

2020 ANNUAL REPORT



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SECTION 1

STRATEGIC REPORT

1.1 Chairman Statement

1.1 | CHAIRMAN STATEMENT



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

2020. A year of unprecedented challenges.

As we write these lines, the pandemic is still wreaking havoc across the world. It has profoundly impacted the global economy and destabilised societies. Despite foreign governments rolling out trillions of dollars in stimulus packages, almost every major country, with the possible exception of China, faced recessionary trends. Our thoughts remain with the communities and individuals, particularly healthcare workers and first responders, who were most deeply affected by the health crisis.

As we look back on recent months, Lebanon has spent the past year stumbling from one crisis to the next: geopolitical, economic, financial, sanitary, social in addition to pre-existing structural vulnerabilities. Adding another layer of complexity and hardship, is the devastating explosion at Beirut's port on August 4th, 2020 one of the multiple tragedies that have afflicted Lebanon. And all along, a grinding economic collapse has continued in the background, leaving the country to face dangerous depletion of resources, including not only basic goods such as fuel, electricity, food supplies and medicine, but also vital human capital. Policy inaction and the months-long attempts to form a new government forced the economy, already facing a stern and persistent depression, into a ruthless self-correction, with the heaviest consequences piled on ordinary citizens.

Monetary and financial conditions remain highly volatile. Lebanon urgently requires liquidity, in addition to a restructuring of economic sectors and an overhaul of the governance of public institutions. Banks need to transform, indeed reinvent themselves not only to manage expanding risks and serve customers effectively, but ultimately to regain the confidence and trust of customers.

Although 2020 brought many challenges, it showcased our strategic repositioning and our ability to execute and adapt with speed as a more agile and forward-looking organization. With our clients at the core, we updated and rolled out our strategic agenda based on three pillars: evolving into a smaller, more proactive bank, continuing our journey to complete our digital banking capabilities, and transforming into a merchant bank, addressing the need to diversify our clients' asset allocation.

Through it all, we demonstrated significant flexibility and resilience. In line with our roadmap, the Bank strengthened its capital base to meet the 20% capital increase required by the Central Bank Intermediate Circular no. 532; significant effort was invested into reducing the loan portfolio by 35% compared to 2019, allowing the Bank to improve its liquidity position and reduce the risk of non-performing loans. In parallel, our deposits with foreign banks were strengthened to show a surplus of fresh USD liquidity abroad above the regulatory threshold of 3%. We launched cost optimization initiatives that are expected to generate yearly savings in the range of USD 7 million going forward. In line with the banking sector, our customers' deposits decreased by 12%. Despite increases in operating income, the Bank recorded losses of USD 115.4 million due to exceptional components, including ECL provisions, liquidity and termination costs.



Although from a regulatory perspective, the Bank met or exceeded all new requirements set by the Central Bank, the country is still witnessing an unprecedented crisis, which resulted in continued economic pressures, the implementation of unofficial capital controls, multitude of exchange rates and hyperinflation. Given these persisting and deepening uncertainties, the financial position of the Bank, as reported in the financial statements, does not necessarily reflect the adjustments that would be required by IFRS and, until a national recovery plan is established and implemented, it is difficult to reasonably estimate the adverse and potentially material impact on the Bank's financial position and equity.

From an operational perspective, we were able to benefit and build on previous investments in new technologies to swiftly shift our operations and adapt to new ways of doing business. This meant enabling staff members to work from home, holding virtual meetings, adopting new health protocols, providing Bank-sponsored vaccine rollout for staff and dependents, and compressing working hours. With hindsight, we implemented the appropriate measures and were able to ensure our clients' needs were consistently met within a heavily constrained environment. We also continued to invest our efforts into upholding and further strengthening the highest standards of corporate governance and integrity.

The global pandemic made transformation all the more urgent: it is without question the biggest catalyst for digital transformation in the banking industry since the advent of the internet revolution. The early down payment we made in digital transformation positions us well in these challenging times. With the determination and resourcefulness of our people, and the support of our shareholders and our clients, we are continuously adapting to the situation, not only to navigate through these turbulent times, but to ultimately emerge as a well-positioned, stronger organization.

We firmly believe that as constructive members of society, banks play an integral role in supporting real people, real lives, real economies, and sharing the pain in a downturn. Throughout our history, Saradar Bank has built its reputation on being there for clients and communities in the most critical of times. The current unprecedented environment is no different. We continued to make a difference through the Saradar foundation by rebuilding 153 homes and three schools destroyed by the devastating blast. While these compounded crises have brought unprecedented challenges for both people and society, we were humbled by the wave of inspiring new ideas and initiatives developed in response by individuals and local communities.

Today, innovation is more important than ever. From gracious acts of kindness to capturing and analyzing important data, the past months shed a light on the power of human creativity and collaboration.

While much remains to be done in the face of macroeconomic uncertainty, I am confident in the future as we work together to overcome this difficult conjuncture. Our dedicated and talented team proved their courage and determination during a time of significant turmoil. I thank them for their tremendous efforts, I thank our clients for their understanding and continuous patience and I thank our shareholders and Board members for their unrelenting support.

MARIO SARADAR
Chairman and Chief Executive Officer



SECTION 2

CORPORATE GOVERNANCE

- 2.1 Corporate Governance Landscape
- 2.2 Board Governance Framework
- 2.3 Corporate Governance Approach
- 2.4 Ownership Breakdown
- 2.5 Composition of the Board of Directors
- 2.6 Board Biographies
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- 2.8 High Level Structure
- 2.9 Remuneration Policy
- 2.10 Communicating with the Board
- 2.11 Management Team

2.1 | CORPORATE GOVERNANCE LANDSCAPE

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

Introduction

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

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

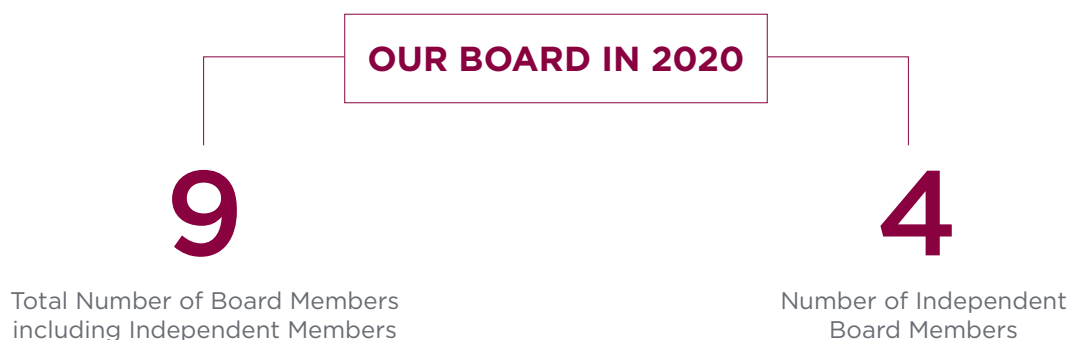
Our systems, processes, and policies are aligned with industry-leading standards to ensure full compliance with laws and regulations. We continuously monitor

our structures to identify potential improvements, and 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.

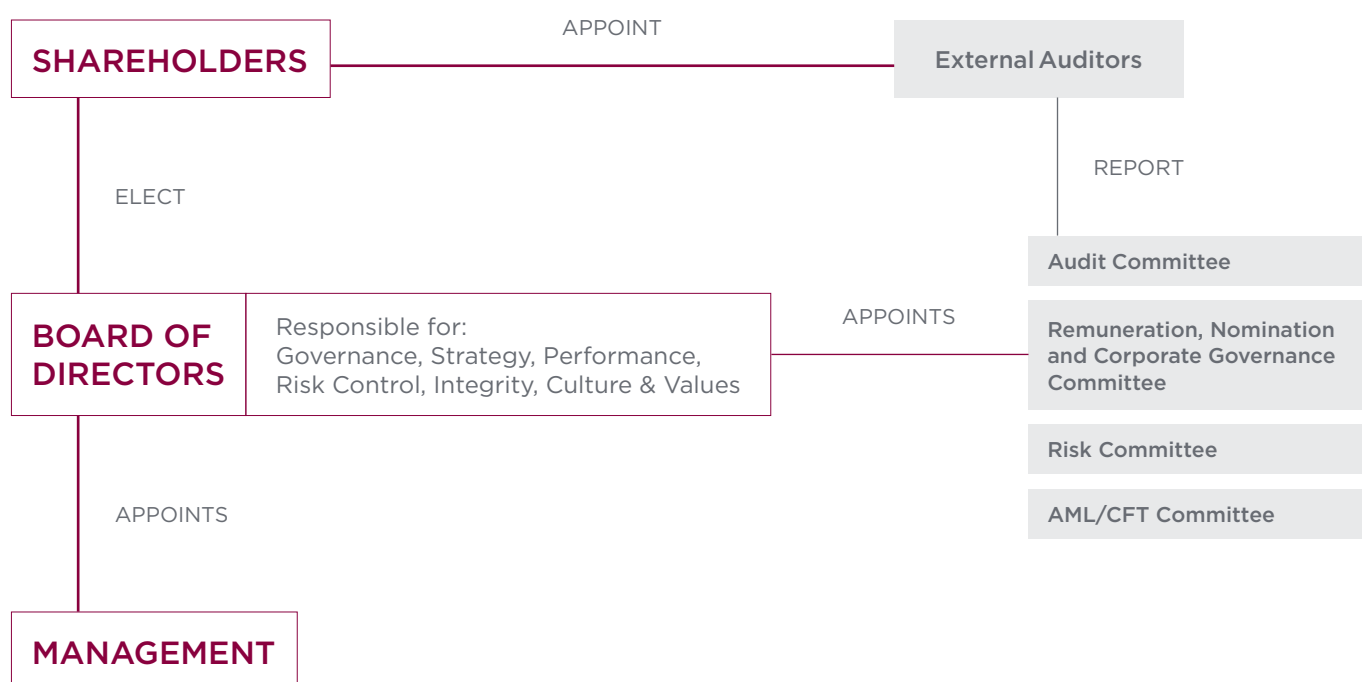


Committees of the Board and Number of Meetings					
9 Full Board	2 Strategy Retreat	8 Remuneration, Nomination and Corporate Governance Committee	2 AML/CFT Committee	10 Audit Committee	14 Risk Committee



2.2 | BOARD GOVERNANCE FRAMEWORK

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





2.3 | CORPORATE GOVERNANCE **APPROACH**

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

The Board is composed of a number of Directors sufficient for it to exercise its duties and responsibilities, and function efficiently. This number may vary between 3 and 12 members, and currently, stands at 9.

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

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



2.4 | OWNERSHIP BREAKDOWN

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

SHAREHOLDERS

SARADAR PARTNERS		30.81%
STÉ AL BUSTANIA SAL		19.71%
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%

2.5 | COMPOSITION OF THE BOARD OF DIRECTORS

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

BOARD MEMBERS

MR. MARIO SARADAR	Chairman-CEO	Executive
MR. FADY AMATOURY	Member (From April 2021)	Independent, Non-executive
MR. EDMOND CARTON	Member (Until November 2020)	Independent, Non-executive
SHEIKH JAMIL EL-KHAZEN	Member (Until June 2021)	Non-executive
MRS. LAURA EL-KHAZEN LAHOUD	Member (Until June 2021)	Non-executive
MR. MICHEL FERNEINI	Member	Independent, Non-executive
MR. CARLOS GHOSN	Member (Until February 2020)	Non-executive
MR. JOE ISSA-EL-KHOURY	Member	Non-executive
MR. JOSEPH SADDI	Member	Independent, Non-executive
MR. CHRISTIAN STEINFELS	Member	Non-executive
SAIFI INVEST HOLDING SAL represented by Mr. Nabil Moukattaf	Member	Non-executive
SHAMMAS ECONOMIC INSTITUTE SAL represented by Mr. Nizam Shammass	Member	Non-executive
MS. DINA SFEIR	Corporate Secretary	

2.6 | BOARD BIOGRAPHIES



MARIO SARADAR | Chairman-CEO

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

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



FADY AMATOURY | Member *(From April 2021)*

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

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

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

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

**EDMOND CARTON** | Member *(Until November 2020)*

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

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

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

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

**JAMIL EL-KHAZEN** | Member *(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.

**CARLOS GHOSN** | Member *(Until February 2020)*

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

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

Mr. Ghosn spent 15 years with Michelin in various capacities from 1981 to 1996.

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

**JOE ISSA EL-KHOURY** | Member

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

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

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

**NABIL MOUKATTAF** | Member, *representing Saifi Invest Holding sal*

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

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

**JOSEPH SADDI** | Member

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

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

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

**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.

2.7 | BOARD COMMITTEES

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

BOARD COMMITTEES	CHAIRPERSON	MEMBERS
Audit Committee	Mr. Joseph Saddi	Mrs. Laura El-Khazen Lahoud <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 <i>(From December 2020)</i> Mr. Edmond Carton <i>(Until November 2020)</i>	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

- 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

- 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.

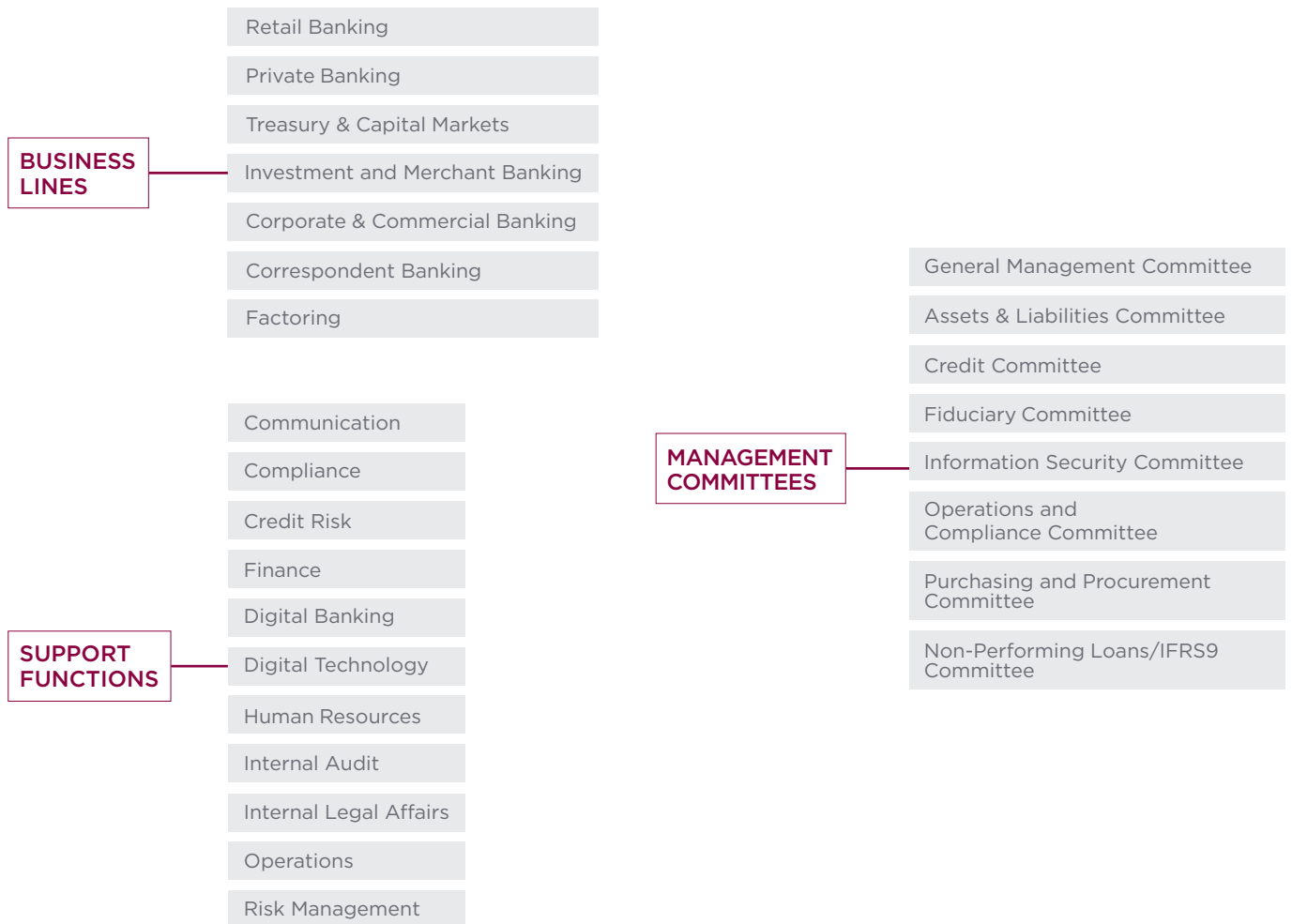
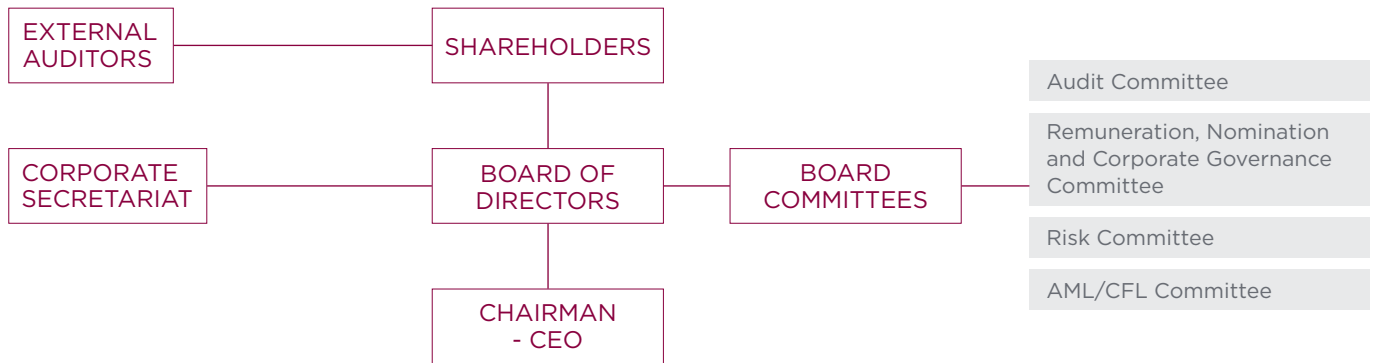
BOARD RISK COMMITTEE

- 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

- Assists the Board in exercising its functions and supervisory role, and in taking appropriate action to fight money laundering and terrorist financing.
- Reviews Compliance and Internal Audit reports on adopted procedures, unusual operations and high risk accounts, and regulators and external auditors on the Bank's compliance with the AML/CFT regulations.
- Identifies, assesses and mitigates AML/CFT risks.

2.8 | HIGH LEVEL STRUCTURE



2.9 | REMUNERATION POLICY

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

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

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

Structure

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

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

Performance Evaluation

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

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



Remuneration Components

Fixed Remuneration

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

Performance-Based Incentives

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

Employee Benefits

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

2.10 | COMMUNICATING WITH THE BOARD

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

Correspondence may be addressed to:
Corporate Secretary
Saradar Bank sal
Saradar Building, Charles Malek Avenue
Ashrafieh, P.O. Box:16-5766
Beirut, Lebanon

2.11 | MANAGEMENT TEAM

General Management Committee

Mario Saradar
Chairman – CEO

Naim Hakim
Deputy CEO (From February 2021)
General Manager - Retail, Operations, Finance & IT (Until January 2021)

Ibrahim Salibi
General Manager
Corporate & Commercial Banking

Youssef Dib
General Manager - Private & Investment
Banking

Sami Abou Jamous (Until March 2021)
Chief Strategy & Planning Officer

Corporate & Commercial Banking

Nadine Merhej
Head of Commercial Banking & Factoring

Private & Investment Banking

Martine Hochar
Assistant General Manager
Private Banking

Emile Shalala
Head of Treasury & Capital Markets

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

Fadi Chabo
Regional Manager- Private Banking

Jean Tawile
Manager- Private Banking/Head of Fiduciary

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

Retail Banking

Lubna El Masri (Until April 2021)
Senior Regional Manager
Beirut West & South Lebanon

Roula Abou Ghazaly (Until September 2021)
Regional Manager - Metn & Kesrouan

Rania Tamraz (Until September 2021)
Senior Branch Manager- Charles Malek

Inas Haidar (Until March 2020)
Head of Retail Projects

Merchant Banking

Sarah Ferneini (From November 2020)
Managing Director - Merchant Banking

Head of Support Functions

Amale Choueri
Chief Audit Executive

Rababa Nohra
Chief Human Resources Officer

Younna Moukarzel
Chief Operating Officer (From April 2021)
Acting Chief Operations Officer (Until March 2021)

Maya Moujaes
Head of Correspondent Banking

Dina Sfeir
Director of Strategic Initiatives (From July 2021)
Head of Corporate Secretariat (Until June 2021)

Maya Tabet
Head of Internal Legal Affairs (Until October 2020)

Rawia Njeim
Head of Internal Legal Affairs (From November 2020)

Jad Abou Rjeily
Head of Compliance

Henri Bouiller
Head of Governance and Corporate Affairs
(From July 2021)
Head of Risk Management (Until June 2021)

Abdallah Chbeir (From July 2021)
Manager – Risk Management

Carine Kouyoumji (Until April 2021)
Head of Credit Risk

Raghid Charara
Head of Digital Technology



Danielle Moutran

Acting Chief Financial Officer (From April 2021)
Head of Finance (Until March 2021)

Wael Badro

Head of Digital Banking (Until October 2020)

Aimee Daou

Acting Head of Digital Banking (From April 2021)

Hala Cabbabé

Head of Communication

Charbel Bouhabib

Head of Total Quality Management (Until October 2020)

Caline Chahine

Head of Organization, Network Management & Administrative

Laurraine Hatem

Head of Trade Finance, Cash Management & Clearing (From April 2021)
Head of Internal Control / Head of Cash Management (Until March 2021)



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.

Deloitte & Touche
Arabia House
131 Phoenicia Street
Ain Mreisseh, Beirut
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Lebanon

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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 2020

ASSETS	Notes	2019	2020
		LBP Million	LBP Million
Cash and balances with Central Bank of Lebanon	5	1,866,945	1,711,473
Due from banks and financial institutions	6	111,836	111,087
Financial assets at fair value through profit or loss	7	3,391	3,527
Loans and advances to customers	8	1,222,103	791,449
Financial assets at amortized cost	9	765,727	549,535
Financial assets at fair value through other comprehensive income	10	5,843	5,803
Debtors by acceptances	11	59,995	-
Deferred tax asset	38	82	-
Investment in an associate	12	11,720	11,760
Assets acquired in settlement of loans	13	49,716	27,627
Property and equipment	14	72,828	67,815
Right-of-use assets	15	30,278	30,968
Intangible assets	16	12,225	8,973
Other assets	17	17,829	19,440
TOTAL ASSETS		4,230,518	3,339,457
LIABILITIES			
Due to the Central Bank of Lebanon	18	426,625	191,229
Due to banks and financial institutions	19	69,286	33,828
Deposits from customers	20	2,917,079	2,571,797
Deposits from related parties	21	322,975	279,241
Engagements by acceptances	11	59,995	-
Income tax liability	38	2,151	7,166
Deferred tax liability	38	-	831
Lease liabilities	15	29,099	30,034
Other liabilities	22	39,826	35,413
Provisions	23	9,969	11,286
TOTAL LIABILITIES		3,877,005	3,160,825
EQUITY			
Share capital	24	10,600	147,000
Share premium	24	34,980	-
Cash contribution to capital	25	263,238	161,818
Non-distributable reserves	26	53,769	53,769
Owned buildings revaluation surplus	27	50,503	49,537
Cumulative change in fair value of financial assets at fair value through other comprehensive income	10	3,968	3,935
Accumulated losses		(1,776)	(62,458)
Loss for the year		(61,648)	(174,854)
Equity attributable to the owners of the Bank		353,634	178,747
Non-controlling interests		(121)	(115)
TOTAL EQUITY		353,513	178,632
TOTAL LIABILITIES AND EQUITY		4,230,518	3,339,457

Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2019	2020
		LBP Million	LBP Million
Interest and similar income	28	318,540	225,612
Interest and similar expense	29	(255,467)	(123,820)
Net interest income		63,073	101,792
Fee and commission income	30	21,011	15,597
Fee and commission expense	31	(1,849)	(1,505)
Net fee and commission income		19,162	14,092
Loss from financial assets at fair value through profit or loss	7	-	(13,060)
Loss from derecognition of financial assets at amortized cost		-	(2,466)
Other operating income	32	1,738	612
Total operating income		83,973	100,970
Net impairment loss on financial assets	33	(76,750)	(88,531)
Direct write-off of bad debts		(62)	(5,272)
Net operating income after impairment		7,161	7,167
Staff costs	34	(41,403)	(31,085)
General and administrative expenses	35	(18,311)	(19,593)
Depreciation of right-of-use assets	15	(8,530)	(5,801)
Depreciation and amortization	14,16	(7,040)	(7,183)
Other financing cost	15	(1,196)	(1,210)
Goodwill write off	48	(1,240)	-
(Loss) gain on sale of assets, net	13,14	3,082	(8,625)
Loss from disposal of subsidiary		(5)	-
Other (expense) income, net	36	7,004	(7,229)
		(67,639)	(80,726)
Cost of liquidity	37	-	(92,892)
Total cost and expenses		(67,639)	(173,618)
Share in profit of an associate	12	45	40
Write back of provisions	23	3	-
Loss before tax		(60,430)	(166,411)
Income tax	38	(1,208)	(8,437)
Loss for the year		(61,638)	(174,848)
Attributable to:			
The owners of the Bank		(61,648)	(174,854)
Non-controlling interests		10	6
		(61,638)	(174,848)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	2019 LBP Million	2020 LBP Million
Loss for the year		(61,638)	(174,848)
Other comprehensive income ("OCI"): Items that will not be reclassified subsequently to profit or loss:			
(Loss) gain on financial assets at fair value through other comprehensive income	10	376	(40)
Effect of taxes	38	(83)	7
Total other comprehensive (loss) income for the year		293	(33)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(61,345)	(174,881)
Attributable to:			
The owners of the Bank		(61,355)	(174,887)
Non-controlling interests		10	6
		(61,345)	(174,881)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	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 24)	136,400	(34,980)	(101,420)	-	-	-
Total comprehensive loss for the year 2020	-	-	-	-	-	(33)
Balance at 31 December 2020	147,000	-	161,818	53,769	49,537	3,935

	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 24)	-	-	-	-	-
Total comprehensive loss for the year 2020	-	(174,854)	(174,887)	6	(174,881)
Balance at 31 December 2020	(62,458)	(174,854)	178,747	(115)	178,632

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital	Share premium	Cash contribution to capital	Non distributable reserves	Owned buildings revaluation surplus	Cumulative change in fair value of financial assets at FVOCI
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balance at January 1, 2019	10,600	34,980	202,937	51,967	50,503	3,675
Allocation of 2018 profit	-	-	-	1,948	-	-
Cash contribution to capital (note 25)	-	-	60,300	-	-	-
Total comprehensive loss for the year 2019	-	-	-	-	-	293
Distribution to non-controlling shareholders	-	-	-	-	-	-
Disposal of a subsidiary	-	-	-	(148)	-	-
Other	-	-	1	2	-	-
Balance at 31 December 2019	10,600	34,980	263,238	53,769	50,503	3,968

	Accumulated losses	Loss 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, 2019	(2,259)	2,208	354,611	1,543	356,154
Allocation of 2018 profit	260	(2,208)	-	-	-
Cash contribution to capital (note 25)	-	-	60,300	-	60,300
Total comprehensive loss for the year 2019	-	(61,648)	(61,355)	10	(61,345)
Distribution to non-controlling shareholders	-	-	-	(169)	(169)
Disposal of a subsidiary	148	-	-	(1,543)	(1,543)
Other	75	-	78	38	116
Balance at 31 December 2019	(1,776)	(61,648)	353,634	(121)	353,513

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

OPERATING ACTIVITIES	Notes	2019	2020
		LBP Million	LBP Million
Loss for the year before income tax		(60,430)	(166,411)
Adjustments for:			
Interest income		(318,540)	(225,612)
Interest expense		255,467	123,820
Depreciation of right-of-use assets		8,530	5,801
Depreciation and amortization		7,040	7,183
Other financing cost		1,196	1,210
Loss on disposal of property and equipment		42	(24)
Net impairment loss on financial asset		76,750	88,531
Write-off of bad debts		62	5,272
Recognition of deferred income - subsidy	36	(8,454)	(3,693)
Loss on sale of subsidiary		5	-
Share of profits of an associate		(45)	(40)
Gain on sale of assets acquired in settlement of loans		(3,165)	7,323
Write off of tangible and intangible assets		169	1,326
Write-off of goodwill		1,240	-
Net provision for employees' end-of-service indemnity	34	943	(810)
Provision for contingencies, net		(3)	-
Other		4	50
		(39,189)	(156,074)
Changes in operating assets and liabilities:			
Balances with the Central Bank of Lebanon		(110,417)	179,917
Balances with banks and financial institutions		(852)	(3,071)
Financial assets at FVTPL		(433)	(136)
Loans and advances to customers		82,220	316,898
Other assets		(2,916)	(2,082)
Balances with banks and financial institutions		30,917	(30,917)
Deposits from customers		(125,881)	(327,736)
Deposits from related parties		71,728	(42,719)
Other liabilities		(13,772)	(720)
Proceeds from maturity of financial assets at amortized cost		6,490	3,702
Settlement of provision for lawyer indemnities	23	-	(94)
Settlement of provision for employees' end-of-service indemnity	23	(1,214)	(974)
Cash used in operations		(103,319)	(64,006)
Interest received		304,316	240,354
Interest paid		(249,008)	(136,405)
Income tax paid		-	(2,502)
Net cash generated from (used in) operating activities		(48,011)	37,441

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

INVESTING ACTIVITIES	Notes	2019	2020
		LBP Million	LBP Million
Purchase of property and equipment	14	(5,500)	(950)
Net increase in intangible assets	16	(950)	(65)
Proceeds from sale of property and equipment		25	744
Proceeds from sale of assets acquired in settlement of loans		5,273	43,723
Net cash outflow from disposal of subsidiary		(1,908)	-
Dividends received		712	-
Net cash generated from (used in) investing activities		(2,348)	43,452
FINANCING ACTIVITIES			
Net increase in other borrowings		4,349	11,189
Cash contribution to capital		60,300	-
Lease liability payments	15	(8,452)	(6,766)
Dividends paid to non-controlling interest		(169)	-
Net cash generated from financing activities		56,028	4,423
INCREASE IN CASH AND CASH EQUIVALENTS		5,669	85,316
Cash and cash equivalents at 1 January		158,473	164,142
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	164,142	249,458

3.3 | NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

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 8 branches in the different regions of Lebanon (2019: 16 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).
- (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.
- (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 Bank.

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and “local” foreign currency bank accounts and tossing Lebanon 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” to designate foreign currency cash and foreign currency bank accounts which are free from capital controls (as they are sourced from foreign currency cash and / or from incoming transfers from abroad).

Lebanese Government's Financial Recovery Plan

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

Restructuring of the banking sector:

As per the Plan, the preliminary global estimation of losses 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.

Alternative Plan submitted by Association of Banks in Lebanon

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

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

Beirut Port Explosion

On 4 August 2020, a large explosion occurred at the port of the city of Beirut, causing casualties and material damages across the capital of Lebanon. The Beirut Port explosion affected several individuals and businesses and contributed to further deterioration of the economic environment and disruption of businesses, leading to further Expected Credit Losses charges. 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 lock down measures. More adverse economic scenarios and macro-economic variables, with higher probabilities are considered for Expected Credit Losses financial impact.

It remains unclear how this will evolve, and the 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 149 issued on 3 April 2020 announcing the creation of a special unit at the Central Bank of Lebanon to conduct FOREX operations as per the Platform Rate. An electronic platform will be created encompassing the Central Bank of Lebanon, banks and money dealers for FOREX operations.
- Basic Circular 150 issued on 9 April 2020 exempting Banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020 subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals ...).
- Basic Circular 151 issued on 21 April 2020 concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per the Platform Rate up to limits set by the bank. The resulting foreign currencies should be sold to the Central Bank of Lebanon. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars.

- Intermediate Circular 552 issued on 22 April 2020 requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for the clients who are not able to pay their dues, due to the current economic situation as assessed by the bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.
- Intermediate Circular 567 issued on 26 August 2020, which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in foreign currencies was increased from 9.45% to 45%, while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese Sovereign Bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively). The Circular however changed the requirement for the recognition of expected credit losses in the 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 Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of COVID-19 pandemic, then the Bank must immediately downgrade the loan classification and staging to stage 3 (default).
 - Requesting from banks to finalise the assessment of the future financial position of their customers by 31 December 2020 and to estimate expected credit losses based on this assessment and recognise the financial impact in the statement of income for the year ended 31 December 2020.
 - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020.
 - 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 bank to their normal levels as at before October 2019.
 - Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than USD 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term “special account” an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks’ importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019 and without a minimum threshold.
 - Requesting from banks to maintain a current account with 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 into consideration 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.

1.3 Particular situation of the Group

Assets and liabilities in foreign currency, transactions in foreign currency and foreign currency translation reserves, regardless of whether they are onshore or offshore, were reflected in these consolidated financial statements at the official exchange rate of 1,507.5 USD/LBP, in line with, IAS 21 due to the lack of an alternative legal exchange mechanism. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official one: parallel exchange markets that are 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 purpose in Lebanon. Accordingly, translation of all assets and liabilities and foreign currency transactions at the official exchange rate does not represent a reasonable estimate of expected cash flows in Lebanese 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. In the absence of an alternative legal exchange mechanism, the Group is unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official exchange rate and/or alternative legal exchange mechanism. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these consolidated financial statements once the revamping of the peg and/or a new legal exchange mechanism is implemented by the Lebanese Government. FX currency mismatch is detailed in note 44 C to the consolidated financial statements.

As at 31 December 2020, loss allowances on assets held at BDL and the portfolio of 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 Bank 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 BDL and Lebanese government and the recognized loss allowances, as well as their staging are detailed in note 44 A to the consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio has significantly deteriorated since the last quarter 2019. The deterioration was further aggravated by the effects of the Covid-19 pandemic and the hyperinflation. The Bank 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 Bank has recorded significant amounts of expected credit losses during the last quarter of 2019 and the year ended 31 December 2020. Loss allowances on the 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 44 A 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 Platform Rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its financial position.

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

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case by case basis when they occur. Meanwhile, the Group is exerting extended efforts to (a) strengthen its capitalisation, (b) enhance the quality of its private loans portfolio 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 Bank received a letter from the Central Bank of Lebanon, referring to Basic Circular 154 and Intermediate Circular 567, and requesting from the Bank to submit a roadmap that sets out the following:

- The Bank's overall strategy for the years 2020 – 2024.
- The Bank's assessment of its portfolio of private loans and expected credit losses as at 31 December 2020, as well as total realised and expected losses for the year 2020.
- The amount of expected credit losses that have not been translated yet to foreign currencies.
- The capital needs to comply with the minimum required capital and the measures and sources that will be relied upon to cover the shortfall, when existing.
- The 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 Bank 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 24 and 25)
 - 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 9 April 2021, the Bank obtained the preliminary approval of the Central Bank of Lebanon (Note 25).
- The Bank submitted to the regulators its calculation as of 28 February 2021 reflecting a ratio of 3.67% exceeding the minimum regulatory ratio of 3% as per BDL Basic Circular 154. The approval of the regulators for meeting the ratio is pending as of the date of these consolidated financial statements.
- Deleveraging the loan portfolio and increasing provisioning coverage during 2020 as gross loans dropped by LBP 343 billion compared to 31 December 2019.
- The Bank 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, 11 branches were closed (out of which 8 were closed in 2020), and the workforce was reduced by 35%. The Bank 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 Bank.

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

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

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

2. 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 2020, 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 2020. The nature and the impact of each amendment is described below:

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1

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

Amendments to IFRS 3: Definition of a Business

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

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the consolidated financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

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 2020, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments OR the amendments are not expected to have a material impact on the consolidated financial statements of 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 18.

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

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

Therefore, entities whose functional currency is the Lebanese 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 "Platform Rate" of approximately 3,900 USD/LBP, the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. Accordingly, since there is no official exchange or payment mechanism for transactions and balances denominated in foreign currencies, the Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese 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, 2020 and 2019 consisted of the following:

	Business activity	2019 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

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

B. Business Combinations:

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

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

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 3A 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 rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

E. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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

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

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

F. Classification of Financial Assets:

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

Debt Instruments:

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

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

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

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

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

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

Equity Instruments:

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

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

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

Reclassification:

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

Reclassification is not allowed where:

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

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by a Group 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;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

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

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

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

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

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

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

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

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

The key inputs into the measurements of ECL are:

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

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

Credit-impaired financial assets

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations

Purchased or originated credit-impaired (POCI) financial assets

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

Write-off

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is 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

	2019	2020
	LBP Million	LBP Million
Cash on hand	7,021	22,238
Current accounts with Central Bank of Lebanon	160,768	181,421
Term placements with Central Bank of Lebanon	1,700,549	1,516,616
Accrued interest receivable	26,002	18,291
	1,894,340	1,738,566
Less: Allowance for expected credit losses - Note 44	(27,395)	(27,093)
	1,866,945	1,711,473

In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature, except for funds transferred from abroad or cash deposit in foreign currency received after 09 April 2020 as per BDL Circular 150 issued on 9 April 2020.

As at 31 December 2020, the LBP obligatory reserves stood at LBP 29.79 billion (2019: LBP 25.77 billion) and the foreign currencies reserves stood at LBP 376.93 billion (2019: LBP 404.09 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 2020, term placements with the Central Bank of Lebanon amounting to LBP 674.1 billion (2019: LBP 803.2 billion) and term borrowings from the Central Bank of Lebanon (Note 18) are reported on a net basis on the consolidated statement of financial position by virtue of the general netting agreement. During 2020, financial assets and financial liabilities that were settled on a net basis amounted to LBP 129.1 billion a condition to transactions entered into with the Central Bank of Lebanon, aiming at FX risk management (Note 18).

6. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2019	2020
	LBP Million	LBP Million
Current accounts	30,330	70,075
Term placements	65,805	5,006
Pledged deposits	273	3,344
Checks in course of collection from banks	17,071	34,321
Accrued interest receivable	17	1
Less: Allowance for expected credit losses - Note 44	(1,660)	(1,660)
	111,836	111,087

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss stated at LBP 3.53 billion as at 31 December 2020 (LBP 3.39 billion as at 31 December 2019) 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 2019			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	815,996	(26,536)	789,460	436,597	(41,005)	395,592
Factoring facilities	218,104	(10,366)	207,738	123,451	(12,496)	110,955
Retail & Personal	116,127	(2,156)	113,971	121,780	(15,795)	105,985
Credit impaired loans	198,339	(104,995)	93,344	328,105	(162,116)	165,989
Pledged guarantee funds allocated to credit impaired loans - Note 42	(2,273)	-	(2,273)	(2,273)	-	(2,273)
Accrued interest receivable	19,863	-	19,863	15,201	-	15,201
	1,366,156	(144,053)	1,222,103	1,022,861	(231,412)	791,449

Loans and advances to customers include loans to related parties in the aggregate of LBP 33 billion as of 31 December 2020 (LBP 34 billion in 2019) which are secured by cash collaterals to the extent of LBP 14.03 billion (LBP 15.18 billion in 2019).

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

9. FINANCIAL ASSETS AT AMORTIZED COST

	2019	2020
	LBP Million	LBP Million
Certificates of deposit issued by Central Bank of Lebanon	41,997	41,858
Lebanese treasury bills	448,326	247,347
Lebanese government Eurobonds	292,496	292,337
Lebanese corporate bonds	2,261	-
Accrued interest receivable	8,628	6,276
	793,708	587,818
Less: Allowance for expected credit losses - Note 44	(27,981)	(38,283)
	765,727	549,535

(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 (2019: the same), have been pledged against soft loans from the Central Bank of Lebanon with similar maturities and face amounts (Note 18).

(b) As at 31 December 2020, Lebanese treasury bills amounting to LBP 199.84 billion (2019: 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 2020, 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 18).

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019			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	5,843	4,806	1,037	5,803	4,766
Deferred tax liability	-	-	(838)	-	-	(831)
			3,968			3,935

The movement of financial assets at fair value through other comprehensive income during 2020 and 2019 was as follows:

	2019	2020
	LBP Million	LBP Million
Balance at January 1	5,355	5,843
Change in fair value	376	(40)
Other	112	-
Balance at December 31	5,843	5,803

11. DEBTORS BY ACCEPTANCES

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

12. INVESTMENT IN AN ASSOCIATE

In August 2017, the Group acquired 49% equity interest in Vitas S.A.L., a micro-lending financial institution, incorporated in Lebanon, for a total consideration of LBP 10.3 billion.

The summarized financial information of the associate as of 31 December 2020 and 2019 is provided below:

	2019	2020
	LBP Million	LBP Million
Total assets	94,032	94,706
Total liabilities	75,888	76,469
Net assets	18,144	18,237
Net profit for the year	103	92
Group's share of net assets	8,890	8,936
Group's share of net profit	45	40

The movement of investment in an associate is as follows:

	2019	2020
	LBP Million	LBP Million
Balance at January 1	12,191	11,720
Share in profit of an associate	45	40
Dividend distribution	(516)	-
Balance at December 31	11,720	11,760

13. ASSETS ACQUIRED IN SETTLEMENT OF LOANS

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

The movement of assets acquired in settlement of loans during 2020 and 2019 was as follows:

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

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

During 2020, the Group sold assets acquired in settlement of loans resulting in a loss of LPB 7.3 billion (2019: a gain of LBP 3.1 billion) reflected under “(Loss)/gain on sale of assets, net” in the consolidated 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 26). Gains or losses on liquidation are recognized in the consolidated statement of profit and loss.

14. 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
Cost or revaluation:							
At 1 January 2020	59,859	3,108	8,753	19,528	4,169	7,126	103,160
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)
At 31 December 2020	58,851	3,192	9,016	17,106	4,416	4,995	98,193
Depreciation:							
At 1 January 2020	(11,485)	(1,636)	(6,641)	(8,136)	(1,817)	-	(30,332)
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
At 31 December 2020	(12,535)	(1,871)	(7,280)	(6,012)	(2,063)	-	(30,378)
Net book value:							
At 31 December 2020	46,316	1,321	1,736	11,094	2,353	4,995	67,815

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

During 2020, the Group sold plot # 543/22 in Achrafieh area that had a net book value of LBP 747 million with a total consideration of LBP 769 million. The sale resulted in a gain of LBP 22 million recorded under “(loss) / gain on sale of assets, net” in the consolidated income statement.

15. LEASES

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

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

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

	Buildings and freehold improvements LBP Million	IT services LBP Million	Total 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)
At 31 December 2020	18,205	12,763	30,968

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

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

	2019	2020
	LBP Million	LBP Million
At 1 January	34,284	29,099
Additions	2,992	12,698
Contract adjustment	(921)	(6,207)
Interest expense	1,196	1,210
Payments	(8,452)	(6,766)
At 31 December	29,099	30,034

16. INTANGIBLE ASSETS

Intangible assets represent purchased software and software under development.

	2019	2020
	LBP Million	LBP Million
Cost:		
At 1 January	18,981	19,397
Additions	950	65
Write offs	(534)	-
Transfers	-	122
At 31 December	19,397	19,584

	2019	2020
	LBP Million	LBP Million
Amortization		
At 1 January	(4,213)	(7,172)
Amortization during the year	(3,364)	(3,439)
Related to write-offs	405	-
At 31 December	(7,172)	(10,611)
Net book value at 31 December	12,225	8,973

17. OTHER ASSETS

	2019	2020
	LBP Million	LBP Million
Medical costs due from National Social Security Fund (a)	4,512	4,924
Prepayments (b)	2,838	4,676
Assets in process of acquisition in settlement of loans	5,672	5,201
Receivables from related parties – Note 41	-	536
Sundry account receivables	4,807	3,020
Foreign exchange position	-	1,083
	17,829	19,440

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

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

18. DUE TO THE CENTRAL BANK OF LEBANON

	2019	2020
	LBP Million	LBP Million
Soft loans (a)	119,350	126,021
Leverage arrangements (b)	199,835	-
Subsidized loans (c)	36,513	47,706
Short term loans (d)	52,763	-
Advance in current account (e)	16,256	17,248
Accrued interest payable	1,908	254
	426,625	191,229

(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 22).

(b) Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LBP, bearing an interest rate of 2% per annum and having maturities ranging between 2022 and 2029, fully invested in pledged Lebanese treasury bills and blocked term placements with Central Bank of Lebanon in LBP earning coupon rates ranging between 6.5% per annum and 10.5% per annum. Simultaneously the Group has deposited with the Central Bank of Lebanon term placements in foreign currencies at 6.5% per annum and in LBP at 10.5% per annum (originated from the sale of foreign currencies) carrying the same maturities. During 2020 and 2019, the Group and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placements in LBP and Lebanese treasury bills. This agreement qualifies for netting under the requirements of IAS 32. During 2020, financial assets and financial liabilities that were settled on a net basis amounted to LBP 129.1 billion as a condition to transactions entered into with the Central Bank of Lebanon, aiming at FX risk management (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:

	2019	2020
	LBP Million	LBP Million
Leverage arrangements:		
Gross amounts	1,003,029	873,963
Amounts offset against		
Term placements with Central Bank of Lebanon ⁽¹⁾ - Note 5	(803,194)	(674,128)
Lebanese treasury bills ⁽¹⁾ - Note 9	-	(199,835)
Net amounts reported on balance sheet	199,835	-
Financial collateral:		
Lebanese treasury bills - Note 9	199,835	-
	199,835	-

⁽¹⁾ 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 Central Bank of Lebanon granted the Group facilities amounting to LBP 32 billion (2019: LBP 37 billion). Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis. During 2020, the Group obtained additional facilities amounting to LBP 15 billion (2019: nil) not subject to any interest rate in accordance with the Central Bank of Lebanon exceptional circulars 152, 547 and 552.

(d) During December 2019, the Group was granted short term loans in the aggregate amount of USD 35 million (LBP 52.76 billion) from the Central Bank of Lebanon. The purpose of the loans is to cover commitments required by the Group. The loan is subject to 20% interest rate per annum and was fully settled during 2020.

(e) On 4 April 2019, the Group was granted an advance in current account denominated in Lebanese Pound in the amount of LBP 20 billion from the Central Bank of Lebanon, carrying interest at the rate of circa. 2.62%, for a period of 1 year, automatically renewable once. The loan was earmarked to Lebanese treasury bills of the same face amount pledged as security against the advance. On 31 March 2021, the loan was renewed for a period of 1 year, automatically renewable once.

19. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2019	2020
	LBP Million	LBP Million
Current deposits	3,931	1,155
Current deposits - related parties	10,503	16,788
Acceptances payable	30,918	1
Overnight borrowings	10,000	-
Term deposits - related parties	13,888	15,876
Accrued interest payable	3	-
Accrued interest payable-related parties	43	8
	69,286	33,828

20. DEPOSITS FROM CUSTOMERS

	2019	2020
	LBP Million	LBP Million
Current / demand deposits	401,754	1,057,368
Term deposits	2,303,009	1,398,497
Collateral against loans and advances	97,058	59,003
Bankers' checks (a)	19,193	31,079
Deposits from factoring activities	7,540	3,367
Margins for irrevocable import letters of credit	60,002	530
Margins on letters of guarantee	2,908	3,775
Margin accounts - factoring	3,933	13,849
Other margins	297	490
Accrued interest payable	21,385	3,839
	2,917,079	2,571,797

(a) Bankers' checks as at 31 December 2020 and 2019 consist of checks paid to depositors that have not yet been withdrawn from the Central Bank of Lebanon.

21. DEPOSITS FROM RELATED PARTIES

	2019	2020
	LBP Million	LBP Million
Current / demand deposits	36,882	137,592
Term deposits	245,308	100,823
Collateral against loans and advances to related parties	15,117	14,027
Collaterals against other loans and advances	23,244	25,516
Margins on letters of guarantee	1,140	1,014
Other margins	109	109
Accrued interest payable	1,175	160
	322,975	279,241

22. OTHER LIABILITIES

	2019	2020
	LBP Million	LBP Million
Deferred income - Subsidy from the Central Bank of Lebanon (a)	13,066	9,373
Accrued expenses	7,444	9,469
Withheld taxes payable	8,179	6,397
Due to the National Social Security Fund	411	348
Due to shareholders (b)	8,141	8,141
Sundry creditors	2,585	1,685
	39,826	35,413

(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 2020, the Group recognized LBP 3.7 billion reflected in the consolidated income statement under "Other (expenses) / income, net" (Note 36) to match depreciation related cost (merger related costs LBP 3.9 billion during the year ended 31 December 2019).

(b) Some of the Group's shareholders agreed to purchase shares acquired in settlement of loans (Note 13) at carrying value as at initial acquisition date as part of the merger deal between the Group and NECB completed on 1 June 2016 and thus no impairment allowance was set up on these shares as at 31 December 2020 and 2019. This transaction is still pending certain legal formalities.

23. PROVISIONS

	2019	2020
	LBP Million	LBP Million
Provision for employees' end-of-service indemnity	6,788	4,980
Provision for contingencies	1,599	1,599
Provision for lawyers' indemnity	206	136
Provision for ECL on financial guarantees and other commitments - Note 44	1,331	4,526
Provision for loss on foreign currency position	45	45
	9,969	11,286

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 2020	6,788	1,599	206	1,331	45	9,969
Provision for employees' end of service indemnity (Note 34)	(834)	-	24	-	-	(810)
Provision for ECL on financial guarantees and other commitments (Note 33)	-	-	-	3,195	-	3,195
Settlements	(974)	-	(94)	-	-	(1,068)
At 31 December 2020	4,980	1,599	136	4,526	45	11,286
At 1 January 2019	7,304	1,625	100	2,027	45	11,101
Provision for employees' end of service indemnity (Note 34)	837	-	106	-	-	943
Write back of provision for ECL on financial guarantees and other commitments (Note 33)	-	-	-	(696)	-	(696)
Write-back of provision for contingencies	-	(3)	-	-	-	(3)
Settlements	(1,214)	-	-	-	-	(1,214)
Disposal of a subsidiary	(139)	(23)	-	-	-	(162)
At 31 December 2019	6,788	1,599	206	1,331	45	9,969

24. SHARE CAPITAL

The capital of the Group amounting to LBP 147 billion (2019: LBP 10.6 billion) is composed of 147,000,000 shares (2019: 10,600,000) of LBP 1,000 par value each, authorized, issued and fully paid. As at 31 December 2019, premium on these shares amounts to LBP 34.98 billion.

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.

25. CASH CONTRIBUTION TO CAPITAL

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

USD 67.34 million (2019: USD 134.61 million)
 USD 40 million (2019: USD 40 million)

	2019	2020
	LBP Million	LBP Million
	202,938	101,518
	60,300	60,300
	263,238	161,818

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.

USD 67.34 million (2019: USD 134.61 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 24).

USD 40 million (2019: 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).

26. NON-DISTRIBUTABLE RESERVES

The movement of non-distributable reserves during 2020 and 2019 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 2020 and 31 December 2020	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 2019	3,571	42,761	3,434	2,201	-	51,967
Appropriation of 2018 profit	219	-	-	1,729	-	1,948
Transfer to retained earnings upon disposal of a subsidiary	(148)	-	-	-	-	(148)
Other	-	-	-	-	2	2
Balance at 31 December 2019	3,642	42,761	3,434	3,930	2	53,769

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 Capital and is not available for distribution (Note 13).

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.

27. OWNED BUILDINGS REVALUATION SURPLUS

	2019	2020
	LBP Million	LBP Million
Group premises	14,665	13,699
Subsidiary owned properties (SIPC)	35,838	35,838
	50,503	49,537

28. INTEREST AND SIMILAR INCOME

	2019	2020
	LBP Million	LBP Million
Deposits with Central Bank of Lebanon	156,929	143,808
Deposits with banks and financial institutions	2,994	3,745
Financial assets at amortized cost	52,164	30,931
Loans and advances to customers	94,860	51,051
Loans and advances to related parties	1,497	1,111
Factoring activities	29,370	15,386
	337,814	246,032
Withheld tax on interest	(19,274)	(20,420)
	318,540	225,612

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

29. INTEREST AND SIMILAR EXPENSE

	2019	2020
	LBP Million	LBP Million
Due to the Central Bank of Lebanon	16,014	23,992
Due to banks and financial institutions	1,600	1,472
Deposits from customers	216,422	87,831
Deposits from related parties	21,431	10,525
	255,467	123,820

30. FEE AND COMMISSION INCOME

	2019	2020
	LBP Million	LBP Million
Service fees on customers' transactions	10,158	9,011
Factoring fees	5,559	3,279
Commission on documentary credits	778	113
Commission on letters of guarantee	1,390	1,192
Commission from fiduciary deposits	139	255
Asset management fees	1,554	690
Other commissions	1,433	1,057
	21,011	15,597

31. FEE AND COMMISSION EXPENSE

	2019	2020
	LBP Million	LBP Million
Commission on transactions with banks	642	483
Factoring commission expense	25	14
Other commission expense	1,182	1,008
	1,849	1,505

32. OTHER OPERATING INCOME

	2019	2020
	LBP Million	LBP Million
Dividends on financial assets at fair value through other comprehensive income	13	-
Net foreign exchange gains	1,725	612
	1,738	612

33. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2019	2020
	LBP Million	LBP Million
Balances with Central Bank of Lebanon	19,516	(302)
Due from banks and financial institutions	1,363	-
Loans and advances to customers	33,914	75,336
Financial assets at amortized cost	22,653	10,302
Financial guarantees and other commitments	(696)	3,195
	76,750	88,531

34. STAFF COSTS

	2019	2020
	LBP Million	LBP Million
Salaries and related benefits	29,919	22,346
Schooling allowances	1,229	1,153
Transportation	878	647
Social Security contribution	3,865	3,444
Provision for staff indemnity costs (Note 23)	943	(810)
Board of Directors remuneration fees	2,238	2,222
Representation fees	536	512
Other benefits	1,795	1,571
	41,403	31,085

35. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2020
	LBP Million	LBP Million
Printings, subscriptions and stationery	2,057	4,278
Maintenance and repairs	2,827	3,314
Professional and consultancy fees	1,533	2,289
IT outsourcing services	1,611	2,132
Premium of guarantee of deposits	1,644	1,634
Rent charges under operating leases	1,569	1,584
Insurance	1,100	1,377
Fees on capital increase	-	1,091
Telecommunication expenses	997	760
Fines and taxes	658	493
Electricity, water and fuel	243	279
Transportation and travel	325	124
Communication and marketing fees	2,022	90
Other expenses	1,725	148
	18,311	19,593

36. OTHER INCOME (EXPENSE), NET

	2019	2020
	LBP Million	LBP Million
Subsidy income (Note 22)	8,454	3,693
Other income, net	84	101
Staff severance indemnities (a)	(1,534)	(11,023)
	7,004	(7,229)

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

37. 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.

38. INCOME TAX

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

	2019	2020
	LBP Million	LBP Million
Current tax		
Current income tax	2,128	6
Other taxes (a)	-	7,511
Deferred tax		
Relating to origination and reversal of temporary differences	(920)	920
	1,208	8,437

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

	2019	2020
	LBP Million	LBP Million
Loss before tax	(60,430)	(166,411)
Non-deductible expenses	80,181	47,935
Non-taxable income	(7,610)	(2,204)
Taxable result	12,141	(120,680)
Income tax based on enacted rate - 17%	2,064	6
Property tax (subsidiary)	64	-
Total income tax expense	2,128	6

(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 accrued for under income tax liability in the consolidated statement of financial position and will be paid in 2021.

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

	2019	2020
	LBP Million	LBP Million
Income tax	2,064	2,129
Property tax	64	-
Other taxes	23	5,037
	2,151	7,166

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

	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)	-
	(831)	(920)	7

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

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 2014 to 2020 (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.

39. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

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

	2019	2020
	LBP Million	LBP Million
Documentary and commercial letters of credit	6,928	1,237
Guarantees and standby letters of credit	74,087	65,995

40. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

	2019	2020
	LBP Million	LBP Million
Back-to-back lending	44,185	27,222
Assets under management	317,573	126,466
	361,758	153,688

41. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	2019	2020
	LBP Million	LBP Million
Shareholders, directors and other key management personnel and close family members:		
<i>Direct facilities and credit balances:</i>		
Unsecured loans and advances	5,614	4,442
Loans and advances against cash collateral	4,340	4,736
Deposits	225,166	152,149
Related companies:		
<i>Direct facilities and credit balances:</i>		
Unsecured loans and advances	15,002	15,092
Loans and advances against cash collateral	8,800	9,100
Other receivables, related party	-	536
Deposits from customers	98,032	127,404
Deposits from banks and financial institutions	24,434	32,672
<i>Indirect facilities:</i>		
Fiduciary assets and assets under management	17,560	1,324
Letters of guarantee	2,460	1,829

As at 31 December 2020, pledged guarantee funds amounting to LBP 1.48 billion (2019: 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 1.1 billion for 2020 (2019: LBP 1.5 billion). Interest expense on deposits from related parties amounted to LBP 10.5 billion during 2020 (2019: LBP 21.4 billion).

Advisory service fees amounted to LBP 65 million for 2020 (2019: LBP 209 million) and placement fees income amounted to LBP 680 million during 2019 with Saradar Family Office SAL.

Secured loans and advances are covered by pledged deposits to the extent of LBP 14.03 billion as of 31 December 2020 (31 December 2019: LBP 15.18 billion).

As at 31 December 2020, other receivables in the amount of LBP 0.54 billion represent building renovation expenses paid by the Bank on behalf of Saradar Real Estate Holding SAL (31 December 2019: nil). This balance is current and not subject to interest.

As at 31 December 2020, other receivables represent building renovation expenses paid by the Group on behalf of Saradar Real Estate Holding SAL for the amount of LBP 0.54 billion (31 December 2019: nil). This balance is current and not subject to interest.

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 consolidated income statement.

During 2020, the Group signed a service-level agreement with Digital Factory SAL, a related party, who charged the Group an amount of LBP 229 million during the year for information technology services (2019: LBP nil).

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

During 2019, the Group sold its participation in CashUnited SAL to Saradar Financial House SAL at book value.

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

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

	2019	2020
	LBP Million	LBP Million
Short term benefits	13,649	5,739
End of service benefits	505	117
	14,154	5,856

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

During 2019, dividends received from:

- CashUnited S.A.L., a subsidiary, amounted to LBP 195 million
- United Group Brokers S.A.R.L., a subsidiary, amounted to LBP 662 million
- Vitas S.A.L., an associate, amounted to LBP 516 million.

Related party expenses incurred during the year were as follows:

	2019	2020
	LBP Million	LBP Million
Lease payments and rent expense	2,987	2,945
Building charges	549	365
Outsourcing of digital factory	-	229
Subscription fees	230	178
Office aid services	72	54
Membership fees	48	47
Travel expenses	247	42
Financial advisory services	209	-
Advertisement	15	-
	4,357	3,860

On 16 January 2014, the Group signed a rent contract with Clover Building SAL (an entity under common control) to rent sections 14 to 19 and portion of section 22 of Clover Building property, Rmeil, plot number 144, for the period from 16 January 2014 to 15 January 2024. The annual rental fees were subject to (i) a fixed increase of 3% in the second and third years, (ii) 5% increase for the remaining 7 years. The contract can be terminated by the lessee at the end of the third year. During 2020, Clover Building SAL stopped being an entity under common control and the contract terms were renegotiated.

42. CASH AND CASH EQUIVALENTS

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

	2019	2020
	LBP Million	LBP Million
Cash on hand (Note 5)	7,021	22,238
Current accounts with Central Bank of Lebanon (excluding compulsory reserve) (Note 5)	135,000	151,637
Checks in course of collection from banks (Note 6)	17,071	34,321
Current accounts with banks and financial institutions (Note 6)	30,330	70,075
Term placements with banks and financial institutions (Note 6)	65,805	5,006
	255,227	283,277
Less:		
Current accounts and short term loans due to the Central Bank of Lebanon (Note 18)	52,763	-
Current accounts due to banks and financial institutions (Note 19)	24,434	17,943
Term deposits due to banks and financial institutions (Note 19)	13,888	15,876
	91,085	33,819
	164,142	249,458

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 2020:

	2019	2020
	LBP Million	LBP Million
Balances with the Central Bank of Lebanon	128,560	149,672
Due from banks and financial institutions	12,173	1,657
Less:		
Due to the Central Bank of Lebanon	(52,763)	-
Due to banks and financial institutions	(7,032)	(4,884)
	80,938	146,445

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

- Positive change in fair value of investment securities at fair value through other comprehensive income of LBP 397 million and related deferred tax liability of LBP 86 million against investment securities during 2019.
- Assets acquired in settlement of loans in the amount of LBP 29 billion (31 December 2019: LBP 7.9 billion) against loans and advances to customers.
- Addition of right-of-use assets and lease liabilities for the amount of LBP 12,698 million (31 December 2019: LBP 2,992 million) and contract adjustments of LBP 6,207 million (31 December 2019: LBP 921 million).

43. CAPITAL MANAGEMENT

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

Central Bank of Lebanon's Intermediate Circular 567 issued on 26 August 2020, introduced several key changes in the calculation of 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.

<i>Type of financial instrument</i>	2019	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	9.45 %	45 %*
Lebanese Government securities in Lebanese Pounds	0 %	0 %

As at 31 December 2020, only one 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 37,984 million. The remaining balance of LBP 93,568 million will be amortized over the coming 9 years, as permissible by the circular

- 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.

The Group has increased the cash contribution to capital by an amount of LBP 60.3 billion (USD 40 million) in 2019. In addition, 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 in the amount of LBP 6.63 billion (USD 4.4 million) in order to cover the remaining capital shortfall and meet the 20% requirement.

- 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.

As a result, the levels of Common Equity Tier 1 and Tier 2 Capital reported below increased by LBP 75,483 million and decreased by LBP 13,628 million respectively at 31 December 2020 compared to 31 December 2019.

The following table shows the applicable regulatory capital ratios:

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

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

	2019	2020
	LBP Million	LBP Million
Common Equity Tier I capital	198,911	184,751
Tier I capital	60,300	60,300
Tier II capital	68,318	29,366
Total regulatory capital (Tier I + Tier II)	327,529	274,417
Credit risk	3,636,460	3,046,595
Market risk	30,326	132,381
Operational risk	174,719	160,489
Total Risk-weighted assets	3,841,505	3,339,465
Common Equity Tier I Ratio	5.18%	5.53%
Tier I Ratio	6.75%	7.34%
Total Capital Ratio	8.53%	8.22%

The capital adequacy ratios as at 31 December 2020 and 2019 were calculated based on the recorded figures and do not take into consideration the adjustments that will result from the resolution of the uncertainties reflected in Note 1, 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 parallel market rates, the platform rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its 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.

44. FINANCIAL RISK MANAGEMENT

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

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

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 may consider a financial asset in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory disclosure purposes.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for a specified period of time. The decision whether to classify an asset as Stage 2 or Stage 1 once cured is made on a case by case basis and depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant decrease in credit risk.

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 30/06/2021 (with a possibility for a new extension). No payment is required from the borrower during this period and interest continues to be charged as usual. In addition, with respect to 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 2019: In accordance with Intermediate Circulars 543, the expected credit losses on exposures in foreign currency to the Lebanese sovereign and Central Bank of Lebanon as at 31 December 2019 are subject to maximum levels of 9.45% and 1.89% respectively, and those in Lebanese pounds are subject to maximum level of 0%).

Exposure at default (EAD)

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

Loss given default (LGD)

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

Significant increase in credit risk (SICR)

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition using reasonable and supportable information that is relevant and available without undue cost or effort, 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 2020 and 31 December 2019. 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	LBP Million
31 December 2020									
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
	2,696,107	169,323	641,776	3,507,206	(77,015)	(25,859)	(200,100)	(302,974)	3,204,232

	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	LBP Million
31 December 2019									
Balances with Central Bank of Lebanon	1,887,319	-	-	1,887,319	(27,395)	-	-	(27,395)	1,859,924
Due from banks and financial Institutions	113,496	-	-	113,496	(1,660)	-	-	(1,660)	111,836
Loans and advances to customers	983,045	187,045	196,066	1,366,156	(25,357)	(13,701)	(104,995)	(144,053)	1,222,103
Financial assets at amortized cost	500,777	292,931	-	793,708	(299)	(27,682)	-	(27,981)	765,727
Financial guarantees and other commitments	59,146	21,869	-	81,015	(319)	(1,012)	-	(1,331)	79,684
	3,543,783	501,845	196,066	4,241,694	(55,030)	(42,395)	(104,995)	(202,420)	4,039,274

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 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
Balance at 31 December 2020	47,694	21,602	162,116	231,412

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

As at 31 December 2020, only one 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 LBP 93,568 million 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 98 billion as of 31 December 2020 (LBP 86 billion as of 31 December 2019).

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 2020 was 70.64 billion (2019: LBP 99.53 billion), before taking into account collaterals or other credit enhancements, and LBP nil billion (2019: 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 2020 and 2019 is as follows:

	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
Total	3,070,324	70,982	3,141,306

	31 December 2019		
	Lebanon	Overseas	Total
	LBP Million	LBP Million	LBP Million
Balances with Central Bank of Lebanon	1,859,924	-	1,859,924
Due from banks and financial institutions	83,974	27,862	111,836
Loans and advances to customers	1,222,103	-	1,222,103
Financial assets at amortized cost	765,727	-	765,727
Debtors by acceptances	59,995	-	59,995
Total	3,991,723	27,862	4,019,585

Industrial Analysis

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

31 December 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
Total	2,238,770	106,026	220,752	240,670	148,648	80,775	95,030	10,635	3,141,306

31 December 2019									
	Sovereign	Consumer loans	Financial service	Real Estate Development and Trading	Consumer Goods Trading and Services	Manufacturing Industries	Recreation and Health Services	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
Balances with Central Bank of Lebanon	1,859,924	-	-	-	-	-	-	-	1,859,924
Due from banks and financial institutions	-	-	111,836	-	-	-	-	-	111,836
Loans and advances to customers	-	113,282	119,125	441,000	303,558	134,745	100,568	9,825	1,222,103
Financial assets at amortized cost	763,466	-	2,261	-	-	-	-	-	765,727
Debtors under acceptances	-	-	-	-	59,806	189	-	-	59,995
Total	2,623,390	113,282	233,222	441,000	363,364	134,934	100,568	9,825	4,019,585

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 2020			
	Gross Exposure	Fair Value of Collateral Received		
		Cash Collateral	Mortgage of Property	Total
		LBP Million	LBP Million	LBP Million
Corporate and SME	446,864	72,539	175,360	247,899
Factoring facilities	123,451	-	-	-
Retail and Personal	111,513	19,109	62,545	81,654
Credit impaired	328,105	201	112,237	112,438
	1,009,933	91,849	350,142	441,991

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

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 bank’s total foreign currency deposits as at 31 July 2020 by 28 February 2021. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Group submitted to the regulators its calculation as of 28 February 2021 reflecting a ratio of 3.67%, exceeding the minimum regulatory ratio of 3% as per BDL Circular 154. The approval of the regulators for meeting the ratio is pending as of the date of these financial statements.

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	
	2019	2020
Year-end	35.1%	22.3%
Maximum	39.2%	32.5%
Minimum	35.1%	21.6%
Average	37.6%	27.0%

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

31 December 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
	2,499,962	519,363	84,068	4,191	3,107,584

FINANCIAL LIABILITIES

31 December 2019					
	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	52,763	474	160,362	213,026	426,625
Due to banks and financial institutions	38,322	30,964	-	-	69,286
Deposits from customers and related parties	2,291,668	750,284	198,102	-	3,240,054
Engagements by acceptances	382	59,613	-	-	59,995
Lease liabilities	4,660	4,121	21,154	4,477	34,412
	2,387,795	845,456	379,618	217,503	3,830,372

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 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 2020

	LBP	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
ASSETS					
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
	754,010	2,480,616	86,332	18,499	3,339,457
LIABILITIES					
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
	610,938	2,446,498	85,549	17,840	3,160,825
Equity	16,814	161,818	-	-	178,632
Net exchange position	126,258	(127,700)	783	659	-

31 December 2019

	LBP	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
ASSETS					
Cash and balances with Central Bank of Lebanon	349,301	1,468,401	46,139	3,104	1,866,945
Due from banks and financial institutions	57,876	45,740	4,020	4,200	111,836
Financial assets at fair value through profit or loss	-	3,391	-	-	3,391
Loans and advances to customers	183,204	972,455	52,469	13,975	1,222,103
Financial assets at amortized cost	454,784	310,943	-	-	765,727
Financial assets at fair value through other comprehensive income	5,723	73	47	-	5,843
Debtors by acceptances	-	59,613	382	-	59,995
Investments in an associate	-	11,720	-	-	11,720
Assets acquired in settlement of loans	820	48,896	-	-	49,716
Property and equipment	71,997	831	-	-	72,828
Right-of-use assets	-	30,278	-	-	30,278
Intangible assets	12,225	-	-	-	12,225
Other assets	7,809	10,020	-	-	17,829
Deferred tax asset	82	-	-	-	82
	1,143,821	2,962,361	103,057	21,279	4,230,518
LIABILITIES					
Due to Central Bank of Lebanon	356,513	69,963	149	-	426,625
Due to banks and financial institutions	13,890	51,400	3,996	-	69,286
Deposits from customers and related parties	514,618	2,601,776	100,690	22,970	3,240,054
Engagements by acceptances	-	59,613	382	-	59,995
Other liabilities	38,672	13,155	76	43	51,946
Lease liabilities	-	29,099	-	-	29,099
	923,693	2,825,006	105,293	23,013	3,877,005
Equity	55,295	298,218	-	-	353,513
Net exchange position	164,833	(160,863)	(2,236)	(1,734)	-

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 2020			
	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million
ASSETS				
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
Investments 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
Total Assets	2,424,279	81,608	10,025	2,515,912
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
Total Liabilities	2,399,885	82,435	17,803	2,500,123
Equity	161,818	-	-	161,818
Net exchange position	(137,424)	(827)	(7,778)	(146,029)

31 December 2019

ASSETS

	USD	EUR	Other	Total
	LBP Million	LBP Million	LBP Million	LBP Million
Cash and balances with Central Bank of Lebanon	1,466,738	45,932	2,975	1,515,645
Due from banks and financial institutions	24,738	908	730	26,376
Financial assets at fair value through profit or loss	3,391	-	-	3,391
Loans and advances to customers	972,455	52,469	13,975	1,038,899
Financial assets at amortized cost	310,943	-	-	310,943
Financial assets at fair value through other comprehensive income	-	47	-	47
Debtors by acceptances	59,613	382	-	59,995
Investment in an associate	11,720	-	-	11,720
Assets acquired in settlement of loans	48,896	-	-	48,896
Property and equipment	201	-	-	201
Right-of-use assets	30,278	-	-	30,278
Other assets	10,121	-	-	10,121
Total assets	2,939,094	99,738	17,680	3,056,512

LIABILITIES

Due to Central Bank of Lebanon	69,963	149	-	70,112
Due to banks and financial institutions	51,317	505	-	51,822
Deposits from customers and related parties	2,601,903	100,690	22,970	2,725,563
Engagements by acceptances	59,613	382	-	59,995
Other liabilities	13,102	76	43	13,221
Lease liabilities	29,099	-	-	29,099
Total liabilities	2,824,997	101,802	23,013	2,949,812

Equity	298,218	-	-	298,218
Net exchange position	(184,121)	(2,064)	(5,333)	(191,518)

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 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
FINANCIAL ASSETS						
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
	886,284	470,920	616,592	1,199,078	2,286,590	3,172,874

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
	1,262,055	1,757,270	84,068	4,191	1,845,529	3,107,584
Net Gap Position	(375,771)	(1,286,350)	532,524	1,194,887	441,061	65,290

31 December 2019						
	Non-Interest Bearing	Up to 1 year	1 to 5 years	Over 5 years	Total Interest Bearing	Grand Total
	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million
FINANCIAL ASSETS						
Cash and balances with Central Bank of Lebanon	81,911	554,228	57,023	1,173,783	1,785,034	1,866,945
Due from banks and financial institutions	47,117	64,719	-	-	64,719	111,836
Financial assets at fair value through profit or loss	3,391	-	-	-	-	3,391
Loans and advances to customers	127,546	691,195	238,073	165,289	1,094,557	1,222,103
Financial assets at amortized cost	-	639	254,500	510,588	765,727	765,727
Financial assets at fair value through other comprehensive income	5,843	-	-	-	-	5,843
Debtors by acceptances	-	59,995	-	-	59,995	59,995
	265,808	1,370,776	549,596	1,849,660	3,770,032	4,035,840

FINANCIAL LIABILITIES

Due to Central Bank of Lebanon	474	52,763	160,362	213,026	426,151	426,625
Due to banks and financial institutions	-	69,286	-	-	69,286	69,286
Deposits from customers and related parties	542,525	2,499,427	198,102	-	2,697,529	3,240,054
Engagements by acceptances	-	59,995	-	-	59,995	59,995
Lease liabilities	-	8,781	21,154	4,477	34,412	34,412
	542,999	2,690,252	379,618	217,503	3,287,373	3,830,372
Net Gap Position	(277,191)	(1,319,476)	169,978	1,632,157	482,659	205,468

Interest Rate Sensitivity

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

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the prolonged nature of the economic crisis and the high levels of uncertainty the Group expects lower interest rates during 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. In addition, during 2020, ABL recommended all Lebanese banks to decrease the interest rates on both assets (loans) and liabilities (deposits). This was followed by a decision by ABL to cap the rates to BRR + 2 until the end of 2020. As a result, all interest rates on deposits across Lebanese banks were virtually the same, eliminating the competition.

45. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	31 December 2020					Valuation techniques and key inputs
	Carrying Amount	Fair Value			Total	
		Level 1	Level 2	Level 3		
LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	
Financial assets at fair value through profit or loss						
Funds- Unlisted	3,527	-	-	3,527	3,527	Unadjusted net asset value
Financial assets that are measured at fair value through other comprehensive income:						
Unquoted equity securities	5,803	-	-	5,803	5,803	Unadjusted net book value
	31 December 2019					Valuation techniques and key inputs
	Carrying Amount	Fair Value			Total	
		Level 1	Level 2	Level 3		
LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	LBP Million	
Financial assets at fair value through profit or loss						
Funds- Unlisted	3,391	-	-	3,391	3,391	Unadjusted net asset value
Financial assets that are measured at fair value through other comprehensive income:						
Unquoted equity securities	5,843	-	-	5,843	5,843	Unadjusted net book value

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.

46. LITIGATION RISK

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it. Since 17 October 2019, the Group has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad. Management has carefully considered the impact of existing litigation and claims against the Group in relation to these restrictive measures. There are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices.

47. POLITICAL RISK

External factors which are beyond the control of the Group, such as political developments and government actions in Lebanon (Note 1) and other countries may adversely affect the operations of the Group, its strategy and prospect.

Other important political risk factors include government intervention on the Group's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighboring countries and/or other overseas areas. Given the above, the Group 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.

48. GOODWILL

Goodwill in the amount of LBP 1.24 billion resulted from the acquisition of the entire shares of Near East Commercial Bank (NECB) during 2015. It was completely written off during 2019.

49. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorized for issue on 3 June 2021



SECTION 4

DIRECTORY

4.1 Correspondent Banks

4.2 Addresses



4.1 | CORRESPONDENT BANKS 2020

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

CUSTODIANS 2020

UBP
MIDCLEAR



4.2 | ADDRESSES

HEAD OFFICE

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

1. Ashrafieh - Charles Malek

Main Branch/Smart ATM
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. Verdun Branch/Smart ATM

Acting Branch Manager: Samar Dalloul
Verdun Heights, Rashid Karamah Street
Phone & Fax: +961 1 800 998
Monday - Friday 8:30am - 12:00p.m

4. 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

5. Jounieh Branch/Smart ATM

Manager: Lara Achkar Salameh
La Cité Center, Block A, Jounieh
Phone: +961 9 830 219
Fax: +961 9 830 218
Monday- Friday 8:30am - 12:00p.m

6. S17 New Branch Format/Smart ATM

Sodeco 1 Building, Sodeco Street
Phone: +961 1 214 617
Fax: +961 1 214 604
Monday- Friday 8:00am - 12:00p.m

Offsite ATMS

Kaslik/Smart ATM

ATCL, Jounieh
24/7

Ashrafieh/Smart ATM

Saint Charbel Bldg, Saint Louis Str
24/7

Hamra/Smart ATM

1866 Court & Suites, Bliss 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

Kfardebian/Smart ATM

Le Montagnou, Oyoun El Siman
24/7

Okaibeh/ Smart ATM

Chalfoun Center, Nahr Ibrahim
24/7

Saida/ Smart ATM

Al Saiid Center, Housam Hariri Street
24/7

Zouk/ Smart ATM

Town Center, Zouk Mosbeh Main Road
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

Nahas Building, El Tall, Muhamad El Jisr Street
24/7



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