lebanon

## 3.2 | CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Statement of Financial Position

As at 31 December 2021

ASSETS	Notes	2021	2020
		LBP Million	LBP Million
Cash and balances with Central Bank of Lebanon	5	1,790,506	1,711,473
Due from banks and financial institutions	6	56,784	111,087
Financial assets at fair value through profit or loss	7	3,192	3,527
Loans and advances to customers	8	530,888	791,449
Financial assets at amortized cost	9	522,364	549,535
Financial assets at fair value through other comprehensive income	10	5,848	5,803
Investment in an associate	11	11,807	11,760
Assets acquired in settlement of loans	12	27,092	27,627
Property and equipment	13	59,553	67,815
Right-of-use assets	14	21,705	30,968
Intangible assets	15	7,334	8,973
Other assets	16	39,728	19,440
<b>TOTAL ASSETS</b>		<b>3,076,801</b>	<b>3,339,457</b>
LIABILITIES			
Due to the Central Bank of Lebanon	17	179,663	191,229
Due to banks and financial institutions	18	25,247	33,828
Deposits from customers	19	2,387,442	2,571,797
Deposits from related parties	20	224,180	279,241
Income tax liability	37	36	7,166
Deferred tax liability	37	839	831
Lease liabilities	14	22,227	30,034
Other liabilities	21	39,304	35,413
Provisions	22	13,171	11,286
<b>TOTAL LIABILITIES</b>		<b>2,892,109</b>	<b>3,160,825</b>
EQUITY			
Share capital	23	147,000	147,000
Cash contribution to capital	24	168,451	161,818
Non-distributable reserves	25	53,769	53,769
Owned buildings revaluation surplus	26	49,537	49,537
Cumulative change in fair value of financial assets at fair value through other comprehensive income	10	3,972	3,935
Accumulated losses		(237,312)	(62,458)
Loss for the year		(615)	(174,854)
<b>Equity attributable to the owners of the Bank</b>		<b>184,802</b>	<b>178,747</b>
Non-controlling interests		(110)	(115)
<b>TOTAL EQUITY</b>		<b>184,692</b>	<b>178,632</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,076,801</b>	<b>3,339,457</b>

## Consolidated Income Statement

For the year ended 31 December 2021

	Notes	2021	2020
		LBP Million	LBP Million
Interest and similar income	27	159,647	225,612
Interest and similar expense	28	(39,663)	(123,820)
<b>Net interest income</b>		<b>119,984</b>	<b>101,792</b>
Fee and commission income	29	23,896	15,597
Fee and commission expense	30	(9,491)	(1,505)
<b>Net fee and commission income</b>		<b>14,405</b>	<b>14,092</b>
Loss from financial assets at fair value through profit or loss	7	-	(13,060)
Loss from derecognition of financial assets at amortized cost		(5)	(2,466)
Other operating income	31	1,657	612
<b>Total operating income</b>		<b>136,041</b>	<b>100,970</b>
Net impairment loss on financial assets	32	(44,097)	(88,531)
Direct write-off of bad debts		(12,607)	(5,272)
<b>Net operating income after impairment</b>		<b>79,337</b>	<b>7,167</b>
Staff costs	33	(36,926)	(31,085)
General and administrative expenses	34	(26,402)	(19,593)
Depreciation of right-of-use assets	14	(7,057)	(5,801)
Depreciation and amortization	13,15	(7,024)	(7,183)
Other financing cost	14	(577)	(1,210)
Loss on sale of assets, net		(2,962)	(8,625)
Other income (expenses), net	35	1,993	(7,229)
		<b>(78,955)</b>	<b>(80,726)</b>
Cost of liquidity	36	<b>(1,039)</b>	<b>(92,892)</b>
<b>Total cost and expenses</b>		<b>(79,994)</b>	<b>(173,618)</b>
Share in profit of an associate	11	47	40
<b>Loss before tax</b>		<b>(610)</b>	<b>(166,411)</b>
Income tax	37	-	(8,437)
<b>Loss for the year</b>		<b>(610)</b>	<b>(174,848)</b>
<b>Attributable to:</b>			
The owners of the Bank		(615)	(174,854)
Non-controlling interests		5	6
		<b>(610)</b>	<b>(174,848)</b>

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 LBP Million	2020 LBP Million
Loss for the year		(610)	(174,848)
<b>Other comprehensive income (loss) ("OCI"):</b> Items that will not be reclassified subsequently to profit or loss:			
Gain (loss) on financial assets at fair value through other comprehensive income	10	45	(40)
Effect of taxes	37	(8)	7
<b>Total other comprehensive income (loss) for the year</b>		<b>37</b>	<b>(33)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(573)</b>	<b>(174,881)</b>
<b>Attributable to:</b>			
The owners of the Bank		(578)	(174,887)
Non-controlling interests		5	6
		<b>(573)</b>	<b>(174,881)</b>

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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, 2021	147,000	-	161,818	53,769	49,537	3,935
Allocation of 2020 losses	-	-	-	-	-	-
Cash contribution to capital (Note 24)	-	-	6,633	-	-	-
Total comprehensive loss for the year 2021	-	-	-	-	-	37
<b>Balance at 31 December 2021</b>	<b>147,000</b>	<b>-</b>	<b>168,451</b>	<b>53,769</b>	<b>49,537</b>	<b>3,972</b>

	Accumulated losses	Loss for the year	Equity attributable to owners of the Bank	Non-controlling interests	Total equity
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at January 1, 2021	(62,458)	(174,854)	178,747	(115)	178,632
Allocation of 2020 losses	(174,854)	174,854	-	-	-
Cash contribution to capital (Note 24)	-	-	6,633	-	6,633
Total comprehensive loss for the year 2021	-	(615)	(578)	5	(573)
<b>Balance at 31 December 2021</b>	<b>(237,312)</b>	<b>(615)</b>	<b>184,802</b>	<b>(110)</b>	<b>184,692</b>

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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, 2020	10,600	34,980	263,238	53,769	50,503	3,968
Allocation of 2019 losses	-	-	-	-	-	-
Sale of premises	-	-	-	-	(966)	-
Capital increase (Note 23)	136,400	(34,980)	(101,420)	-	-	-
Total comprehensive loss for the year 2020	-	-	-	-	-	(33)
<b>Balance at 31 December 2020</b>	<b>147,000</b>	<b>-</b>	<b>161,818</b>	<b>53,769</b>	<b>49,537</b>	<b>3,935</b>

	Accumulated losses	Loss for the year	Equity attributable to owners of the Bank	Non-controlling interests	Total equity
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at January 1, 2020	(1,776)	(61,648)	353,634	(121)	353,513
Allocation of 2019 losses	(61,648)	61,648	-	-	-
Sale of premises	966	-	-	-	-
Capital increase (Note 23)	-	-	-	-	-
Total comprehensive loss for the year 2020	-	(174,854)	(174,887)	6	(174,881)
<b>Balance at 31 December 2020</b>	<b>(62,458)</b>	<b>(174,854)</b>	<b>178,747</b>	<b>(115)</b>	<b>178,632</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December 2021

OPERATING ACTIVITIES	Notes	2021	2020
		LBP Million	LBP Million
Loss for the year before income tax		(610)	(166,411)
Adjustments for:			
Interest income		(159,647)	(225,612)
Interest expense		39,663	123,820
Depreciation of right-of-use assets	14	7,057	5,801
Depreciation and amortization	13,15	7,024	7,183
Other financing cost	14	577	1,210
Loss (gain) on disposal of property and equipment		560	(24)
Net impairment loss on financial asset	32	44,097	88,531
Write-off of bad debts		12,607	5,272
Recognition of deferred income – subsidy	35	(2,787)	(3,693)
Share of profits of an associate		(47)	(40)
Gain (loss) on sale of assets acquired in settlement of loans		(276)	7,323
Write off of tangible and intangible assets		3,077	1,326
Net provision for employees' end-of-service indemnity	22	1,346	(810)
Other		-	50
		<b>(47,359)</b>	<b>(156,074)</b>
Changes in operating assets and liabilities:			
Balances with the Central Bank of Lebanon		114,164	179,917
Balances with banks and financial institutions		506	(3,071)
Financial assets at FVTPL		335	(136)
Loans and advances to customers		214,520	316,898
Other assets		(17,501)	(2,082)
Balances with banks and financial institutions		-	(30,917)
Deposits from customers		(184,355)	(327,736)
Deposits from related parties		(55,061)	(42,719)
Other liabilities		3,891	(720)
Proceeds from maturity of financial assets at amortized cost		16,920	3,702
Settlement of provision for lawyer indemnities	22	(84)	(94)
Settlement of provision for employees' end-of-service indemnity	22	(624)	(974)
Cash from (used in) operations		<b>45,352</b>	<b>(64,006)</b>
Interest received		166,083	240,354
Interest paid		(46,099)	(136,405)
Income tax paid		(7,130)	(2,502)
<b>Net cash generated from operating activities</b>		<b>158,206</b>	<b>37,441</b>

## Consolidated Statement of Cash Flows

For the year ended 31 December 2021

INVESTING ACTIVITIES	Notes	2021	2020
		LBP Million	LBP Million
Purchase of property and equipment	13	(800)	(950)
Net increase in intangible assets	15	(243)	(65)
Proceeds from sale of property and equipment		283	744
Proceeds from sale of assets acquired in settlement of loans		811	43,723
<b>Net cash generated from investing activities</b>		<b>51</b>	<b>43,452</b>
FINANCING ACTIVITIES			
Net increase in other borrowings		-	11,189
Cash contribution to capital	24	6,633	-
Lease liability payments	14	(6,178)	(6,766)
<b>Net cash generated from financing activities</b>		<b>455</b>	<b>4,423</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>158,712</b>	<b>85,316</b>
Cash and cash equivalents at 1 January		249,458	164,142
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	41	<b>408,170</b>	<b>249,458</b>

# 3.3 | NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

## 1. CORPORATE 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 4 branches in the different regions of Lebanon (2020: 8 branches). The Bank’s headquarters are located in Achrafieh, Beirut, Lebanon.

### 1.1 Macroeconomic environment

The Group’s operations are mostly carried out 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, 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 led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 USD/LBP. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese pound, impacting intensely the purchasing power of the Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index.

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

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

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

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and “local” foreign currency bank accounts (subject to unofficial capital control) and tossing Lebanon in hyperinflation and major economic collapse. As a result of the unofficial capital controls, the multitude of exchange rates, the hyperinflation, and the potential repercussions of government reform measures on (i) the banks operating in Lebanon, and (ii) the Lebanese people’s net worth, their local businesses and their local bank accounts, the Lebanese market saw the need to differentiate between onshore assets and offshore assets,

foreign currency bank accounts that are subject to unofficial capital controls and those that are not subject to capital controls, onshore liabilities and offshore liabilities. The need to differentiate is mostly due to the difference in the perceived real economic value. Hence the new terms in the Lebanese market, such as “local Dollars” to designate local US Dollars bank accounts that are subject to unofficial capital controls and “fresh funds”/accounts to designate foreign currency cash and foreign currency bank accounts which are free from capital controls (as they are sourced from foreign currency cash and/or from incoming transfers from abroad).

#### ***Lebanese Government’s Financial Recovery Plan***

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

#### ***Restructuring of the banking sector:***

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

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

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

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

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

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

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

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

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

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

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

#### ***International Monetary Fund (IMF)***

Following the end of the IMF virtual mission from 24 January to 11 February with the Lebanese authorities on the framework and policies of an economic reform program that can be supported by the Fund, the IMF issued a release on Lebanon, saying that the unprecedented and complex nature of the Lebanese crisis requires a comprehensive economic and financial reform program to stabilize the economy, address deep-seated challenges, and lay the ground for sustainable and strong growth. On 7 April 2022 the IMF concluded a two-week mission to Beirut with an announcement of a staff level agreement for a US\$ 3bn, 46-month Extended Fund Facility (EFF). This agreement is subject to the approval by IMF management and the Executive Board. Timely implementation of all prior actions and confirmation of international partners financial support is required before formal approval by the Executive Board. Prior actions include:

- (i) Cabinet/ parliamentary approval of a bank restructuring strategy enabling legislation in conjunction with an audit of the 14 largest banks;
- (ii) Parliamentary approval of a reformed bank secrecy law;
- (iii) Completion of the Central Bank of Lebanon’s audit;
- (iv) A restructuring of the outstanding commercial debt (including Eurobonds);
- (v) Parliamentary approval of the 2022 budget; and
- (vi) Unification by the Central Bank of Lebanon of the exchange rates for authorized current account transactions.

#### ***Beirut Port Explosion***

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

#### ***COVID-19***

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

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

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

It remains unclear how this will evolve, and the 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, liquidity and capital position.

### 1.2 Regulatory environment

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

- Basic Circular 150 issued on 9 April 2020 exempting Banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020 subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals ...).
- Basic Circular 151 issued on 21 April 2020 concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per the Platform Rate up to limits set by the Group. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars.
- Intermediate Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to the current economic situation as assessed by the Group. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.
- Intermediate Circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively). The Circular however changed the requirement for the recognition of expected credit losses in the Groups' consolidated financial statements from applying at a "Maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "Minimum". In addition, the circular introduced the following measures:
  - Allowing banks to constitute the expected credit losses on exposures to Lebanese Sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement.
  - Allowing Banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Group may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of COVID-19 pandemic, then the Group must immediately downgrade the loan classification and staging to stage 3 (default).
  - Requesting from banks to finalise the assessment of the future financial position of their customers by 31 December 2020 and to estimate expected credit losses based on this assessment and recognise the financial impact in the statement of income for the year ended 31 December 2020.
  - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.
  - Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.
  - Changed the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain.
  - Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. When the buffer is drawn down, banks are required to rebuild it. However, under exceptional circumstances, the buffer may be drawn down during 2020 and 2021, however must be rebuilt, progressively, starting 2022, by at least 0.75% each year, to reach the minimum required of 2.5% by end of 2024.
  - Prepare and present to the Central Bank of Lebanon, a comprehensive plan, for rectifying non-compliances with the regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon,

taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL) as well as other losses or provisions that the Group expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.

- Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortised over a period of 3 years (2022-2024 by 25% yearly).

- Basic Circular 154 issued on 27 August 2020, aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019, and rectifying any non-compliance with regulatory ratios and banking regulations. The circular mainly introduced the following measures:
  - Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in Intermediate Circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the Group to their normal levels as at before October 2019.
  - Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term “special account” an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks’ importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019 and without a minimum threshold.
  - Requesting from banks to maintain a current account with foreign correspondent banks offshore, free of any obligations (liquidity abroad). Such account shall be at no time less than 3% of the bank’s total foreign currency deposits as at 31 July 2020, by 28 February 2021.
  - Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalisation needs, if any, to the Central Bank of Lebanon’s Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.
- Intermediate Circular 568 issued on 26 August 2020 allowing the payments of retail loans denominated in US dollars in Lebanese Pounds based on the official exchange rate of LBP 1,507.5 per US dollar subject to the following conditions:
  - The client should be a Lebanese resident.
  - The client should not have a bank account denominated in US dollars.
  - The housing loans granted to the client should not exceed USD 800,000 while the aggregate amount of retail loans should not exceed USD 100,000 per client.
- Intermediate Circular 575 issued on 5 November 2020 states that Banks should book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2 capital based on the following binding conditions:
  - The Central Bank of Lebanon’s Central Council investigating and approving at the expense of the concerned bank the validity of the revaluation process.
  - Raising the capital before 31 December 2021 as follows:
    - Add a maximum of one third of the revaluation gains under Tier 2 capital.
    - Increase common equity Tier 1 capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier 2 capital.
    - The revaluation and capital increase must be completed before 31 December 2021.
- Basic Circular 157 issued on 10 May 2021 and setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers’ FX operations (buy and sell) related to their personal or commercial needs on the electronic platform “Sayrafa”. Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. Banks are required to properly document each transaction and should not collect commission margins between buy and sell operations exceeding 1%.
- Basic Circular 158 issued on 8 June 2021 and defining the mechanism for the gradual settlement of foreign currency deposits up to an amount equivalent to USD 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met. Eligible funds will be transferred to a subaccount over which banking secrecy will be lifted vis-à-vis BDL and BCC before being gradually withdrawn and remitted to the customer on a monthly basis. Customers’ monthly

entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

The financing of the aforementioned process will be secured equally through (i) BDL reduction of compulsory reserves requirements from 15% to 14% as per BDL Intermediary Circular 586 and (ii) the Group's offshore liquidity. To that end, the Group can use its foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition it reconstitutes it by 31 December 2022.

- Basic Circular 159 issued on 17 August 2021 preventing banks from processing foreign currency funds received from customers whether in the form of cash or through offshore transfers at a value other than its face value, with the exception of transactions pertaining to the settlement of loans. It also prevented banks from purchasing foreign currencies at parallel rate with the exception of the purchase foreign currencies duly recorded on the electronic platform and resulting from offshore incoming transfers with the purpose of (i) enhancing liquidity, (ii) engaging in medium or long term investments, (iii) settling international commitments. Finally the Circular prevented banks from purchasing bankers' checks and other bank's accounts in foreign currencies whether directly or indirectly.
- Intermediate Circular 600 issued on 3 November 2021 requires banks to record existing and future provisions for expected credit losses in the same currency as the related assets and off-balance sheet exposures. Banks are also required to set in place necessary measures to manage their FX position resulting from provisions recorded in foreign currencies.
- Intermediate Circular 601 issued on 8 December 2021 is an amendment to the provisions of Basic Circular 151. The circular stipulates that the Platform Rate to be applied for withdrawal cash from foreign currencies accounts is LBP 8,000 USD/LBP up to a maximum limit of USD 3,000 per month.
- Basic Circular 161 issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return banks will provide the total amount to their customers at the same Sayrafa rate against LBP at limits set by the bank until 31 May 2022.
- Intermediate Circular 616 issued on 3 March 2022 is an amendment to the provision of article 6 of Basic Circular 44. The circular requires from banks not to distribute dividends to common shareholders on the fiscal years 2019, 2020 and 2021.

### 1.3 Particular situation of the Group

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

	2021		2020	
	Rate as at 31 December	Average rate for the year ended 31 December	Rate as at 31 December	Average rate for the year ended 31 December
	LBP	LBP	LBP	LBP
US Dollar	<b>1,507.5</b>	1,507.5	1,507.5	1,507.5
Euro	<b>1,701.52</b>	1,786.92	1,851.21	1,724.88

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

- On 21 April 2020 the Central Bank of Lebanon issued Basic Circular 151 concerning depositors who wish to withdraw amounts of cash from their "local" foreign currencies accounts as per the Platform Rate up to limits set by their bank. The limits set by the banks in Lebanon had monthly averages of US\$ 3,000 per bank account. The "Platform Rate" was 1 US\$ / LBP 3,900 throughout the period from the issuance of the circular and up to 30 June 2021. During 2021, it was increased to US\$ / LBP 8,000.
- On 10 May 2021, the Central Bank of Lebanon issued Basic Circular 157 setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. The Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon.

Foreign currency operations were executed on the Sayrafa platform at the following exchange rates:

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

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

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

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment and management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Group uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the consolidated financial statements. We are unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official published exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese government. Foreign currency mismatch is detailed in Note 43 to these consolidated financial statements.

As at 31 December 2021, loss allowances on the portfolio of Lebanese government securities held at amortized cost are recorded in these consolidated financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567. The Group is amortizing the expected credit losses on Lebanese Government Eurobonds over 10 years as permissible by the circular. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese Sovereign, the Group is unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the Government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and Lebanese government and the recognized loss allowances, as well as their staging are detailed in note 43 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 deterioration was further aggravated by the effects of the Covid-19 pandemic and the hyperinflation. The Group is undergoing massive deleveraging by reducing its assets size and proactively reviewing and managing the quality of these assets. Management was able to significantly decrease the portfolio of private loans concentrated in Lebanon and the Group has recorded significant amounts of expected credit losses during the last quarter of 2019 and the years ended 31 December 2020 and 2021. Loss allowances on the Group's portfolio of these 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 judgement. 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 43 to the consolidated financial statements.

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

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

#### *Litigations and claims*

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case-by-case basis when they occur. The Group has been subject to increased litigations as a result of these restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Pounds. Management is carefully considering the impact of these existing litigations and claims. There are still uncertainties related to the consequences of these restrictive measures based on the current available information and the prevailing laws and local banking practices. However due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch as disclosed in Notes 43 and 45. The amount cannot be determined presently.

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

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



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

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

The roadmap was submitted to the Central Bank of Lebanon on 29 December 2020. However, a reasonable and credible roadmap can only be achieved once the above many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

The Group has so far implemented a series of measures in relation to its key strategic objectives including:

- In accordance with Central Bank of Lebanon Intermediary Circular 567, banks are required to increase their own funds (equity) by an amount equal to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments.
- In this context, as of the date of authorization of these consolidated financial statements, the Extraordinary General Assembly of Shareholders held on 11 December 2020 confirmed and verified the increase of the Bank's capital by LBP 136.4 billion through the issuance of 136,400,000 new common registered shares with a par value of LBP 1,000 per share as follows: partly by issuing 34,980,030 common shares, by incorporating the equivalent of their value in Lebanese Pounds from the share premium account; and the balance by issuing 101,419,970 common shares, with a par value of LBP 1,000 subscribed via cash contributions to capital (Notes 23 and 24)
- On 11 December 2020, the Exceptional Ordinary General Assembly of Shareholders resolved to approve the granting of cash contributions to capital by some of the Bank's shareholders amounting to LBP 6.63 billion (USD 4.4 million) in order to complete the 20% increase of the Common Equity Tier 1 capital as at 31 December 2018, in compliance with Central Bank of Lebanon Intermediary Circular 567. On 10 September 2021, the Group obtained the final approval of the Central Bank of Lebanon (Note 24).
  - The Group submitted to the regulators its calculation for meeting the regulatory requirement of liquidity ratio with foreign banks of 3% in accordance with the Central Bank of Lebanon's Basic Circular 154.
  - Deleveraging the loan portfolio and increasing provisioning coverage during 2021 as gross loans dropped by LBP 212 billion compared to 31 December 2020 (2020: dropped by LBP 343 billion compared to 31 December 2019).
  - The Group is reducing its cost structure through the closure of branches and reducing the workforce, thus generating annual savings. As of the date of approval of these consolidated financial statements, 12 branches were closed (out of which 8 were closed in 2020), and the workforce was reduced by 35%. The Group expects that further similar measures will be taken in the near future to further reduce the cost structure to adapt to the changing operating environment and the level of revenue streams of the Group.

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

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

The Lebanese crisis, which was set off during the last quarter of 2019, has imposed severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon in 2020. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar, during the current fiscal year, resulted into several practices and transactions that would not qualify as normal course of business in a non-crisis environment, and for which there are no directly observable prices or a governing legal/regulatory framework. Such practices and transactions expose the Group to increased litigation and regulatory risks and negatively impact the financial position of the Group, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the Group's financial position, future cashflows, results of operations, regulatory ratios and covenants. The Group's realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

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

### 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 1 January 2021, 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 2021. The nature and the impact of each amendment is described below:

#### Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest,
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

### 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 2021, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

#### IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

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

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

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

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

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

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

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

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

### Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

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

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

### Reference to the Conceptual Framework - Amendments to IFRS 3

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively and are not expected to have a material impact on the Group.

### 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

The consolidated financial statements are presented in Lebanese Pounds (LBP) which is the Group’s functional currency, and all values are rounded to the nearest million, except when otherwise indicated.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity. These financial statements represent the consolidated financial statements of the Group.

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements; therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements are disclosed in Note 17.

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

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

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

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

- (a) Financial statements must be adjusted to consider the changes in the currency's general purchasing power, so that they are expressed in the current unit of measure at the end of the reporting period.
- (b) In summary, the restatement method under IAS 29 is as follows:
  - i. Monetary items are not restated in as much as they are already expressed in terms of the measuring unit current at the closing date of the reporting period. In an inflationary period, keeping monetary assets generates loss of purchasing power and keeping monetary liabilities generates an increase in purchasing power. The net monetary gain or loss shall be included as income for the period for which it is reported.
  - ii. Non-monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non-monetary items.
  - iii. Non-monetary items carried at historical cost or at the current value of a date prior to the end of the reporting period are restated using coefficients that reflect the variation recorded in the general level of prices from the date of acquisition or revaluation to the closing date of the reporting period, then comparing the restated amounts of such assets with the relevant recoverable values. Depreciation charges of property, plant and equipment and amortisation charges of intangible assets recognised in profit or loss for the period, as well as any other consumption of non-monetary assets will be determined based on the new restated amounts.
  - iv. Income and expenses are restated from the date when they were recorded, except for those profit or loss items that reflect or include in their determination the consumption of assets carried at the purchasing power of the currency as of a date prior to the recording of the consumption, which are restated based on the date when the asset to which the item is related originated; and except those profit or loss items originated from comparing two measurements expressed in the purchasing power of currency as of different dates, for which it is necessary to identify the compared amounts, restate them separately, and compare them again, but with the restated amounts.
  - v. At the beginning of the first year of application of the restatement method of financial statements in terms of the current measuring unit, the prior-year comparatives are restated in terms of the measuring unit current at the end of the current reporting period, the equity components, except for reserved earnings and undistributed retained earnings, shall also be restated, and the amount of undistributed retained earnings shall be determined by the difference between net assets restated at the date of transition and the other components of opening equity expressed as indicated above, once all remaining equity components are restated.

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

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

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

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

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

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.

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, 2021 and 2020 consisted of the following:

	Business activity	2021 Ownership %	2020 Ownership %
Société Immobilière pour la Construction S.A.L. (Lebanon)	Real Estate	99.99	99.99
United Group Brokers S.A.R.L. - (Lebanon)	Insurance Brokerage	81.37	81.37

## 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.

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 groups of units.

#### D. Foreign Currencies:

The consolidated 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 published rates of exchange (refer to Note 1). At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates at that date as disclosed in Note 1. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates at the date when the fair value was determined as disclosed in Note 1. 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.

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:**

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

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

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

The Group classifies all financial liabilities as subsequently measured at amortised 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.

## 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;
- 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.

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.

**Presentation of allowance for ECL in the statement of financial position**

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the consolidated statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for 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:**

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

**Group as a Lessee**

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

**(i) Right-of-use assets**

The Group 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 consolidated 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 consolidated 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 and leases for low-valuated assets**

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.

**M. Property and Equipment:**

Land and buildings are stated in the consolidated 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
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.

#### **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 the 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 consolidated 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 recognised only when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

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 realised 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. Investments in Associates:

In the consolidated financial statements, the Group's investments in associates are accounted for under the cost method of accounting less accumulated impairment loss for other than temporary declines in value, if any.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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.

## 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. 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**

	2021	2020
	LBP Million	LBP Million
Cash on hand	104,672	22,238
Current accounts with Central Bank of Lebanon	320,729	181,421
Term placements with Central Bank of Lebanon	1,374,229	1,516,616
Accrued interest receivable	17,969	18,291
	1,817,599	1,738,566
Less: Allowance for expected credit losses - Note 43	(27,093)	(27,093)
	<b>1,790,506</b>	<b>1,711,473</b>

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 14% (2020: 15%) of total deposits in foreign currencies regardless of nature, except for funds transferred from abroad or cash deposit in foreign currency received after 09 April 2020 as per BDL Circular 150 issued on 09 April 2020.

As at 31 December 2021, the LBP obligatory reserves stood at LBP 46.76 billion (2020: LBP 29.79 billion) and the foreign currencies reserves stood at LBP 295.34 billion (2020: LBP 376.93 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 2021, term placements with the Central Bank of Lebanon amounting to LBP 601.6 billion (2020: LBP 674.1 billion) and term borrowings from the Central Bank of Lebanon (Note 17) are reported on a net basis on the statement of financial position by virtue of the general netting agreement. During 2021, financial assets and financial liabilities that were settled on a net basis amounted to LBP 72.5 billion (31 December 2020: LBP 129.1 billion) (Note 17).

## 6. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2021	2020
	LBP Million	LBP Million
Current accounts	48,074	70,075
Term placements	6	5,006
Pledged deposits	3,208	3,344
Checks in course of collection from banks	6,321	34,321
Accrued interest receivable	-	1
Less: Allowance for expected credit losses - Note 43	(825)	(1,660)
	<b>56,784</b>	<b>111,087</b>

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss at LBP 3.19 billion as at 31 December 2021 (LBP 3.53 billion as at 31 December 2020) represent the Group's share in startups/incubators established based on co-sharing agreements with the regulator providing the funding.

Loss realized from sale of Lebanese Government Eurobonds purchased from the Central Bank of Lebanon during 2020 amounted to LBP 13 billion and was recognized under "Losses from financial assets at fair value through profit or loss" in the consolidated income statement.

## 8. LOANS AND ADVANCES TO CUSTOMERS

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

	31 December 2021			31 December 2020		
	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	247,123	(53,425)	193,698	436,597	(41,005)	395,592
Factoring facilities	118,233	(16,110)	102,123	123,451	(12,496)	110,955
Retail & Personal	64,614	(15,496)	49,118	121,780	(15,795)	105,985
Credit impaired loans	374,404	(195,391)	179,013	328,105	(162,116)	165,989
Pledged guarantee funds allocated to credit impaired loans	(2,123)	-	(2,123)	(2,273)	-	(2,273)
Accrued interest receivable	9,059	-	9,059	15,201	-	15,201
	<b>811,310</b>	<b>(280,422)</b>	<b>530,888</b>	<b>1,022,861</b>	<b>(231,412)</b>	<b>791,449</b>

Loans and advances to customers include loans to related parties in the aggregate of LBP 23 billion as of 31 December 2021 (LBP 33 billion in 2020) which are secured by cash collaterals to the extent of LBP 11.96 billion (LBP 14.03 billion in 2020).

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 43).

## 9. FINANCIAL ASSETS AT AMORTIZED COST

	2021	2020
	LBP Million	LBP Million
Certificates of deposit issued by Central Bank of Lebanon	41,709	41,858
Lebanese treasury bills	230,716	247,347
Lebanese government Eurobonds	292,168	292,337
Lebanese corporate bonds	6,305	6,276
Accrued interest receivable		
	570,898	587,818
	(48,534)	(38,283)
Less: Allowance for expected credit losses - Note 43	<b>522,364</b>	<b>549,535</b>

(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 (31 December 2020: same), have been pledged against soft loans from the Central Bank of Lebanon with similar maturities and face amounts (Note 17).

(b) As at 31 December 2021, Lebanese treasury bills amounting to LBP 199.84 billion (31 December 2020: same) are pledged against term borrowings with the Central Bank of Lebanon. During 2020, 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 2021, the Lebanese treasury bills and corresponding term borrowings from the Central Bank of Lebanon are reported on a net basis on the consolidated statement of financial position by virtue of the general netting agreement (Note 17).

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2021			31 December 2020		
	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	1,037	5,848	4,811	1,037	5,803	4,766
Deferred tax liability	-	-	(839)	-	-	(831)
			<b>3,972</b>			<b>3,935</b>

The movement of financial assets at fair value through other comprehensive income during 2021 and 2020 was as follows:

	2021	2020
	LBP Million	LBP Million
Balance at January 1	5,803	5,843
Change in fair value	45	(40)
<b>Balance at December 31</b>	<b>5,848</b>	<b>5,803</b>

## 11. 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 LBP 10.3 billion.

The summarized financial information of the associate as of 31 December 2021 and 2020 is provided below:

	2021	2020
	LBP Million	LBP Million
Total assets	79,444	94,706
Total liabilities	61,084	76,469
Net assets	18,360	18,237
Net profit for the year	105	92
Group's share of net assets	8,996	8,936
Group's share of net profit	47	40

The movement of investment in an associate is as follows:

	2021	2020
	LBP Million	LBP Million
Balance at January 1	11,760	11,720
Share in profit of an associate	47	40
<b>Balance at December 31</b>	<b>11,807</b>	<b>11,760</b>

## 12. 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 2021 and 2020 was as follows:

	Land and buildings	Shares	Total
	LBP Million	LBP Million	LBP Million
Balance at 1 January 2021	19,621	8,006	27,627
Disposals	(535)	-	(535)
	-	-	-
<b>Balance at 31 December 2021</b>	<b>19,086</b>	<b>8,006</b>	<b>27,092</b>

	<u>Land and buildings</u> LBP Million	<u>Shares</u> LBP Million	<u>Total</u> LBP Million
Balance at 1 January 2020	41,710	8,006	49,716
Additions	28,957	-	28,957
Disposals	(51,046)	-	(51,046)
<b>Balance at 31 December 2020</b>	<b>19,621</b>	<b>8,006</b>	<b>27,627</b>

During 2021, the Group sold assets acquired in settlement of loans resulting in a gain of LBP 276.47 million (2020: a loss of LBP 7.3 billion) reflected under “Gain/(loss) on sale of assets, net” in the income statement.

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 ends after 20 July 2018. This regulatory reserve is reflected in “Non-distributable reserves” under equity (Note 25). Gains or losses on liquidation are recognized in the statement of profit and loss.

### 13. PROPERTY AND EQUIPMENT

	<u>Land and building</u>	<u>Furniture fixtures and motors vehicles</u>	<u>Hardware and computer equipment</u>	<u>Installations and improvement</u>	<u>Office equipment</u>	<u>Advance payments</u>	<u>Total</u>
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
<b>Cost or revaluation:</b>							
At 1 January 2021	58,851	3,192	9,016	17,106	4,416	4,995	97,576
Additions	-	1	26	417	71	285	800
Transfers	-	77	414	633	41	(1,165)	-
Disposals	(40)	(19)	(4)	(1,541)	(17)	-	(1,621)
Write offs	-	-	-	(2,011)	-	(1,249)	(3,260)
Other	-	-	-	-	(5)	(2,160)	(2,165)
<b>At 31 December 2021</b>	<b>58,811</b>	<b>3,251</b>	<b>9,452</b>	<b>14,604</b>	<b>4,500</b>	<b>706</b>	<b>91,950</b>
<b>Depreciation:</b>							
At 1 January 2021	(12,535)	(1,871)	(7,280)	(6,012)	(2,063)	-	(29,761)
Depreciation	(868)	(171)	(712)	(1,363)	(262)	-	(3,376)
Related to disposals	-	2	5	763	8	-	778
Related to write offs	-	-	-	582	-	-	582
<b>At 31 December 2021</b>	<b>(13,403)</b>	<b>(2,040)</b>	<b>(7,987)</b>	<b>(6,030)</b>	<b>(2,311)</b>	<b>-</b>	<b>(30,014)</b>
<b>Net book value:</b>							
<b>At 31 December 2021</b>	<b>45,408</b>	<b>1,211</b>	<b>1,465</b>	<b>8,574</b>	<b>2,189</b>	<b>706</b>	<b>59,553</b>

	Land and building	Furniture fixtures and motors vehicles	Hardware and computer equipment	Installations and improvement	Office equipment	Advance payments	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
<b>Cost or revaluation:</b>							
At 1 January 2020	59,859	3,108	8,753	19,528	4,169	7,126	102,543
Additions	40	12	58	70	150	620	950
Transfers	-	77	208	2,176	117	(2,578)	-
Disposals	(1,048)	(5)	(3)	-	(16)	-	(1,072)
Write offs	-	-	-	(4,668)	(4)	-	(4,672)
Other	-	-	-	-	-	(173)	(173)
<b>At 31 December 2020</b>	<b>58,851</b>	<b>3,192</b>	<b>9,016</b>	<b>17,106</b>	<b>4,416</b>	<b>4,995</b>	<b>97,576</b>
<b>Depreciation:</b>							
At 1 January 2020	(11,485)	(1,636)	(6,641)	(8,136)	(1,817)	-	(29,715)
Depreciation	(1,351)	(235)	(684)	(1,220)	(254)	-	(3,744)
Related to disposals	301	-	45	-	6	-	352
Related to write offs	-	-	-	3,344	2	-	3,346
<b>At 31 December 2020</b>	<b>(12,535)</b>	<b>(1,871)</b>	<b>(7,280)</b>	<b>(6,012)</b>	<b>(2,063)</b>	<b>-</b>	<b>(29,761)</b>
<b>Net book value:</b>							
<b>At 31 December 2020</b>	<b>46,316</b>	<b>1,321</b>	<b>1,736</b>	<b>11,094</b>	<b>2,353</b>	<b>4,995</b>	<b>67,815</b>

## 14. 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:

	Buildings and freehold improvements LBP Million	IT services LBP Million	Total LBP Million
At 1 January 2021	18,205	12,763	30,968
Contract adjustment	(2,206)	-	(2,206)
Depreciation expense	(3,818)	(3,239)	(7,057)
<b>At 31 December 2021</b>	<b>12,181</b>	<b>9,524</b>	<b>21,705</b>

	<b>Buildings and freehold improvements</b>	<b>IT services</b>	<b>Total</b>
	LBP Million	LBP Million	LBP Million
At 1 January 2020	27,479	2,799	30,278
Additions	-	12,698	12,698
Contract adjustment	(6,207)	-	(6,207)
Depreciation expense	(3,067)	(2,734)	(5,801)
<b>At 31 December 2020</b>	<b>18,205</b>	<b>12,763</b>	<b>30,968</b>

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

	<b>2021</b>	<b>2020</b>
	LBP Million	LBP Million
At 1 January	30,034	29,099
Additions	-	12,698
Contract adjustment	(2,206)	(6,207)
Interest expense	577	1,210
Payments	(6,178)	(6,766)
<b>At 31 December</b>	<b>22,227</b>	<b>30,034</b>

## 15. INTANGIBLE ASSETS

Intangible assets represent purchased software and software under development.

	<b>2021</b>	<b>2020</b>
	LBP Million	LBP Million
Cost:		
At 1 January	19,583	19,396
Additions	243	65
Write offs	(111)	-
Transfers from tangible assets	1,877	122
<b>At 31 December</b>	<b>21,592</b>	<b>19,583</b>

Amortization		
At 1 January	(10,610)	(7,171)
Amortization during the year	(3,648)	(3,439)
<b>At 31 December</b>	<b>(14,258)</b>	<b>(10,610)</b>
<b>Net book value at 31 December</b>	<b>7,334</b>	<b>8,973</b>

## 16. OTHER ASSETS

	2021	2020
	LBP Million	LBP Million
Medical costs due from National Social Security Fund (a)	5,321	4,924
Prepayments	2,686	4,676
Assets in process of acquisition in settlement of loans	5,945	5,201
Receivables from related parties – Note 40	750	536
Sundry account receivables	9,298	3,020
Foreign exchange position receivables (b)	15,728	1,083
	<b>39,728</b>	<b>19,440</b>

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

(b) Foreign exchange position receivables as at 31 December 2021, consist of amount receivables from the Central Bank of Lebanon, mainly as a result of application of Basic Circulars 151 and 157.

## 17. DUE TO THE CENTRAL BANK OF LEBANON

	2021	2020
	LBP Million	LBP Million
Soft loans (a)	132,722	126,021
Leverage arrangements (b)	-	-
Subsidized loans (c)	28,503	47,706
Advance in current account (e)	18,175	17,248
Accrued interest payable	263	254
	<b>179,663</b>	<b>191,229</b>

(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 21).

(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; or purchased Lebanese government Eurobonds from the Central Bank of Lebanon.

During 2019, the Group and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement and pledged certificates of deposit with the Central Bank of Lebanon in LBP. In January 2020, another netting agreement was signed between both parties covering leverage arrangements that were invested in Lebanese treasury bills. These agreements qualify for netting under the requirements of IAS 32. During the year ended 31 December 2021, financial assets and financial liabilities that were settled on a net basis amounted to LBP 72.5 billion (31 December 2020: LBP 129.1 billion) as a condition to transactions entered into with the Central Bank of Lebanon, aiming at FX risk management and increasing liquidity in LBP bank notes (Note 5).

The below table summarises 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:

	2021	2020
	LBP Million	LBP Million
<b>Leverage arrangements:</b>		
Gross amounts	801,388	873,963
Amounts offset against:		
Term placements with Central Bank of Lebanon <sup>(1)</sup> - Note 5	(601,553)	(674,128)
Lebanese treasury bills <sup>(1)</sup> - Note 9	(199,835)	(199,835)
Net amounts reported on balance sheet	-	-

<sup>(1)</sup> Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon and Lebanese treasury bills at amortized cost 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 remaining facilities granted by the Central Bank of Lebanon amounted to LBP 24 billion (2020: LBP 32 billion). Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis. During 2021, the Group obtained additional facilities amounting to LBP 10 billion (2020: LBP 15 billion) not subject to any interest rate in accordance with the Central Bank of Lebanon exceptional circulars 152, 547 and 552.

(d) 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. On 31 March 2021, the loan was renewed for an additional year. On 31 March 2022, the loan was renewed for an additional year.

## 18. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2021	2020
	LBP Million	LBP Million
Current deposits	961	1,155
Current deposits - related parties	15,478	16,788
Acceptances payable	368	1
Term deposits - related parties	8,429	15,876
Accrued interest payable	7	-
Accrued interest payable-related parties	4	8
	<b>25,247</b>	<b>33,828</b>

## 19. DEPOSITS FROM CUSTOMERS

	2021	2020
	LBP Million	LBP Million
Current/demand deposits	1,192,417	1,057,368
Term deposits	1,089,243	1,398,497
Collateral against loans and advances	27,513	59,003
Bankers' checks (a)	46,844	31,079
Deposits from factoring activities	10,586	3,367
Margins for irrevocable import letters of credit	530	530
Margins on letters of guarantee	3,640	3,775
Margin accounts - factoring	12,830	13,849
Other margins	537	490
Accrued interest payable	3,302	3,839
	<b>2,387,442</b>	<b>2,571,797</b>

(a) Bankers' checks as at 31 December 2021 and 2020 consist of checks paid to depositors that have not yet been withdrawn from the Central Bank of Lebanon.

## 20. DEPOSITS FROM RELATED PARTIES

	2021	2020
	LBP Million	LBP Million
Current/demand deposits	133,387	137,592
Term deposits	54,645	100,823
Collateral against loans and advances to related parties	9,017	14,027
Collaterals against other loans and advances	25,877	25,516
Margins on letters of guarantee	1,135	1,014
Other margins	109	109
Accrued interest payable	10	160
	<b>224,180</b>	<b>279,241</b>

## 21. OTHER LIABILITIES

	2021	2020
	LBP Million	LBP Million
Deferred income - Subsidy from the Central Bank of Lebanon (a)	6,586	9,373
Accrued expenses	14,937	9,469
Withheld taxes payable	5,330	6,397
Due to the National Social Security Fund	502	348
Due to shareholders (b)	8,141	8,141
Sundry creditors	3,808	1,685
	<b>39,304</b>	<b>35,413</b>

(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 Group's license to be cancelled due to the merger, b) the additional compensations paid to the merged Group'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.

During the year ended 31 December 2021, the Group recognized LBP 2.8 billion (31 December 2020 LBP 3.7 billion) reflected in the income statement under "Other (expenses) / income, net" (Note 35) to match depreciation related cost.

(b) Some of the Group's shareholders agreed to purchase shares acquired in settlement of loans (Note 12) 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 2021 and 2020. This transaction is still pending certain legal formalities.

## 22. PROVISIONS

	2021	2020
	LBP Million	LBP Million
Provision for employees' end-of-service indemnity	5,679	4,980
Provision for contingencies	1,599	1,599
Provision for lawyers' indemnity	75	136
Provision for ECL on financial guarantees and other commitments - Note 43	5,773	4,526
Provision for loss on foreign currency position	45	45
	<b>13,171</b>	<b>11,286</b>

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 2021	4,980	1,599	136	4,526	45	11,286
Provision for employees' end of service indemnity (Note 33)	1,323	-	23	-	-	1,346
Provision for ECL on financial guarantees and other commitments (Note 32)	-	-	-	1,247	-	1,247
Settlements	(624)	-	(84)	-	-	(708)
<b>At 31 December 2020</b>	<b>5,679</b>	<b>1,599</b>	<b>75</b>	<b>5,773</b>	<b>45</b>	<b>13,171</b>
At 1 January 2020	6,788	1,599	206	1,331	45	9,969
Provision for employees' end of service indemnity (Note 33)	(834)	-	24	-	-	(810)
Provision for ECL on financial guarantees and other commitments (Note 32)	-	-	-	3,195	-	3,195
Settlements	(974)	-	(94)	-	-	(1,068)
<b>At 31 December 2020</b>	<b>4,980</b>	<b>1,599</b>	<b>136</b>	<b>4,526</b>	<b>45</b>	<b>11,286</b>

## 23. SHARE CAPITAL

The capital of the Group amounting to LBP 147 billion (2020: LBP 147 billion) is composed of 147,000,000 shares (2020: 147,000,000) of LBP 1,000 par value each, authorized, issued and fully paid.

The Extraordinary General Assembly of Shareholders held on 11 December 2020 confirmed and verified the increase of the Group's capital by LBP 136.4 billion through the issuance of 136,400,000 new common registered shares with a par value of LBP 1,000 per share as follows: partly by issuing 34,980,030 common shares, by incorporating the equivalent of their value in Lebanese Pounds from the share premium account; and the balance by issuing 101,419,970 common shares, with a par value of LBP 1,000 subscribed via cash contributions to capital.

## 24. CASH CONTRIBUTION TO CAPITAL

As at 31 December, cash contributions to capital consist of the following:

USD 67.34 million (2020: USD 67.34 million)  
 USD 40 million (2020: USD 40 million)  
 USD 4.4 million (2020: nil)

	2021	2020
	LBP Million	LBP Million
	101,518	101,518
	60,300	60,300
	6,633	-
	<b>168,451</b>	<b>161,818</b>

On 11 December 2020, the Exceptional Ordinary General Assembly of Shareholders resolved to approve the granting of cash contributions to capital by some of the Group's shareholders, amounting to LBP 6.63 billion (USD 4.4 million) in order to complete the 20% increase of the Common Equity Tier 1 capital as at 31 December 2018, in compliance with Central Bank of Lebanon Intermediary Circular 567. On 9 April 2021, the Group obtained the preliminary approval of the Central Bank of Lebanon. On 10 September 2021, the Group obtained the final approval of the Central Bank of Lebanon.

### **USD 67.34 million (2020: USD 67.34 million)**

This contribution is interest free. According to local banking laws and regulations, this shareholders' cash contribution to capital is considered as Common Equity Tier 1 for the purpose of computation of the risk-based capital ratio.

In accordance with the resolutions of the extraordinary general assembly of shareholders held on 11 December 2020, an amount of USD 67.27 million (LBP 101.42 billion) was utilized for subscription in the new common registered shares issued (Note 23).

### **USD 40 million (2020: USD 40 million)**

This contribution is subject to a return 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. According to local banking laws and regulations, this shareholders' cash contribution to capital is considered as Tier 1 for the purpose of 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 intermediary circular 532 (amended by intermediary circular 567).

### **USD 4.4 million (2020: nil)**

This contribution is subject to a return 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. According to local banking laws and regulations, this shareholders' cash contribution to capital is considered as Tier 1 for the purpose of 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 intermediary circular 532 (amended by intermediary circular 567).

## 25. NON-DISTRIBUTABLE RESERVES

The movement of non-distributable reserves during 2021 and 2020 was as follows:

	Legal reserves	General reserves	Regulatory reserve for profit on 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
Balance at 1 January 2021 and 31 December 2021	3,642	42,761	3,434	3,930	2	53,769

	Legal reserves	General reserves	Regulatory reserve for profit on 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
Balance at 1 January 2020 and 31 December 2020	3,642	42,761	3,434	3,930	2	53,769

### **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 Group failed to liquidate the properties within 2 years from the date of acquisition. This reserve is not considered as part of the Group's Tier I Capital and is not available for distribution (Note 12).

### **General reserves:**

According to the Central Bank of Lebanon Main Circular 143, the Group 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 Group's equity and is not available for distribution.

## 26. OWNED BUILDINGS REVALUATION SURPLUS

	2021	2020
	LBP Million	LBP Million
Group premises	13,699	13,699
Subsidiary owned properties (SIPC)	35,838	35,838
	<b>49,537</b>	<b>49,537</b>

## 27. INTEREST AND SIMILAR INCOME

	2021	2020
	LBP Million	LBP Million
Deposits with Central Bank of Lebanon	116,814	143,808
Deposits with banks and financial institutions	239	3,745
Financial assets at amortized cost	30,319	30,931
Loans and advances to customers	20,886	51,051
Loans and advances to related parties	685	1,111
Factoring activities	8,035	15,386
	<b>176,978</b>	<b>246,032</b>
Withheld tax on interest	(17,331)	(20,420)
	<b>159,647</b>	<b>225,612</b>

## 28. INTEREST AND SIMILAR EXPENSE

	2021	2020
	LBP Million	LBP Million
Due to the Central Bank of Lebanon	10,379	23,992
Due to banks and financial institutions	170	1,472
Deposits from customers	26,953	87,831
Deposits from related parties	2,161	10,525
	<b>39,663</b>	<b>123,820</b>

## 29. FEE AND COMMISSION INCOME

	2021	2020
	LBP Million	LBP Million
Service fees on customers' transactions	18,453	9,011
Factoring fees	1,872	3,279
Commission on documentary credits	209	113
Commission on letters of guarantee	834	1,192
Commission from fiduciary deposits	86	255
Asset management fees	266	690
Other commissions	2,176	1,057
	<b>23,896</b>	<b>15,597</b>

## 30. FEE AND COMMISSION EXPENSE

	2021	2020
	LBP Million	LBP Million
Commission on transactions with banks	557	483
Factoring commission expense	11	14
Other commission expense (Note 40)	8,923	1,008
	<b>9,491</b>	<b>1,505</b>

### 31. OTHER OPERATING INCOME

	2021	2020
	LBP Million	LBP Million
Net foreign exchange gains	1,595	612
Income from funds distribution	62	-
	<b>1,657</b>	<b>612</b>

### 32. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2021	2020
	LBP Million	LBP Million
Balances with Central Bank of Lebanon	-	(302)
Due from banks and financial institutions	(835)	-
Loans and advances to customers	33,434	75,336
Financial assets at amortized cost	10,251	10,302
Financial guarantees and other commitments	1,247	3,195
	<b>44,097</b>	<b>88,531</b>

### 33. STAFF COSTS

	2021	2020
	LBP Million	LBP Million
Salaries and related benefits	24,880	22,346
Schooling allowances	1,344	1,153
Transportation	1,500	647
Social Security contribution	2,727	3,444
Provision for staff indemnity costs (Note 22)	1,346	(810)
Board of Directors remuneration fees	2,159	2,222
Representation fees	546	512
Other benefits	2,424	1,571
	<b>36,926</b>	<b>31,085</b>

### 34. GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
	LBP Million	LBP Million
Printings, subscriptions and stationery	6,028	4,278
Maintenance and repairs	5,629	3,314
Professional and consultancy fees	1,962	2,289
IT outsourcing services	3,879	2,132
Premium of guarantee of deposits	1,420	1,634
Rent charges under operating leases	1,865	1,584
Insurance	1,970	1,377
Fees on capital increase	-	1,091
Telecommunication expenses	1874	760
Fines and taxes	650	493
Electricity, water and fuel	775	279
Transportation and travel	149	124
Communication and marketing fees	27	90
Other expenses	174	148
	<b>26,402</b>	<b>19,593</b>

### 35. OTHER INCOME (EXPENSE), NET

	2021	2020
	LBP Million	LBP Million
Subsidy income (Note 21)	2,787	3,693
Other income, net	1,024	101
Staff severance indemnities (a)	(1,818)	(11,023)
	<b>1,993</b>	<b>(7,229)</b>

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

### 36. COST OF LIQUIDITY

In order to build up offshore liquidity, the Group introduced the “multiplier factor” which entails inciting depositors of foreign currency international liquidity, cash deposited or incoming border transfers to convert these funds into local foreign currency deposits after the application of multiplier factor during 2020. Book losses from these transactions amounted to LBP 93 billion during 2020.

During the year ended 31 December 2021, the Group bought dollars through Sayrafa platform, which resulted in losses amounting to LBP 1 billion.

### 37. INCOME TAX

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

	2021	2020
	LBP Million	LBP Million
<b>Current tax</b>		
Current income tax	-	6
Other taxes (a)	-	7,511
<b>Deferred tax</b>		
Relating to origination and reversal of temporary differences	-	920
	<b>-</b>	<b>8,437</b>

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

	2021	2020
	LBP Million	LBP Million
Loss before tax	(610)	(166,411)
Carry forward deductible losses	(105,395)	-
Non-deductible expenses	47,261	47,935
Non-taxable income	<b>(13,641)</b>	(2,204)
Taxable result	(72,385)	<b>(120,680)</b>
Income tax based on enacted rate - 17%	-	6
<b>Total income tax expense</b>	<b>-</b>	<b>6</b>

(a) This amount represents 2% tax on 2019 turnover as per Article No 20 of Budget Law 6/2020 to be settled over 3 equal installments. An amount of LBP 2,504 million was settled during the year 2020. The remaining balance of LBP 5,007 million was settled during the year 2021.

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

	2021	2020
	LBP Million	LBP Million
Income tax	-	2,129
Other taxes	36	5,037
	<b>36</b>	<b>7,166</b>

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

	2021		
	Deferred tax assets (liabilities)	Income statement	Other comprehensive loss
	LBP Million	LBP Million	LBP Million
Financial instruments at FVTOCI	(839)	-	(8)

	2020		
	Deferred tax assets (liabilities)	Income statement	Other comprehensive income
	LBP Million	LBP Million	LBP Million
Financial instruments at FVTOCI	(831)	-	7
Other temporary differences	-	(920)	-
	<b>(831)</b>	<b>(920)</b>	<b>7</b>

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 2021 (inclusive) remain subject to examination and final review by the tax authorities. Any additional tax liability depends on the results of these reviews.

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

### 38. 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.

	2021	2020
	LBP Million	LBP Million
Documentary and commercial letters of credit	1,237	1,237
Guarantees and standby letters of credit	47,858	65,995

### 39. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

	2021	2020
	LBP Million	LBP Million
Back-to-back lending	13,611	27,222
Assets under management	95,697	126,466
	<b>109,308</b>	<b>153,688</b>

## 40. 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:

	2021	2020
	LBP Million	LBP Million
<b>Shareholders, directors and other key management personnel and close family members:</b>		
<i>Direct facilities and credit balances:</i>		
Unsecured loans and advances	2,646	4,442
Loans and advances against cash collateral	-	4,736
Deposits	92,680	152,149
<b>Related companies:</b>		
<i>Direct facilities and credit balances:</i>		
Unsecured loans and advances	11,835	15,092
Loans and advances against cash collateral	8,905	9,100
Other receivables, related party	750	536
Deposits from customers	131,500	127,092
Deposits from banks and financial institutions	23,911	32,672
<i>Indirect facilities:</i>		
Fiduciary assets and assets under management	1,392	1,324
Letters of guarantee	1,728	1,829

As at 31 December 2021, pledged guarantee funds amounting to LBP 1.33 billion (2020: 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.

Interest income from loans and advances to related parties amounted to LBP 685 million for 2021 (2020: LBP 1.1 billion). Interest expense on deposits from related parties amounted to LBP 2.2 billion during 2021 (2020: LBP 10.5 billion).

Secured loans, advances and indirect facilities are covered by pledged deposits to the extent of LBP 11.96 billion as of 31 December 2021 (31 December 2020: LBP 14.03 billion).

As at 31 December 2021, other receivables represent building renovation expenses paid by the Group on behalf of Saradar Real Estate Holding SAL for an amount of LBP 0.75 billion (31 December 2020: 0.54 billion). This balance is current and not subject to interest.

During 2021, the Group paid a commission of LBP 8,375 million (2020: nil) to a related party against the supply of LBP denominated bank notes in order to build up its inventory and service customer needs. Commission income from related parties amounted to LBP 2.2 billion during 2021.

During 2021, income from advisory services fees from Saradar Family Office S.A.L. amounted to LBP 23 million (2020: nil).

During 2021, the Group sold some fixed assets to Saradar Shared Services SAL for LBP 39 million generating income of LBP 23 billion.

During 2020, the Group sold an asset acquired in satisfaction of loans to a related party at book value for the amount of LBP 1.8 billion. Following the sale, the Group incurred additional registration fees of LBP 47 million on the income statement.

During 2020, the Group signed a service-level agreement with Saradar Shared Services SAL, a related party, who charged the Group an amount of LBP 1.2 billion during 2021 for information technology services (2020: LBP 229 million).

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

During 2020, the Group purchased foreign currency international liquidity from related parties incurring a cost of LBP 716 million reflected under cost of liquidity in the consolidated income statement.

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

	2021	2020
	LBP Million	LBP Million
Short term benefits	6,554	5,739
End of service benefits	230	117
	<b>6,784</b>	<b>5,856</b>

Related party expenses incurred during the year were as follows:

	2021	2020
	LBP Million	LBP Million
Outsourcing of digital factory	1,220	229
Courier services	283	54
Subscription fees	211	178
Donations	76	-
Travel expenses	28	42
Membership fees	30	47
Sponsorship	15	-
Building charges	13	365
Lease payments and rent expense	11	2,945
	<b>1,887</b>	<b>3,860</b>

## 41. CASH AND CASH EQUIVALENTS

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

	2021	2020
	LBP Million	LBP Million
Cash on hand (Note 5)	104,672	22,238
Current accounts with Central Bank of Lebanon (excluding compulsory reserve) (Note 5)	273,966	151,637
Checks in course of collection from banks (Note 6)	6,321	34,321
Current accounts with banks and financial institutions (Note 6)	48,074	70,075
Term placements with banks and financial institutions (Note 6)	6	5,006
	<b>433,039</b>	<b>283,277</b>
Less:		
Current accounts due to banks and financial institutions (Note 18)	16,439	17,943
Term deposits due to banks and financial institutions (Note 18)	8,430	15,876
	<b>24,869</b>	<b>33,819</b>
	<b>408,170</b>	<b>249,458</b>

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

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

	2021	2020
	LBP Million	LBP Million
Balances with the Central Bank of Lebanon	262,363	149,672
Due from banks and financial institutions	1,959	1,657
Less:		
Due to banks and financial institutions	(16,533)	(4,884)
	<b>247,789</b>	<b>146,445</b>

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

- Contract adjustments to right-of-use assets and lease liabilities for the amount of LBP 2,206 million during the year ended 31 December 2021 (31 December 2020: LBP 6,207 million).
- Assets acquired in settlement of loans in the amount of LBP 29 billion during the year ended 31 December 2020 against loans and advances to customers.
- Addition of right-of-use assets and lease liabilities for the amount of 12,698 during the year ended 31 December 2020.

## 42. CAPITAL MANAGEMENT

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon which is the lead supervisor of the Group.

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

- Raising the regulatory expected credit loss level for Lebanese Government securities in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45%. Regulatory ECL for other exposures remain unchanged. The levels remained applicable in 2021.

<i>Type of financial instrument</i>	2021	2020
Exposures to Central Bank of Lebanon in foreign currencies	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Pounds	0 %	0 %
Lebanese Government securities in foreign currencies	45 %	45 %
Lebanese Government securities in Lebanese Pounds	0 %	0 %

As at 31 December 2021, two tenth of expected credit losses calculated on Lebanese Government Eurobonds at the loss rate of 45% have been recorded in these consolidated financial statements bringing the total booked expected credit loss to LBP 48,235 million (2020: LBP 37,984 million). The remaining balance of LBP 83,317 million (2020: LBP 93,568 million) will be amortized over the coming 8 years, as permissible by the circular (2020: over the coming 9 years).

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier one capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020 but was later extended for the banking sector to 28 February 2021. Central Bank of Lebanon's Central Council may exceptionally approve a bank to complete 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction.
- Inclusion of 100% of revaluations gain of owned real estate properties (excluding ones acquired in settlement of bad debt as per Article 154 of Code Money & Credit) in Common Equity Tier I, instead of 50% of this gain in Tier II as previously was the case. The regulatory deadline for completing the reappraisal process for such properties was set on 31 December 2021.
- Exceptionally during 2020 and 2021, allowing banks to draw down the 2.5% capital conservation buffer on condition of rebuilding it progressively starting 2022 by 0.75% each year, to reach the minimum required level of 2.5% by the end of 2024.
- Prohibiting Lebanese banks from distributing dividends on common shares for the financial years 2019 and 2020, as well as prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).
- Exceptionally for 2020 and 2021, allowing Banks to include provisions for expected credit losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to Credit Risk Weighted Assets). Such provisions included under CET 1 should be amortized over a period of 3 years starting 2022 and ending in 2024 by 25% yearly.

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
<b>31 December 2021</b>			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%
<b>31 December 2020</b>			
Minimum required capital ratios	4.50%	6.00%	8.00%
With capital conservation buffer	7.00%	8.50%	10.50%

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

	2021	2020
	LBP Million	LBP Million
Common Equity Tier I capital	195,889	184,751
Tier I capital	66,933	60,300
Tier II capital	29,386	29,366
<b>Total regulatory capital (Tier I + Tier II)</b>	<b>292,208</b>	<b>274,417</b>
Credit risk	2,580,474	3,046,595
Market risk	209,244	132,381
Operational risk	202,666	160,489
<b>Total Risk-weighted assets</b>	<b>2,992,384</b>	<b>3,339,465</b>
Common Equity Tier I Ratio	6.54%	5.53%
Tier I Ratio	8.78%	7.34%
Total Capital Ratio	9.76%	8.22%

The capital adequacy ratios as at 31 December 2021 and 2020 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1, they also do not take into consideration unrecorded expected credit losses on Lebanese Government Eurobonds, calculated by the Group at the rate of 45% but that are being amortized over 10 years as permissible by the circular. Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the Sayrafa rate, the parallel market rates, the platform rate and the official published exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its equity. Management has concerns about the effects that the above matters will have on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

### 43. 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.

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 is 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, 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;

Since October 2019, the challenging economic situation in Lebanon has been exerting 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 controls measures since October 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 considers 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.

In response to the Covid-19 outbreak, governments and regulators around the world have introduced a number of support measures for both personal and wholesale customers in market-wide schemes. Relief is offered as payment holidays varying starting 01/04/2020 and till 31/03/2022 (extended under law 257). No payment is required from the borrower during this period and interest continues to be charged as usual. In addition, with respect the criteria of 90 days past due and 30 days past due, before moving borrowers to Stages 3 and 2 respectively, the Group (a) considers the payment holidays provided and (b) the unlikely to pay criteria.

### *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.

With respect to exposures to Central Bank of Lebanon and Lebanese Sovereign, Intermediate Circular 567 issued on 26 August 2020 altered the directives for the determination of expected credit losses, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% loss rates respectively). The circular however changed the requirement for the recognition of expected credit losses in the Groups' consolidated financial statements from applying at a "Maximum" the loss rate adopted for regulatory expected credit losses calculations, to applying it at a "Minimum". Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Government's plans with respect to the exposures of banks to the Central Bank of Lebanon and Lebanese Sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures and accordingly, as applicable, the loss rates mentioned in Intermediate Circular 567 were adopted by the Group for recording ECL on exposures to Lebanese Sovereign and to the Central Bank of Lebanon. The Group is amortizing the expected credit losses on Lebanese Government Eurobonds over 10 years as permissible by the circular (31 December 2020: same).

**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, taking into consideration payment holidays and the unlikely to pay criteria. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

**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, COVID-19 and uncertainties disclosed in Note 1. Future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the crisis and the COVID-19 pandemic. 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 before the full resolution of these prevailing high uncertainties.

**Overview of modified and forborne loans**

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, exceptional economic downturn, COVID-19 pandemic, 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

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

	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
<b>31 December 2021</b>									
Balances with Central Bank of Lebanon	1,712,927	-	-	1,712,927	(27,093)	-	-	(27,093)	1,685,834
Due from banks and financial Institutions	57,609	-	-	57,609	(825)	-	-	(825)	56,784
Loans and advances to customers	287,214	149,692	374,404	811,310	(50,064)	(34,967)	(195,391)	(280,422)	530,888
Financial assets at amortized cost	278,730	-	292,168	570,898	(299)	-	(48,235)	(48,534)	522,364
Financial guarantees and other commitments	24,297	12,276	11,285	47,858	(2,026)	(2,321)	(1,426)	(5,773)	42,085
	<b>2,360,777</b>	<b>161,968</b>	<b>677,857</b>	<b>3,200,602</b>	<b>(80,307)</b>	<b>(37,288)</b>	<b>(245,052)</b>	<b>(362,647)</b>	<b>2,837,955</b>

	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
<b>31 December 2020</b>									
Balances with Central Bank of Lebanon	1,716,328	-	-	1,716,328	(27,093)	-	-	(27,093)	1,689,235
Due from banks and financial Institutions	112,747	-	-	112,747	(1,660)	-	-	(1,660)	111,087
Loans and advances to customers	533,421	161,335	328,105	1,022,861	(47,694)	(21,602)	(162,116)	(231,412)	791,449
Financial assets at amortized cost	295,481	-	292,337	587,818	(299)	-	(37,984)	(38,283)	549,535
Financial guarantees and other commitments	38,130	7,988	21,334	67,452	(269)	(4,257)	-	(4,526)	62,926
	<b>2,696,107</b>	<b>169,323</b>	<b>641,776</b>	<b>3,507,206</b>	<b>(77,015)</b>	<b>(25,859)</b>	<b>(200,100)</b>	<b>(302,974)</b>	<b>3,204,232</b>

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 2021	47,694	21,602	162,116	231,412
Net re-measurements and reallocations	2,370	13,365	17,699	33,434
Interest in suspense	-	-	15,576	15,576
<b>Balance at 31 December 2021</b>	<b>50,064</b>	<b>34,967</b>	<b>195,391</b>	<b>280,422</b>

	Stage 1	Stage 2	Stage 3	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Balance at 1 January 2020	25,357	13,701	104,995	144,053
Net re-measurements and reallocations	22,337	7,901	45,098	75,336
Interest in suspense	-	-	12,023	12,023
<b>Balance at 31 December 2020</b>	<b>47,694</b>	<b>21,602</b>	<b>162,116</b>	<b>231,412</b>

As at 31 December 2021, two tenth of expected credit losses calculated on Lebanese Government Eurobonds at the loss rate of 45% (mentioned in Intermediate Circular 567), have been recorded in these consolidated financial statements, and the remaining balance of 83 billion will be amortized over the coming 8 years, as permitted by the circular. (2020: remaining balance of LBP 94 billion will be amortized over the coming 9 years, as permitted by the circular).

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 and risk parameters changes.

The allowance for impairment includes interest in suspense on non-performing loans in the amount of LBP 113 billion as of 31 December 2021 (LBP 98 billion as of 31 December 2020).

#### 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 2021 was LBP 34.5 billion (2020: LBP 70.64 billion), before taking into account collaterals or other credit enhancements, and LBP 34.5 billion (2020: LBP nil) net of such protection.

#### 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 2021 and 2020 is as follows:

	31 December 2021		
	Lebanon	Overseas	Total
	LBP Million	LBP Million	LBP Million
Balances with Central Bank of Lebanon	1,685,834	-	1,685,834
Due from banks and financial institutions	10,348	46,436	56,784
Loans and advances to customers	530,888	-	530,888
Financial assets at amortized cost	522,364	-	522,364
<b>Total</b>	<b>2,749,434</b>	<b>46,436</b>	<b>2,795,870</b>

	31 December 2020		
	Lebanon	Overseas	Total
	LBP Million	LBP Million	LBP Million
Balances with Central Bank of Lebanon	1,689,235	-	1,689,235
Due from banks and financial institutions	40,105	70,982	111,087
Loans and advances to customers	791,449	-	791,449
Financial assets at amortized cost	549,535	-	549,535
<b>Total</b>	<b>3,070,324</b>	<b>70,982</b>	<b>3,141,306</b>

### 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 31 December 2021 and 2020 is as follows:

31 December 2021									
	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
Balances with Central Bank of Lebanon	1,685,834	-	-	-	-	-	-	-	1,685,834
Due from banks and financial institutions	-	-	56,784	-	-	-	-	-	56,784
Loans and advances to customers	-	49,118	82,304	184,577	67,662	67,815	72,926	6,486	530,888
Financial assets at amortized cost	522,364	-	-	-	-	-	-	-	522,364
<b>Total</b>	<b>2,208,198</b>	<b>49,118</b>	<b>139,088</b>	<b>184,577</b>	<b>67,662</b>	<b>67,815</b>	<b>72,926</b>	<b>6,486</b>	<b>2,795,870</b>

31 December 2020									
	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
Balances with Central Bank of Lebanon	1,689,235	-	-	-	-	-	-	-	1,689,235
Due from banks and financial institutions	-	-	111,087	-	-	-	-	-	111,087
Loans and advances to customers	-	106,026	109,665	240,670	148,648	80,775	95,030	10,635	791,449
Financial assets at amortized cost	549,535	-	-	-	-	-	-	-	549,535
<b>Total</b>	<b>2,238,770</b>	<b>106,026</b>	<b>220,752</b>	<b>240,670</b>	<b>148,648</b>	<b>80,775</b>	<b>95,030</b>	<b>10,635</b>	<b>3,141,306</b>

### 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 2021				
	Gross Exposure	Fair Value of Collateral Received			Total
		Cash Collateral	Mortgage of Property		
		LBP Million	LBP Million	LBP Million	
Corporate and SME	247,123	46,105	100,288	146,393	
Factoring facilities	118,233	-	-	-	
Retail and Personal	64,614	6,928	36,240	43,168	
Credit impaired	374,404	928	174,203	175,131	
	<b>804,374</b>	<b>53,961</b>	<b>310,731</b>	<b>364,692</b>	

	31 December 2020				
	Gross Exposure	Fair Value of Collateral Received			Total
		Cash Collateral	Mortgage of Property		
		LBP Million	LBP Million	LBP Million	
Corporate and SME	436,597	72,539	175,360	247,899	
Factoring facilities	123,451	-	-	-	
Retail and Personal	121,780	19,109	62,545	81,654	
Credit impaired	328,105	201	112,237	112,438	
	<b>1,009,933</b>	<b>91,849</b>	<b>350,142</b>	<b>441,991</b>	

## 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 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 weekly basis, the amount of obligatory reserve and the expected liquidity situation for the week.

### Monitoring process

#### Daily

Due to the ongoing economic and financial crisis in Lebanon, management focused its monitoring efforts on the monitoring of unrestricted liquidity coverage and 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 General Management Committee relevant parties. Also, Group 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.

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

**Sources of funding:**

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

The Group stresses the importance of customers' deposits as 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**

	2021	2020
Year-end	13.7%	22.3%
Maximum	21.5%	32.5%
Minimum	13.7%	21.6%
Average	18.2%	27.0%

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

	31 December 2021				
	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Due to Central Bank of Lebanon	44,533	131,029	4,101	-	179,663
Due to banks and financial institutions	25,247	-	-	-	25,247
Deposits from customers and related parties	2,421,665	173,988	16,248	-	2,611,901
Lease liabilities	4,751	1,251	15,509	1,147	22,658
	<b>2,496,196</b>	<b>306,268</b>	<b>35,858</b>	<b>1,147</b>	<b>2,839,469</b>

## FINANCIAL LIABILITIES

	31 December 2020				
	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Due to Central Bank of Lebanon	-	176,243	14,986	-	191,229
Due to banks and financial institutions	33,828	-	-	-	33,828
Deposits from customers and related parties	2,464,278	338,671	48,089	-	2,851,038
Lease liabilities	1,856	4,449	20,993	4,191	31,489
	<b>2,499,962</b>	<b>519,363</b>	<b>84,068</b>	<b>4,191</b>	<b>3,107,584</b>

## 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.

### Currency risk:

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

As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official published exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency markets, this does not always represent a reasonable estimate of expected cash flows in Lebanese Pounds that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the consolidated financial statements. 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 recognised in the consolidated financial statements once the change in the official exchange rate and /or a legal exchange mechanism is implemented by the Lebanese government.

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 2021				
	LBP	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
<b>ASSETS</b>					
Cash and balances with Central Bank of Lebanon	321,356	1,402,817	65,655	678	1,790,506
Due from banks and financial institutions	4,479	38,156	5,375	8,774	56,784
Financial assets at fair value through profit or loss	121	3,071	-	-	3,192
Loans and advances to customers	137,599	378,004	6,543	8,742	530,888
Financial assets at amortized cost	262,986	259,378	-	-	522,364
Financial assets at fair value through other comprehensive income	5,583	217	48	-	5,848
Investments in an associate	-	11,807	-	-	11,807
Assets acquired in settlement of loans	619	26,473	-	-	27,092
Property and equipment	59,553	-	-	-	59,553
Right-of-use assets	-	21,705	-	-	21,705
Intangible assets	7,334	-	-	-	7,334
Other assets	36,131	3,597	-	-	39,728
	<b>835,761</b>	<b>2,145,225</b>	<b>77,621</b>	<b>18,194</b>	<b>3,076,801</b>
<b>LIABILITIES</b>					
Due to Central Bank of Lebanon	174,310	5,353	-	-	179,663
Due to banks and financial institutions	8,337	16,563	347	-	25,247
Deposits from customers and related parties	401,216	2,113,883	79,313	17,210	2,611,622
Other liabilities	38,289	14,170	22	30	52,511
Lease liabilities	-	22,227	-	-	22,227
Deferred tax liability	839	-	-	-	839
	<b>622,991</b>	<b>2,172,196</b>	<b>79,682</b>	<b>17,240</b>	<b>2,892,109</b>
Equity	16,241	168,451	-	-	184,692
Net exchange position	<b>196,529</b>	<b>(195,422)</b>	<b>(2,061)</b>	<b>954</b>	<b>-</b>

31 December 2020

	LBP	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
<b>ASSETS</b>					
Cash and balances with Central Bank of Lebanon	291,029	1,363,325	56,272	847	1,711,473
Due from banks and financial institutions	11,310	86,842	4,109	8,826	111,087
Financial assets at fair value through profit or loss	121	3,406	-	-	3,527
Loans and advances to customers	117,833	638,886	25,904	8,826	791,449
Financial assets at amortized cost	241,461	308,074	-	-	549,535
Financial assets at fair value through other comprehensive income	5,682	74	47	-	5,803
Investments in an associate	-	11,760	-	-	11,760
Assets acquired in settlement of loans	621	27,006	-	-	27,627
Property and equipment	67,579	236	-	-	67,815
Right-of-use assets	-	30,968	-	-	30,968
Intangible assets	8,973	-	-	-	8,973
Other assets	9,401	10,039	-	-	19,440
	<b>754,010</b>	<b>2,480,616</b>	<b>86,332</b>	<b>18,499</b>	<b>3,339,457</b>
<b>LIABILITIES</b>					
Due to Central Bank of Lebanon	174,364	16,865	-	-	191,229
Due to banks and financial institutions	11,588	21,185	1,055	-	33,828
Deposits from customers and related parties	382,049	2,366,729	84,453	17,807	2,851,038
Other liabilities	42,106	11,685	41	33	53,865
Lease liabilities	-	30,034	-	-	30,034
Deferred tax liability	831	-	-	-	831
	<b>610,938</b>	<b>2,446,498</b>	<b>85,549</b>	<b>17,840</b>	<b>3,160,825</b>
Equity	16,814	161,818	-	-	178,632
Net exchange position	<b>126,258</b>	<b>(127,700)</b>	<b>783</b>	<b>659</b>	<b>-</b>

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

## 31 December 2021

	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million
<b>ASSETS</b>				
Balances with Central Bank of Lebanon	1,347,915	63,561	441	1,411,917
Due from banks and financial institutions	4,893	459	515	5,867
Financial assets at fair value through profit or loss	3,071	-	-	3,071
Loans and advances to customers	378,004	6,543	8,742	393,289
Financial assets at amortized cost	259,378	-	-	259,378
Financial assets at fair value through other comprehensive income	-	48	-	48
Investments in an associate	10,296	-	-	10,296
Assets acquired in settlement of loans	26,473	-	-	26,473
Right-of-use assets	21,705	-	-	21,705
Other assets	1,764	-	-	1,764
<b>Total Assets</b>	<b>2,053,499</b>	<b>70,611</b>	<b>9,698</b>	<b>2,133,808</b>
<b>LIABILITIES</b>				
Due to Central Bank of Lebanon	5,353	-	-	5,353
Due to banks and financial institutions	15,172	327	-	15,499
Deposits from customers and related parties	2,027,761	73,886	16,861	2,118,508
Other liabilities	14,170	22	30	14,222
Lease liabilities	22,227	-	-	22,227
<b>Total Liabilities</b>	<b>2,084,683</b>	<b>74,235</b>	<b>16,891</b>	<b>2,175,809</b>
Total Equity	168,451	-	-	168,451
Net exchange position	(199,635)	(3,624)	(7,193)	(210,452)

31 December 2020

## ASSETS

	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Balances with Central Bank of Lebanon	1,353,147	55,108	697	1,408,952
Due from banks and financial institutions	27,784	466	502	28,752
Financial assets at fair value through profit or loss	3,406	-	-	3,406
Loans and advances to customers	638,886	25,904	8,826	673,616
Financial assets at amortized cost	308,074	-	-	308,074
Financial assets at fair value through other comprehensive income	-	47	-	47
Investment in an associate	11,760	-	-	11,760
Assets acquired in settlement of loans	27,006	-	-	27,006
Property and equipment	223	-	-	223
Right-of-use assets	30,968	-	-	30,968
Other assets	23,025	83	-	23,108
<b>Total assets</b>	<b>2,424,279</b>	<b>81,608</b>	<b>10,025</b>	<b>2,515,912</b>

## LIABILITIES

Due to Central Bank of Lebanon	16,865	-	-	16,865
Due to banks and financial institutions	19,720	1,048	-	20,768
Deposits from customers and related parties	2,321,886	81,344	17,768	2,420,998
Engagements by acceptances	-	-	-	-
Other liabilities	11,380	43	35	11,458
Lease liabilities	30,034	-	-	30,034
<b>Total liabilities</b>	<b>2,399,885</b>	<b>82,435</b>	<b>17,803</b>	<b>2,500,123</b>
Equity	161,818	-	-	161,818
Net exchange position	(137,424)	(827)	(7,778)	(146,029)

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future probability or the fair value of financial instruments.

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.

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

31 December 2021						
	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
<b>FINANCIAL ASSETS</b>						
Cash and balances with Central Bank of Lebanon	420,333	341,682	28,516	999,975	1,370,173	1,790,506
Due from banks and financial institutions	53,602	3,182	-	-	3,182	56,784
Financial assets at fair value through profit or loss	3,192	-	-	-	-	3,192
Loans and advances to customers	216,422	170,896	95,832	47,738	314,466	530,888
Financial assets at amortized cost	243,933	170,013	51,422	56,996	278,431	522,364
Financial assets at fair value through other comprehensive income	5,848	-	-	-	-	5,848
	<b>943,330</b>	<b>685,773</b>	<b>175,770</b>	<b>1,104,709</b>	<b>1,966,252</b>	<b>2,909,582</b>

### FINANCIAL LIABILITIES

Due to Central Bank of Lebanon	24,274	151,288	4,101	-	155,389	179,663
Due to banks and financial institutions	25,247	-	-	-	-	25,247
Deposits from customers and related parties	1,402,146	1,193,228	16,248	-	1,209,476	2,611,622
Lease liabilities	-	6,002	15,509	1,147	22,658	22,658
	<b>1,451,667</b>	<b>1,350,518</b>	<b>35,858</b>	<b>1,147</b>	<b>1,387,523</b>	<b>2,839,190</b>
Net Gap Position	<b>(508,337)</b>	<b>(664,745)</b>	<b>139,912</b>	<b>1,103,562</b>	<b>578,729</b>	<b>70,392</b>

31 December 2020						
	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
<b>FINANCIAL ASSETS</b>						
Cash and balances with Central Bank of Lebanon	218,436	213,073	234,244	1,045,720	1,493,037	1,711,473
Due from banks and financial institutions	102,577	8,352	158	-	8,510	111,087
Financial assets at fair value through profit or loss	3,527	-	-	-	-	3,527
Loans and advances to customers	295,612	233,575	183,480	78,782	495,837	791,449
Financial assets at amortized cost	260,329	15,920	198,710	74,576	289,206	549,535
Financial assets at fair value through other comprehensive income	5,803	-	-	-	-	5,803
	<b>886,284</b>	<b>470,920</b>	<b>616,592</b>	<b>1,199,078</b>	<b>2,286,590</b>	<b>3,172,874</b>

### FINANCIAL LIABILITIES

Due to Central Bank of Lebanon	17,490	158,753	14,986	-	173,739	191,229
Due to banks and financial institutions	-	33,828	-	-	33,828	33,828
Deposits from customers and related parties	1,244,565	1,558,384	48,089	-	1,606,473	2,851,038
Lease liabilities	-	6,305	20,993	4,191	31,489	31,489
	<b>1,262,055</b>	<b>1,757,270</b>	<b>84,068</b>	<b>4,191</b>	<b>1,845,529</b>	<b>3,107,584</b>
Net Gap Position	<b>(375,771)</b>	<b>(1,286,350)</b>	<b>532,524</b>	<b>1,194,887</b>	<b>441,061</b>	<b>65,290</b>

**Interest Rate Sensitivity**

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 2021. 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 its circulars.

**44. 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 2021						
Carrying Amount	Fair Value				Valuation techniques and key inputs	
	Level 1	Level 2	Level 3	Total		
LBP Million	LBP Million	LBP Million	LBP Million	LBP Million		
<b>Financial assets at fair value through profit or loss</b>						
Funds- Unlisted	3,192	-	-	3,192	3,192	Unadjusted net asset value
<b>Financial assets that are measured at fair value through other comprehensive income:</b>						
Unquoted equity securities	5,848	-	-	5,848	5,848	Unadjusted net book value

31 December 2020						
Carrying Amount	Fair Value				Valuation techniques and key inputs	
	Level 1	Level 2	Level 3	Total		
LBP Million	LBP Million	LBP Million	LBP Million	LBP Million		
<b>Financial assets at fair value through profit or loss</b>						
Funds- Unlisted	3,527	-	-	3,527	3,527	Unadjusted net asset value
<b>Financial assets that are measured at fair value through other comprehensive income:</b>						
Unquoted equity securities	5,803	-	-	5,803	5,803	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 consolidated financial statements of the investee are recent and published or not. These instruments are fair valued using third-part information (NAV or consolidated 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.

**45. LITIGATION RISK**

Since 17 October 2019, the Group has been subject to increased litigation as a result of the restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Pounds. Management is carefully considering the impact of these litigations and claims against the Group in relation to these restrictive measures. There are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices. However due to recent development and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch (refer to Note 43 - Currency Risk). The amount cannot be determined presently. Subsequent to the balance sheet date, balances with offshore banks up to a counter value of LBP 1,230 million were placed under a block debit by a court order in relation to a litigation raised by a customer for the transfer of funds abroad. The Group filed an appeal on this decision and the outcome cannot be determined presently. In addition, 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.

**46. 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 recognises 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.

**47. SUBSEQUENT EVENTS**

On or around 23 February 2022, local media reported the triggering of an investigation carried out by the Baabda Public Prosecutor based (the "Baabda Investigation") against (1) the chairpersons and members of the boards of directors of a number of banks, in their personal capacities as well as in their capacities as representatives of the banks, and (2) banks operating in Lebanon. Mr. Mario Saradar, in his capacity as Chairman-General Manager of Saradar Bank SAL, was requested by the Baabda Public Prosecutor to be auditioned on 1 March 2022. Local media reported that as of 14 March 2022, the Baabda Public Prosecutor issued a series of restraining orders on a number of banks and bank legal representatives. As of the date of these consolidated financial statements, none of the restraining orders involve Mr. Mario Saradar, Saradar Bank SAL or any of its board members. More generally, no decision or measure have been ordered or directed against Mr. Mario Saradar, Saradar Bank SAL or any of its board members in the context of the "Baabda Investigation".

**48. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 28 April 2022.



# SECTION 4

## DIRECTORY

### 4.1 Addresses



## 4.1 | 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  
Acting Branch Manager: Jean-Louis Mallat  
Saradar Building, Charles Malek Avenue  
Phone & Fax: +961 1 214 604  
Monday- Friday 8:30am - 12:00p.m

### 2. Dora Branch/Smart ATM

Manager: Gloria Saade  
Cebaco Center, Block B, Dora Highway  
Phone & Fax: +961 1 269 950  
Monday- Friday 8:30am - 12:00p.m

### 3. 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 - 12:00p.m

### 4. 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 - 12:00p.m

### Offsite ATMS

#### Ashrafieh/Smart ATM

Saint Charbel Bldg, Saint Louis Street  
24/7

#### S17/Smart ATM

Sodeco 1 Building, Sodeco Street  
24/7

#### Baabda/Smart ATM

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

#### Jdeideh

Developers Tower Center, New Jdeideh Street  
24/7

#### Okaibeh/ Smart ATM

Chalfoun Center, Nahr Ibrahim  
24/7

#### Saida/ Smart ATM

Al Saiid Center, Housam Hariri Street  
24/7

#### Jal El-Dib

Abou Jaoudeh Building, Main Road  
24/7

#### Beit Mery/Smart ATM

Al Bustan Hotel, Beit Mery Main Road  
24/7

#### Sin El Fil /Smart ATM

Sin El Fil Boulevard, Horsh Tabet  
24/7

#### Tripoli / Smart ATM

Gardegna Building Mina Road, Facing Centrale El  
Mina  
24/7

#### Verdun / Smart ATM

Verdun Heights, Rashid Karamah Street  
24/7



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