North Africa Commercial Bank S.A.L.

# ANNUAL REPORT 2021


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# 01

OWNERSHIP

BOARD OF DIRECTORS

GENERAL MANAGEMENT

# Ownership

## 99.56%

Libyan Foreign Bank

## 0.43%

Demoreco Holding Co. S.A.L.

## 0.01%

Others

# Board of Directors

**Mr. Mohamed Najib Hmida El-Jamal**
Chairman & General Manager

**Libyan Foreign Bank**
*Rep. by Mr. Mohamed Najib Mugber*
Member

**Demoreco Holding Co. SAL**
*Rep. by Dr. Abdusslam A. Gehawe*
Member

**Dr. Abubaker Mohamed Al Waddan**
Member

**Mr. Jean Paul Marcel Touma**
Member

**Rawi Boutros Kanaan Esq.**
Member

**Osama Rami Serrag**
**Member till 01/09/2021**

**Mrs. Rania Joseph El Hage**
Secretary of the board

# General Management

**Mr. Mohamed Najib Hmida El-Jamal**
Chairman & General Manager

**Mr. Yousef Mabrouk Ajail**
Assistant General Manager for Banking Operations & Branches

# Members of the Board of Directors & Board Committees

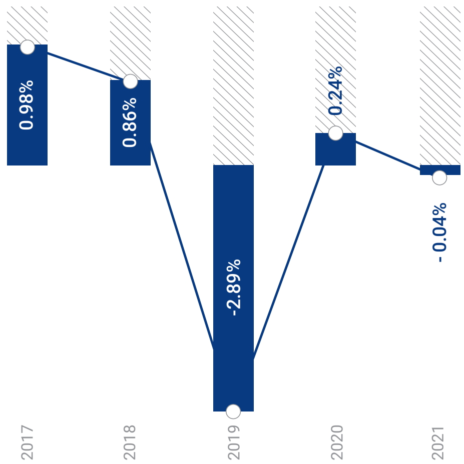
| Members Name | Independent | Executive | Non-Executive | Audit Committee | Risk Committee | Remuneration Committee | AML/CFT Board Committee |
|---|---|---|---|---|---|---|---|
| **Mr. Mohamed Najib Hmida El Jamal** | | ● | | | | | |
| Libyan Foreign Bank Member Rep. by **Mr. Mohamed Najib Mugber** | | | ● | | ● | ● | ● |
| Demoreco Holding Co.Sal Member Rep. by **Dr. Abdusslam A. Gehawe** | | | ● | ● | | | ● |
| **Mr. Jean Paul Marcel Touma** | ● | | ● | | PRESIDENT ● | ● | |
| **Dr. Abubaker Mohamed Al Waddan** | ● | | ● | PRESIDENT ● | | PRESIDENT ● | ● |
| **Mr. Osama Rami Serrag** Member till 01/09/2021 | ● | | ● | ● | ● | | ● |
| **Rawi Boutros Kanaan Esq.** | ● | | ● | | | | PRESIDENT ● |

| | |
|---|---|
| **Mrs. Rania Joseph El Hage** | Secretary of the Board |
| **Mrs. Hala Walid Obeid** | Secretary of Remuneration Committee |
| **Mrs. Ghina Mahmoud Nasser** | Secretary of Risk Committee |
| **Mr. Hassane Mustafa Ghalayini** | Secretary of Audit Committee |
| **Mr. Shawki Ghassan Ahwash** | Secretary of AML/CFT Committee |

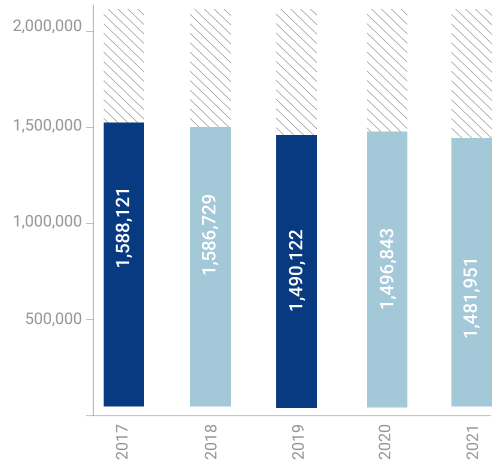
# 02 FINANCIAL HIGHLIGHTS

# Financial Highlights

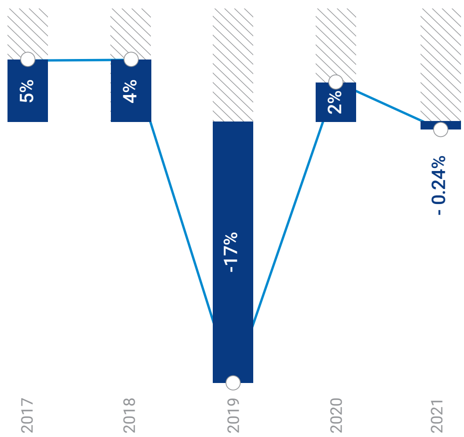
## Return on Assets



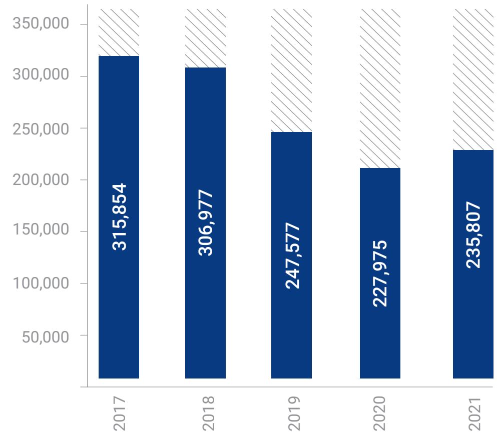

## Total Assets



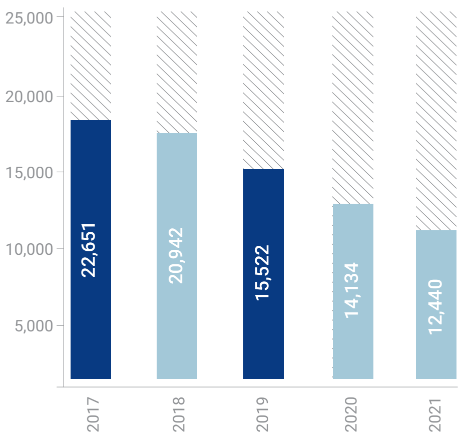

## Return on Equity



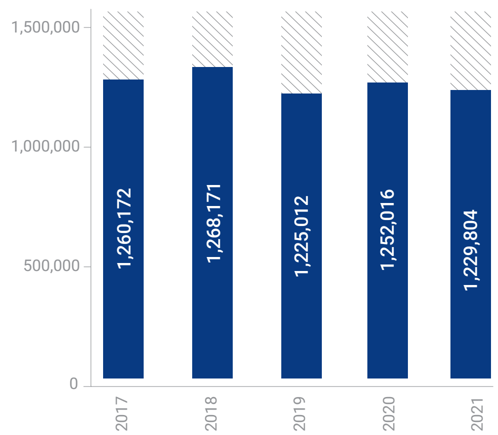

## Shareholders' Equity




## Loans & Advances to Customers

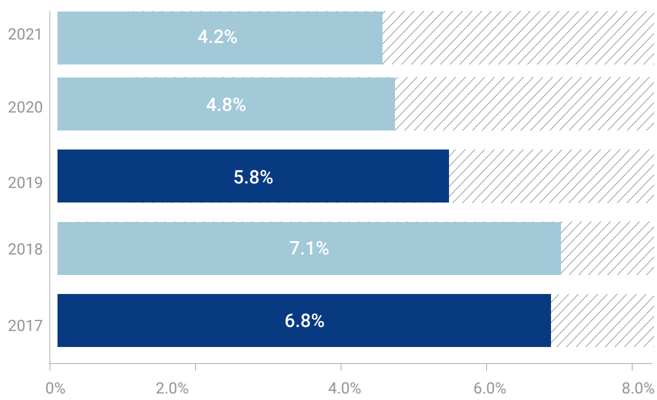



## Total Deposits

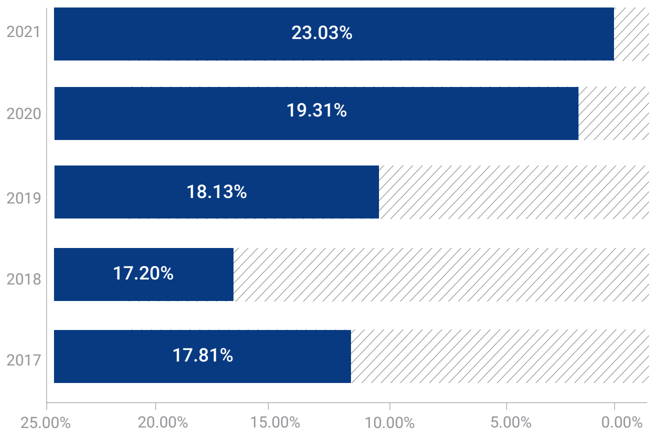



** US Dollar exchange rate:* **1507.50 LBP**

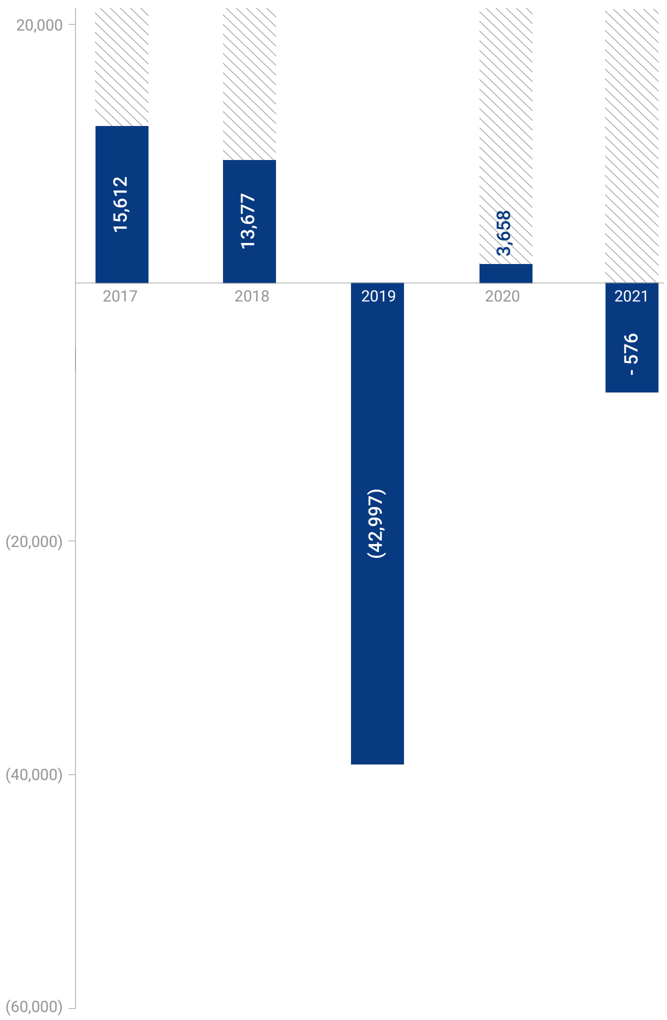
## Loans & Advances to Deposits Ratio



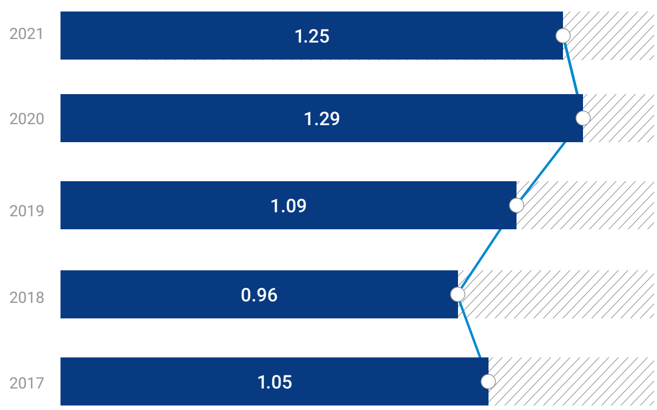

## Capital Adequacy Ratio




## Net Profit




## Gearing Ratio




** US Dollar exchange rate:* **1507.50 LBP**

# 03 BOARD OF DIRECTORS REPORT

# Board of Directors' Report

The year 2021 witnessed a distinguished global economic recovery from the severe inflation that disrupted the year 2020 due to the repercussions of the Coronavirus pandemic, with the global economy growing by 5.9% compared to the steep 3.5% decline in global growth in 2020.

Macroeconomic inflation rates have risen rapidly in developed, some emerging market and developing economies due to the resulting inconsistency between supply and demand, and the rise in commodity prices, with the average global inflation rate reaching 4.7% in 2021.

On the Arab regional level, Arab countries, like other countries in the world, faced different paths in their attempts to recover economically during 2021 due to a number of factors, the most important of which is the ability of the governments of these countries to support economic reform. The GDP has grown by 3.2% in 2021.

Oil prices have contributed to the recovery, and Arab oil countries were able to benefit from the global oil market improvement. This was reflected in the receding of inflationary pressures on the general level of prices in 2021, as the inflation rate in Arab countries dropped to 5.7%, compared to 14.4% in 2020.

Domestically, the Lebanese economy has faced, for the second year in a row, very difficult circumstances stemming from the multidimensional political and financial crisis it is going through, to add to the problems resulting therefrom and persisting since 2011, due to the regional unrest on the one hand, which afflicts public finances in terms of budget deficit, and the exacerbation of public debt and its service on the other hand, especially with the international banks' cutting of credit lines from the Lebanese banking sector, and the slowdown in private sector transactions, but also their significant decline and consequent factors, the most important of which are the inflationary financial factor, the epidemiological factor of the Coronavirus, and the fuel and energy crisis factor and its general economic effects, which in fact led to a sharp decline in macroeconomic growth by 11% in 2021, after a 25% decline in 2020, according to the International Monetary Fund.

Annual inflation rate stood at 155%, compared to 85% in 2020. This led to an increase in the local public debt of about 97.36 billion dollars, of which 35.5 billion dollars is external public debt at the end of 2021.

Based on this data, foreign exchange reserves at the Banque du Liban (BDL) decreased by 6 billion dollars, or 26%, from 24.1 billion dollars at the end of 2020 to 17.8 billion dollars at the end of 2021, despite all serious attempts made by the BDL in the foreign exchange market, in addition to the financing of the import of basic products. The gold reserves amounted to 16.6 billion dollars at the end of 2021.

The black market has further complicated the situation which led to a deterioration in the Lebanese Pound's exchange rate to its lowest levels in light of the current political and economic uncertainty, the remarkable increase in the volume of circulated cash, and the lack of foreign funds. In addition, the prices of Lebanese debt securities have fallen to their lowest levels ever, and this situation arose following a significant and sustained drop in prices in 2020, following the Lebanese government's sudden announcement on March 9, 2020, to withhold payments on all foreign currency-denominated bonds, which contributed significantly to the crisis.

Despite this highly complex economic and financial situation, BDL has sought, and continues, in every possible way, to take measures and issue announcements and circulars to help the Lebanese economy survive.

Under these circumstances, the banking sector is trying to maintain a position that is adapted to such transformations, despite pressures from all sides, which was reflected in a decline in many indicators. The total assets of commercial banks in Lebanon decreased to about 175 billion dollars at the end of 2021, compared to 188 billion dollars at the end of 2020, which represents a decline in total banking activity by 6.9% in terms of deposits and loans, compared to a decline of 13.3% in 2020. In this regard, total deposits in the banking sector decreased by 8.1% annually, to reach about 140.1 billion dollars at the end of 2021.

Loans to the private sector accounted for 20.9% of total deposits at the end of December 2021, compared to 24.8% in December 2020. The dollarization of deposits declined from 80.4% at the end of 2020 to 79.4% at the end of 2021, following remarkable increases in recent years.

The consolidated capital accounts of commercial banks reached about 17.8 billion dollars in December 2021, which represents an annual decline of 10.6% as a result of recording net losses at a time when all eyes are on the government's recovery plan, which will distribute the national losses among the various economic customers, including the banking sector.

In 2021, North Africa Commercial Bank (NACB) S.A.L. sustained its attempts to cope with the severe crisis and the risks it engenders, by strengthening its capacity to withstand additional operational and financial pressures.

At the end of 2021, its assets amounted to about 1,482 billion Lebanese pounds, compared to 1,497 billion Lebanese pounds at the end of 2020, a decrease of about 1%, mostly due to the limited drop in deposits. Deposits with the BDL amounted to 1,129 billion Lebanese pounds, compared to 1,011 billion Lebanese pounds at the end of 2020, an increase of about 12%. This is due to the bank's crisis strategy, balancing the profits generated by bank deposits or sparing deposits or bank assets from the risks of the crisis. Although this measure will lead to a significant decrease in revenues or will even affect its financial results, the bank preferred to maintain deposits by transferring its funds deposited with Lebanese banks exclusively to BDL, as it is a sovereign body.

This resulted in a drop in deposits in the banks, from 126 billion Lebanese pounds at the end of 2020 to 1.5 billion Lebanese pounds at the end of 2021, which is a decrease of 99%. Net loans and advances amounted to about 12 billion Lebanese pounds, compared to 14 billion Lebanese pounds at the end of 2020, due to the hedging measures taken to reduce the risks of the credit portfolio, especially those exposed to the risks of the Lebanese market. It should be noted that the bank, by relying on its own resources, was able to improve the position of its bad debts, and as a result of the profits and the collections it made, the ratio of provisions to doubtful debts exceeded 100%, taking into account the real estate guarantees based on these debts.

The negative result of the bank was (576) million Lebanese pounds, compared to 3,658 million Lebanese pounds at the end of 2020, due to the decline in net interest income from banking operations as a result of the current crisis as we mentioned earlier.

The bank's total shareholders' equity reached 236 billion Lebanese pounds at the end of 2021, compared to 228 billion Lebanese pounds at the end of 2020, an increase of about 3%. This is due to the improvement in the fair value of securities classified through other comprehensive income.

The bank recorded high rates of solvency required by the BDL, with Tier One reaching 22%, knowing that the minimum total capital ratio imposed by the BDL is 10.5%.

The external auditors continue to delay the delivery of their report and to express their opinion on the financial statements for the third year in a row as a result of the events that Lebanon is going through, and in light of the great insistence of all accredited auditors in the Lebanese banking sector in an unprecedented manner, which ended in distancing themselves and avoiding any legal aspects that give rise to risks, based on the opinion related to the need to apply generally accepted banking standards, which is a custom that is relied upon in many financial crises that many countries of the world are exposed. Indeed, it was unanimously agreed to issue an Adverse Opinion on the financial statements of 2021 and for all banks, similar to the rest of the Lebanese banks.

The basis of the adverse opinion relates to the bank's non-application of Accounting Standard No. 29, which is impossible to apply in crises, and in Lebanon in particular.

The Board of Directors has expressed its reservation and objection to this adverse opinion due to the discrepancy in many analyzes, such as, but not limited to, the reduction of provisions on deposits at the BDL, as it constitutes a declaration of deficit or default by the BDL.

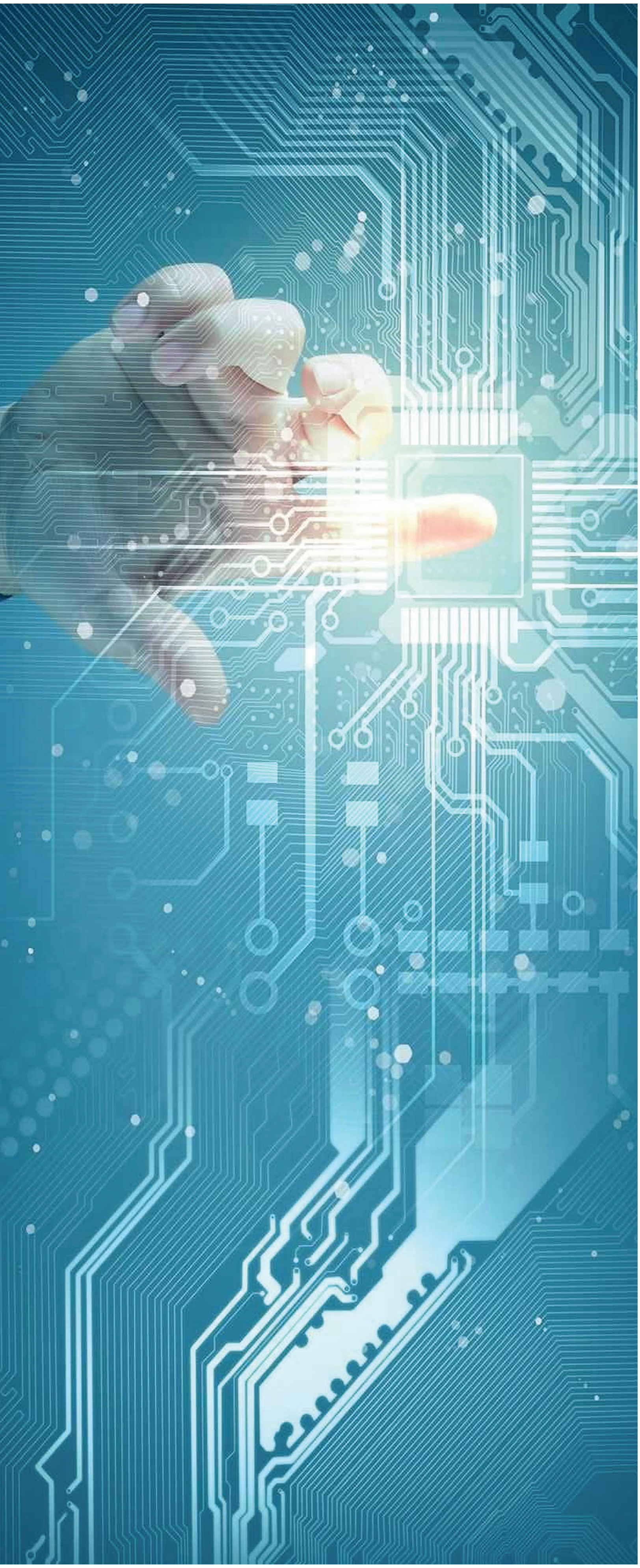
It is worth mentioning that the major financial crisis that Lebanon has been through has prompted us, as a board of directors, to take the maximum possible measures of protection, the most important of which is the transfer of the bank's funds deposited with Lebanese banks exclusively to the BDL in its capacity as a sovereign bank, which amounted to more than 85% of the bank's total assets. This led to the loss of the bank's revenues on its deposits with banks, not to mention the suspension of revenues on the Lebanese state's Eurobonds due to its voluntary suspension of payments, and the increase in operational expenses as a result of the inflationary trend in the prices of goods and services, which led us to record book losses in order to preserve these funds.

However, we should refer here, on the one hand, to the reassurance received from the BDL in its letter dated 04/11/2020 to the bank, in which it affirmed its full commitment to the bank's accounts and its placements at the BDL, which is classified as a sovereign entity, referring only to the inability to conduct any transfers abroad from these accounts in view of the exceptional circumstances that Lebanon is going through and, on the other hand, the permanent support that the bank enjoys from the parent bank, the Libyan Foreign Bank, especially since the beginning of the financial crisis in Lebanon in 2019, in order to enable the bank to maintain resilience in the face of crises and continue its hedging approach in an attempt to address the emergency pressures as much as possible according to the available possibilities.

At this sensitive time, with special attention to geopolitical developments worldwide, especially the Russian-Ukrainian war and its debilitating inflationary effects, and the expectations of a major economic downturn for the majority of the world's countries, we wish to continue providing support to the bank, if the owner has a strategic vision for investment and presence in this brotherly country. We are all convinced that Lebanon will overcome its current ordeal and redeem its expected economic and financial prosperity, especially in light of the completion of the maritime border demarcation agreement and the commencement of exploration and gas extraction.

Please accept our deepest consideration and respect

**The Board of Directors**



# Corporate Governance

Corporate Governance sets out the basis, systems and processes by which the Bank is managed while maintaining and securing the rights and needs of stakeholders including shareholders, depositors, clients, and other related parties as well as defining the rights and responsibilities for each.

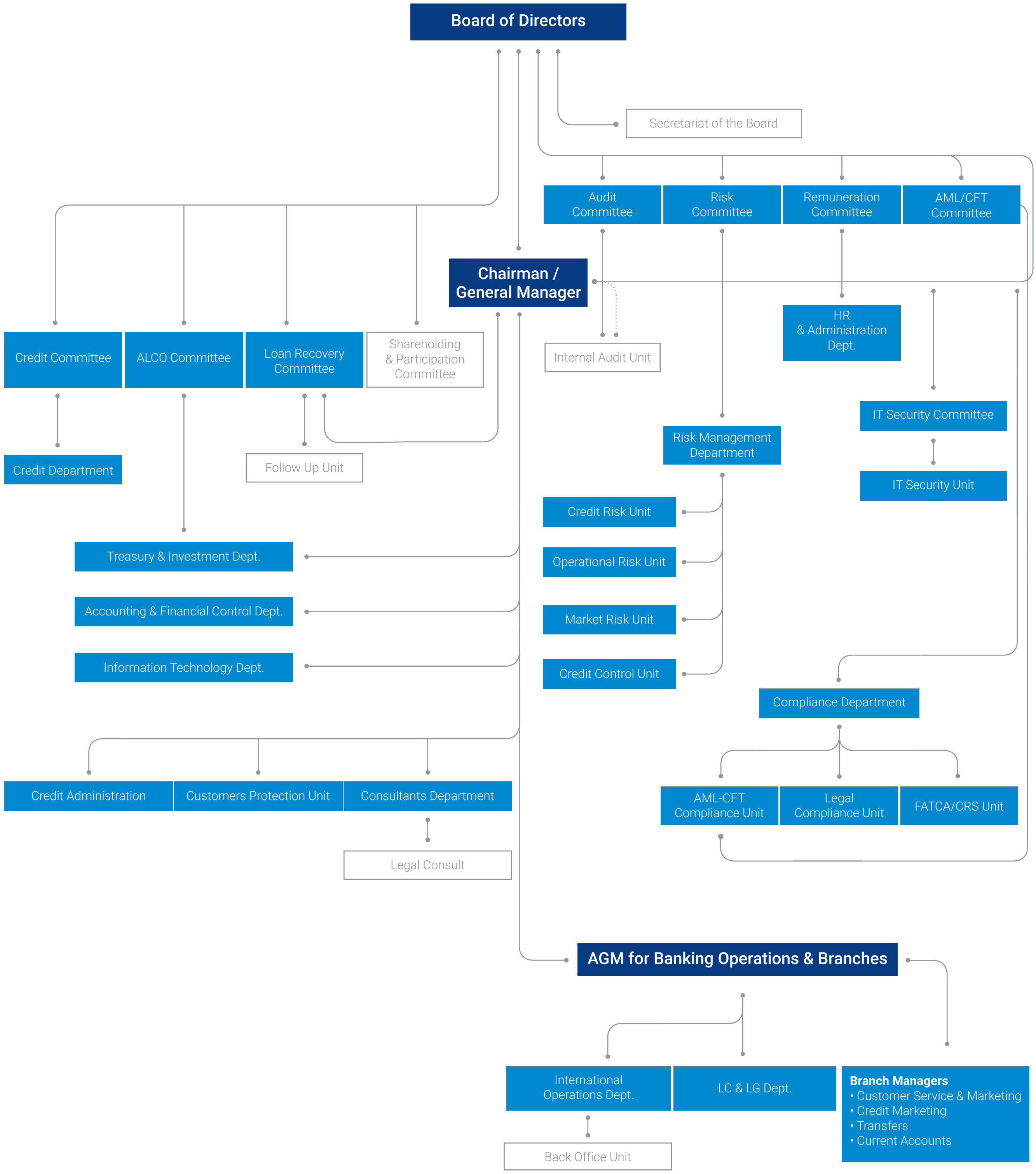
The Bank is keen on complying with, and upholding the corporate governance principles to accomplish this objective and to reinforce the trust of shareholders, depositors, clients, and other related parties as well as upholding the positive and responsible role it plays in the community and economic environment.

The Bank also complies with “Banque Du Liban” and “Banking Control Commission” circulars and directives, in light of which it lays down its internal policies, decision making mechanisms, organisation structure adequately tailored to his needs as well as the internal control framework including risk management, compliance and internal audit.

In this context and in compliance with “Banque Du Liban” directives the Bank has developed a “Corporate Governance Guide” derived from common references such as Basel principles and “Association of Lebanese Banks”. This guide is enforced internally on all levels and is periodically reviewed by the Board of Directors and is updated as needed.

Kindly find below Board of Director’s Committees and Core decisions ‘executive committees as well as some of Senior Management Committees, as follows

# Organizational Chart



# Board of Directors' Committees

## Audit Committee

- Ensure qualifications and independence of both external auditors and internal audit unit.
- Monitor the integrity of financial statements and review disclosures standards adopted in the Bank.
- Assure adequacy and effectiveness of internal control systems.
- Follow up on corrective actions for issues presented in the reports of the internal audit unit, regulatory authorities and external auditors.
- Monitor the bank's compliance with regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission.
- Oversight and supervision on the works of the Internal Audit Unit, IT Audit, as well as the perusal and follow-up on the reports of the controlling bodies.

## Risk Committee

- Review NACB's Risk Management Framework.
- Review NACB's Business Model.
- Review Risk Appetite and Risk Tolerance.
- Review NACB's Contingency Funding Plan.
- Review & assess NACB's ICAAP.
- Review NACB's Business Contingency Plan & Recovery Plan.
- Review and assess NACB's Risk Management Systems.
- Present all the required information to allow the Board of Directors to supervise NACB's compliance with IFRS 9 Standard.

## Remuneration Committee

- Supervise the proper implementation of both the "Remuneration Policy" and "Remuneration System", and review periodically the efficiency and effectiveness of this policy.
- Submit to the Board of Directors specific proposals about the Senior Executive Management remunerations.
- Assist and support the board of externaldirectors of the bank in its controlling and supervisory tasks as per their remuneration policy for its personnel and its adherence to the bank strategy.

## AML / CFT Committee

- Supports the Board of Directors in its functions with respect to fighting money laundering and terrorist financing and assesses associated AML/CFT risks in order to take the appropriate decisions.
- Reviews from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit on adopted procedures, effectiveness of internal controls, unusual operations and high-risk accounts, regarding cash deposits and withdrawals, transfers, cash transaction slip (CTS) exemptions and the link between these operations and economic activities, and take appropriate decisions.
- Stays abreast of the recommendations listed in the reports of the Special Investigation Commission (SIC) in order to implement them properly and in a timely manner, as well as ensure resources are available in this regard.

# Core Decisions' Executive Committees

## Credit Committee

• Determines the Bank's Credit Policy while taking into consideration compliance with the applicable laws & regulations and the directives issued by Central Bank of Lebanon and the Banking Control Commission.

• Makes decisions on granting/extending credits within its delegation as determined by the Board of Directors or issuing its recommendations to the board regarding credits that are beyond its delegation limits.

• Supervises the development of the credit policies.

## Shareholding & Participation Committee

• Making decisions regarding the shareholding and participation operations, mergers & acquisitions, and real-estate investments, according to the strategies set by the BOD & within its risk tolerance criteria

• Diversification of the bank use of its Equity specifically the bank's free capital

## ALCO Committee

• Make all major decisions relating to investment processes and ensure the optimal return.

• Illustrate the general framework for market risk management policy, including interest rate risk, liquidity risk, and forex risk.

• Determines and adjust bank's interest rates and commissions.

# Senior Management Committees

## Information Technology Security Committee

• Periodically review ITS Policies and procedures to ensure the safety of information technology systems, and enhance any essential updates.

• Examines and assesses all the information security risks.

• Reviews and adopts alternative plans to ensure the integrity of information systems in the Bank.

## Business Continuity Plan Committee

• Provide overall governance and direction setting of the business continuity program on an ongoing basis.

• Periodically supervise business continuity plan to mitigate the risks of disasters and exceptional conditions.

• Identify alternative location (Disaster Recovery-DR Site) and key staff to perform this task.

• Coordinate the development, maintenance, review and testing of Infrastructure Disaster Recovery Plans.

• Supervise the evacuation plan.

## Internal Control & Risk Management Systems

The bank attaches a great importance to the internal control function due to its important role to achieve banking security and safety, as well as the integrity and credibility of financial information and what is related to processing and accounting, in addition to the compliance with legislations, regulations, and internal policies and procedures.

Internal control systems in NACB SAL are as follows:

### The Internal Audit Unit

Internal Audit is an assurance and consulting function aiming to add value and improve banking operations and help the bank in achieving its objectives through its independent and objective assessment of all bank functions and activities.

The Internal Audit Unit performs this function by adopting a methodological and organized approach in its auditing roles in order to evaluate and improve the efficiency and effectiveness of governance, risk management and internal control systems at the bank.

The unit works according to the Internal audit charter approved by the Audit Committee and the Board of Directors; which guarantees its independence and specifies its scope of work, roles and responsibilities, and its relation with the Audit Committee and the General Management.

## Risk Management Department

### NACB Risk Management Framework

The Bank is vulnerable to different types of risks associated with its operations and banking activities. The Risk Management Department monitors them through a robust ongoing processes helping NACB to understand and manage its exposures to make appropriate risk-based strategic decisions. NACB determines the acceptable amount and type of risk in order to meet its strategic objectives, sets roles, responsibilities, functions and limits approved by the Board of Directors.

### Credit Risk

The credit risk accounts for the financial losses incurred if a counterparty failed to fulfill its financial obligations in a timely manner. NACB complies with the approved credit policy, monitors and controls the credit granting process and the credit portfolio by ensuring compliance with the approved credit policy approved by the Board of Directors and keeping the credit losses within the acceptable risk appetite.

### Market Risk

The Bank complies with the Market Risk policies approved by the Board of Directors by monitoring the fluctuation of the market risk parameters, such as interest rate, exchange rate, stock prices and by assessing new products, their rewards, and the analysis of the additional funding requirements to cover stressed scenarios and emergency plan.

### Interest Rate Risk & Forex Risk

The Bank is committed to apply the policies set by the Board of Directors by monitoring of the foreign exchange positions in all currencies to ensure compliance within accepted thresholds and the Maturity Gap analysis.

### Liquidity Risk

The Bank is committed to apply the policies set by the Board regarding liquidity risk, maintaining adequate Liquidity Cover Ratio. The Bank monitors its capacity to meet its cash and collateral obligations without incurring unacceptable losses. Adequate liquidity is dependent upon the institution's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the institution and mitigate this risk through diversification in the sources of funds and investment in high quality financial instruments.

### Operational Risk

The Bank is keen to assure the close cooperation between all departments and units in order to raise awareness about operational risks. The Bank adheres to the operational risk management frameworks in accordance with best practices such as the process of Risk and Control Self-assessment (RCSA). The Bank analyzes and monitors operational risks including the preparation, update and testing of the Business Continuity Plan and the process of Loss Data Collection.

### Capital Adequacy Ratios

The Bank complies with all regulatory requirements for minimum banks' capital, Leverage ratios, liquidity ratios and macro prudential indicators to reduce potential volatility in the economic cycles. The Bank performs quarterly calculation of the Capital Adequacy Ratios according to the standards set by the Basel Committee and the directives of the Banque du Liban and the Banking Control Commission.

### ICAAP: Internal Capital Adequacy Assessment Process

The Bank assesses its capital requirements to meet all potential risks related to Pillar I & Pillar II to ensure its capacity to absorb any potential loss and to monitor it according to the requirements of the regulatory authorities.

### The IFRS 9 Framework

The Bank complies with the requirements of IFRS 9 to determine the criteria for calculating the Expected Credit Losses, the classification of financial assets and the disclosures required in financial reports.

### The Business Continuity Plan

The Bank identifies risks that may affect its business continuity and prompts the implementation of the Business Continuity Plan in order to determine the various disaster scenarios to which the bank may be exposed.

### The Recovery Plan

The Bank operates within its approved guidelines, controls, acceptable risk margins and business model. The Bank's recovery plan addresses potential difficulties in times of crisis to identify credible options to survive a range of severe but plausible scenarios and includes recovery mechanisms in a reasonable period in the event of stressful conditions.

## Compliance Department

### 1. Legal Compliance Unit

The bank keeps abreast of the legal legislations issued by the supervisory bodies on an ongoing basis.

In this context, the Legal Compliance Unit follows up on compliance issues in the bank regarding what is pertaining to its internal policies to the requirements of laws and circulars issued by the supervisory authorities and take the necessary measures to understand the risks of non-compliance and reduce them. It strengthens and develops its monitoring methodologies and provides advice to the executive top management regarding compliance, it also continues to evaluate the effectiveness of the measures taken and the compliance of workers with the policies established by the bank.

### 2. Anti-Money Laundering and Combating Financing Terrorism Compliance Unit

In terms of taking effective measures to combat money laundering and terrorism financing, the AML/CFT compliance unit ensures the continuous control of all banking operations as per international standards and recommendations issued by Financial Action Task Force (FATF), Wolfsberg principles, as well as the binding circulars of Banque Du Liban (BDL) and financial intelligence unit, known as Special Investigation Commission (SIC). Moreover, the Unit has developed its policies, internal controls, and AML/CFT procedures based on an enterprise-wide risk based approach in order to mitigate any threat that may arise from financial crime.

Our institution pays special attention to cyber-enabled financial crimes and is always keen to mitigate cybercrime risks. To this end, strict measures have been taken to protect the financial integrity of our institution and the deposits of our valuable customers.

### 3. FATCA / CRS Unit

The Foreign Account Tax Compliance Act ("FATCA") is a United States of America law that was signed on March 18, 2010 and the Exchange of Information for Tax Purposes ("CRS") was adopted under the Lebanese law number 55 that was signed on October 10, 2016. Both laws are aimed to encourage better tax compliance by preventing customers from using Banks and other Financial Organizations to avoid taxation on their income and assets. The exchange of taxpayer information under FATCA and CRS is effectively achieved at NACB. The unit continuously monitors all developments related to these two laws.

## Information Security & Business Continuity Unit

The Bank abides by the local regulations and international corporate security practices and is continuously improving its policies, procedures, processes and its security systems to ensure that all areas related to technology risks are properly covered.

The Bank is committed to provide the highest degrees of governance based on assessments made, and through several security solutions adopted and acquired to protect and safeguard the bank assets as well as to detect any abnormal behaviour.

Moreover, NACB is continuously upgrading its network infrastructure and renovating its internal physical appliances using the latest technologies to ensure smooth business continuity, and to cope with the market changes and challenges.

# C. Bank's Financial Analysis


Lebanon has witnessed severe events since the last quarter of 2019 that have affected and continue to have a significant impact on the financial, monetary and economic outlook, in addition to their impact on the economic situation in general and the banking system in particular. Prominent among these events are:

- Reducing the Lebanese sovereign credit risks, which began to deteriorate since the last quarter of 2019, led to an increase in systemic risks and dealing with Lebanon from external parties.

- Transfers abroad and cash withdrawals in foreign currencies and currently the local currency have been restricted.

- Sharp fluctuations in foreign exchange rates and the creation of parallel markets with wide differences in the exchange rate

- The emergence of two types of dollars: the cash dollar (Fresh Dollar) and the local dollar (Local Dollar).

- The Lebanese government announced on March 23, 2020 to stop paying all Lebanese state debt bonds, denominated in US dollars.

- Low interest rates in the Lebanese market, in addition, the Central Bank of Lebanon stopped paying interest on mandatory foreign currency investments, and stop accepting new deposits.

- Severe inflation and decrease in purchasing power.

During this period, the bank was able to maintain the size of its assets, which amounted to 1,482 billion Lebanese pounds at the end of 2021.

In the previous years until 2018, the bank was able to achieve profits however, during 2019, while the final result profits of 23 billion Lebanese pounds during the year 2019, the general climate caused by the difficult economic and financial conditions and the outbreak of the epidemic Corona (Covid 19) in Lebanon, and like the rest of the banks operating in Lebanon and in the international financial markets, and in line with the recommendations of the external auditor, precautionary measures were taken in line with these developments, which requires setting aside an amount of 66 billion LBP, including the mentioned profits, which is around LBP 23 billion, to record a negative book result of LBP 43 billion, this is not the result of the bank's commercial operations, but rather aims to improve the financial position in line with the circulars of the Central Bank of Lebanon and international accounting values.

With all mentioned difficulties, profits at the end of the year 2020 amounted to 3.7 billion Lebanese lira.

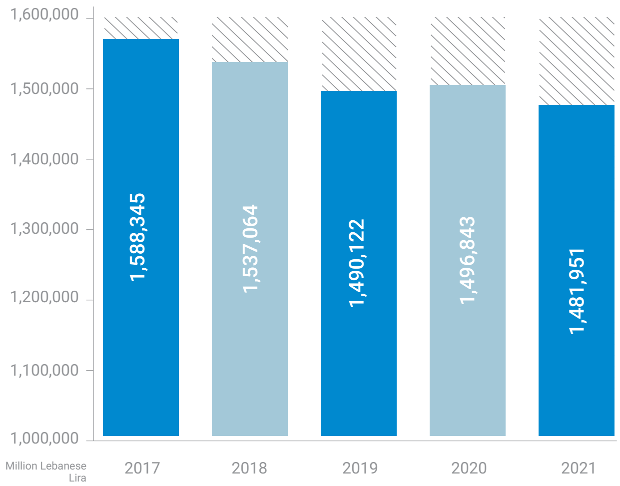
The crisis and ongoing situation was negatively reflected also during the year 2021, as the bank recorded losses of 576 million Lebanese pounds.

Below we will provide the growth of Bank's assets and liabilities, as well as the analysis of profitability, liquidity, and solvency for the past five years.

# I. Assets

The bank, in general, maintained the size of its assets during the period from 2017 to 2021, despite the previously mentioned circumstances. The bank's assets until the end of the year 2021 decreased by a small percentage compared to the year 2020 as a result of the current economic situation.

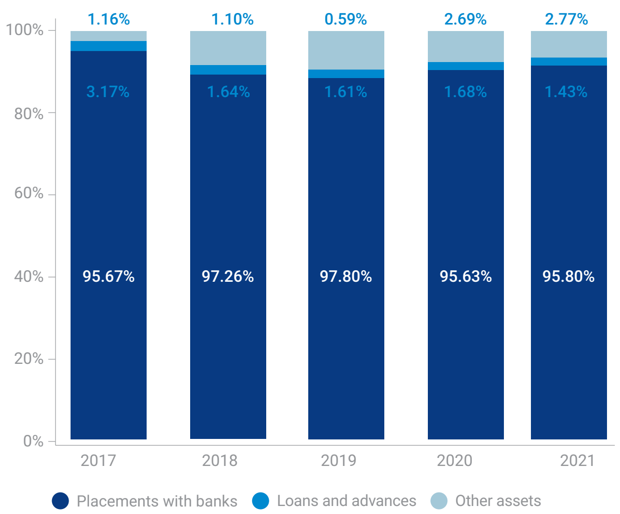
**Total Asset**




## Assets Distribution Ratios

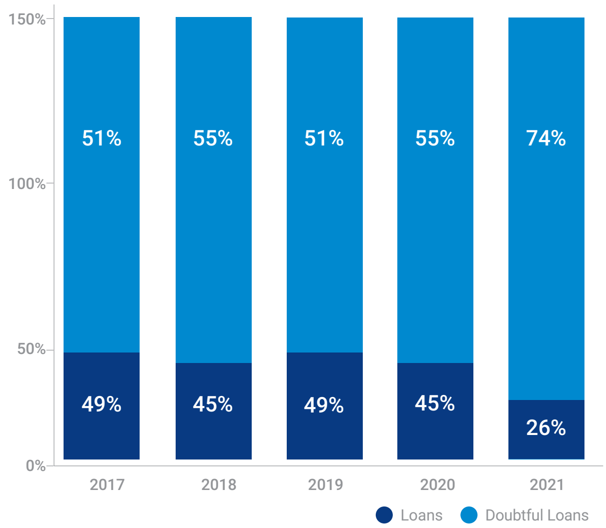
In recent years, the bank has followed a conservative policy in terms of funds placements and focused on rewarding and low risk investments, such as investments with banks and in financial instruments. These represented 98% of total assets by the end of 2021, allowing the Bank to maintain high liquidity ratios. This came as a result of slow economic growth in the Lebanese market that do not encourage increasing credit limits.

**Percentage Distribution of Assets**




### 1. Loans and Advances to Customers

In the midst of political and economic situation in the region and in Lebanon, Lebanese banks took a conservative position regarding advances which were limited to specific customers and subsidized products. The Bank has remained conservative in terms of advances that are limited to loans and facilities granted against sufficient guarantees. The Bank was able to liberate its financial position from the burden of non-performing loans by creating sufficient provisions and reserves for these debts.




* Fully covered by special reserves against doubtful loans in addition to real estate collaterals.

### 2. Placement With Banks

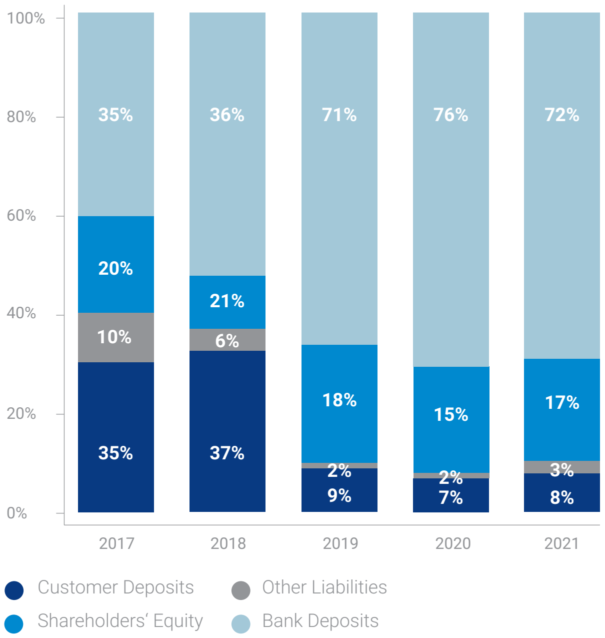
Placement with banks and financial institutions portfolio is considered one of the main Bank's portfolios; where it represents 78% of the bank's total assets. The Bank kept short and medium term investments represented by term deposits with commercial banks in order to maintain the adequate liquidity levels. These investments include compulsory reserves and compulsory placements with BDL.

### 3. Financial Instruments Portfolio

The financial instruments portfolio represented 17% of the Bank's total assets in 2021. The portfolio witnessed a remarkable transformation during the previous two years, as the Lebanese government announced its inability to repay the Eurobonds, and thus the banks incurred losses resulting from the state's inability to pay its debts, knowing that the bank had made provisions for expected credit losses of 45% on these bonds

# II. Liabilities & Shareholders' Equity

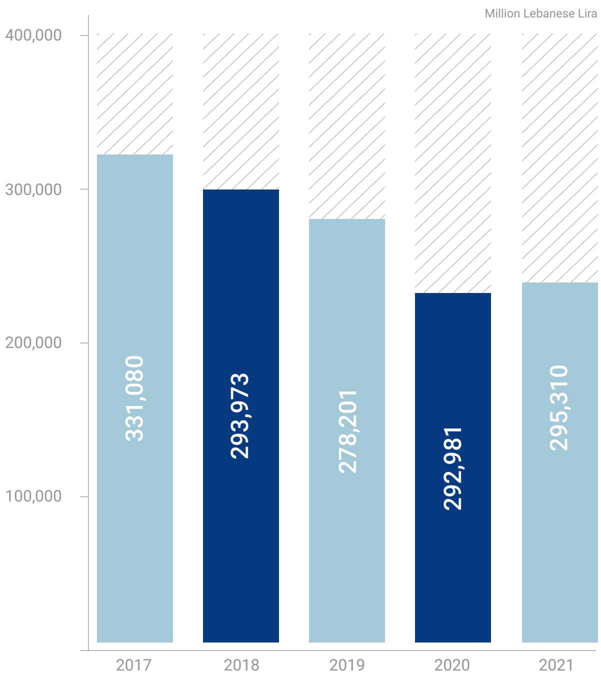
A substantial change in the structure of the bank's sources of funds took place recently where shareholders' equity represented 15% of these sources by the end of 2021, whereas banks' deposits represented the largest part of these sources by 64%.




### 1.Customer Deposits

The customers' deposits portfolio represented 20% of the total sources of funds by the end of 2021.

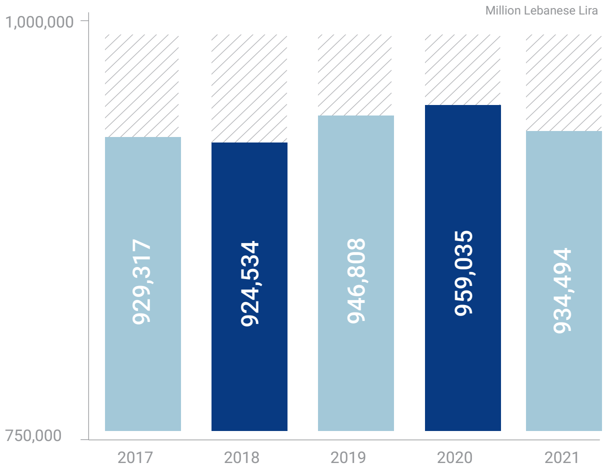
**Customers' Deposits**




### 2. Banks Deposits

The efforts made in the past years in obtaining deposits from nonresident banks and financial institutions contributed in achieving growth in deposits from banks. It represented 63% of the total sources of funds by the end of 2021, of which Mother Bank and related parties' deposits represent the major part of these deposits.

**Bank Deposits**

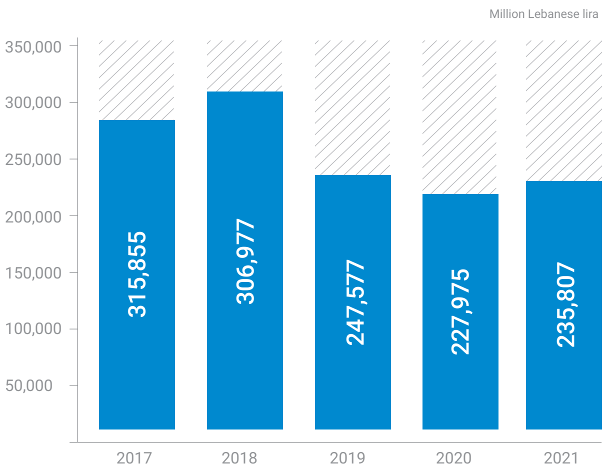



### 3. Shareholders' Equity

Pursuant to the requirements of the Basel III Committee and BDL, and to maintain high solvency and liquidity ratios, the bank worked within the capital consolidation plan to increase its own funds from self-sources and forming the necessary reserves, as the retained profits reached 31 billion Lebanese lira at the end of the year 2021. The bank shareholders' equity is distinguished by being within the category of common tier one.

The shareholders' equity decreased at the end of the year 2019 as a result of reclaiming provisions for sovereign debts at a value of 66 billion Lebanese lira. The variation in shareholders' equity during the previous five years was as follows:

**Shareholders' Equity**




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Shareholder's Equity** | 315,855 | 306,977 | 247,577 | 227,975 | 235,807 |

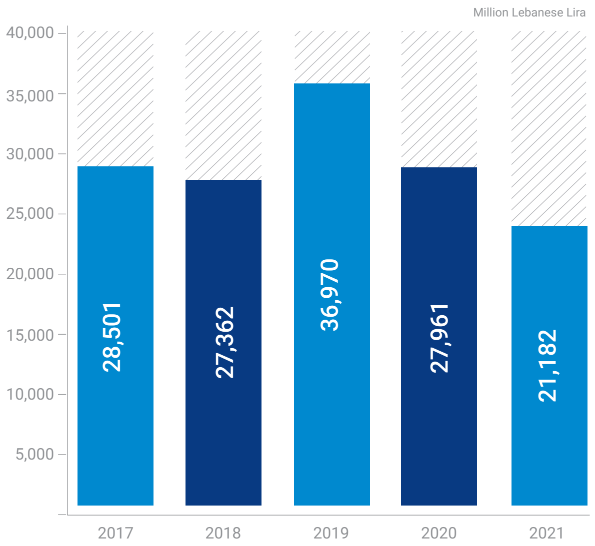
# III. Profits & Losses

### 1. Net Interest Income

The bank maintains net interest income during the previous years, and the year 2019 witnessed a remarkable increase as a result of the increase in interest rates during the year 2019. This rates were later declined at the end of the year 2021 as a result of the suspension of interest on Eurobonds.

The change of net interest income in the past five years was as follows:

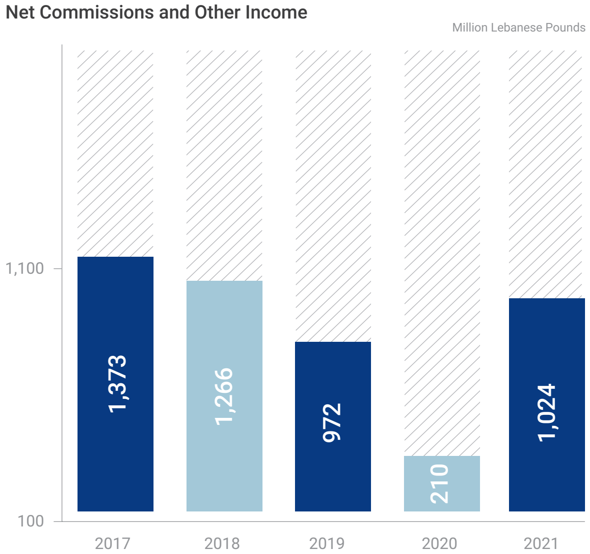
**Net Interest Income**




### 2. Net Commissions and Other Income

The majority of changes in this item are related to commissions received from letters of credits and guarantees. The net profit of commissions and other revenues in the past five years was as follows:

**Net Commissions and Other Income**




### 3. Administrative and General Expenses

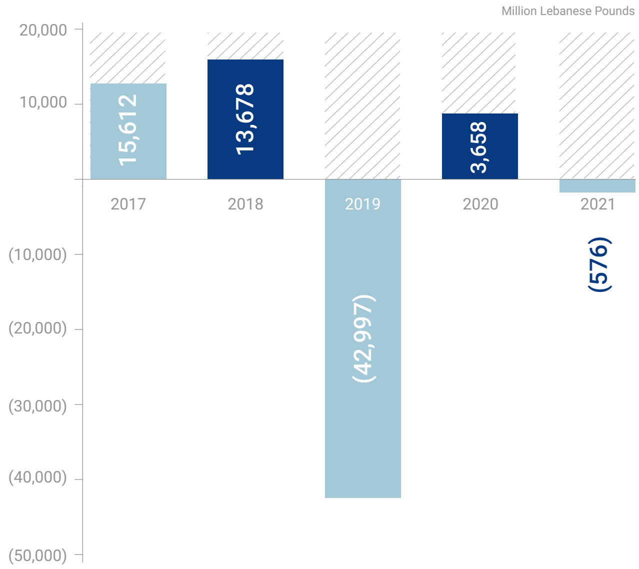
The bank maintained the policy of rationalizing the general expenses and the operational expenses in line with the Bank growth and the adopted strategy.

### 4. Net Profit

The bank has taken precautionary measures in line with developments, which requires the formation of provisions for expected credit losses during the year 2021, and the final result of the bank's "profits and losses" account at the end of the year 2021 amounted to a loss of 576 million Lebanese pounds. The reasons for the recorded losses are due to:

- The decrease in the interest received on the bank's deposits with local banks, as a result of depositing them with central bank without interest.
- High interest on abroad deposits.
- central bank stopped paying interest on mandatory investments in foreign currencies and deducted 50% of the interest earned on investments in foreign currencies (deposits and certificates of deposit).
- Low interest rates in the Lebanese market.
- Suspension of interest on Eurobond.
- No dividend received on shares with Lebanese bank.
- Commission income dropped as the result of not receiving letters of credit.

**Net Profit**




# IV. Capital Adequacy Ratio (Basel III)

The bank maintains Capital Adequacy Ratios that exceed the minimum ratios required by BDL.

Capital Adequacy Ratios in the last years were as follows:

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Total Capital / Risk Weighted Assets** | 18.12% | 18.33% | 19.31% | 19.31% | 23.03% |
| **Ratio required by BDL** | 14.50% | 15.00% | 10.5% | 10.5% | 10.5% |
| **Tier1 Capital / Risk Weighted Assets** | 17.81% | 17.20% | 18.13% | 18.13% | 21.80% |
| **Ratio required by BDL** | 12.00% | 13.00% | 8.5% | 8.5% | 8.5% |
| **Common Equity Tier1/ Risk Weighted Assets** | 17.81% | 17.20% | 18.13% | 18.13% | 21.80% |
| **Ratio required by BDL** | 9.00% | 10.00% | 7% | 7% | 7% |

# 04 SHAREHOLDERS ANNUAL MEETING

The Shareholders Annual Ordinary Meeting held on 11.01.2023 approved the board of directors' report, the balance sheet and the profit and loss account for the financial year 2021.

# 05 FINANCIAL STATEMENTS AND YEAR ENDED DECEMBER 31, 2021.

# Table of Contents

# Independent Auditor' s Report

To the Shareholders,
North Africa Commercial Bank S.A.L.
Beirut, Lebanon

## Adverse Opinion

We have audited the financial statements of North Africa Commercial Bank S.A.L. (the "Bank"), which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly the financial position of the Bank as at December 31, 2021, and 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 explained in Note 1, the Bank has not applied the requirements of IAS 29 'Financial Reporting in Hyperinflationary Economies' in the preparation of the financial statements for the year ended December 31, 2021. IAS 29 requires that the financial statements, and corresponding figures for previous periods, of an entity with a functional currency that is hyperinflationary, to be stated in the terms of the measuring unit current at the end of the reporting period. Had the Bank applied the requirements of IAS 29 many of the elements of the accompanying financial statements, including disclosures, would have been significantly impacted.

The effects on the seperate financial statements of this departure have not been determined.
Our opinion in the prior year was also modified in respect of this matter.

2. Note 1 to the financial statements indicates that there is currently a high degree of uncertainty surrounding the Lebanese banking industry and Lebanese economy as a whole, triggered by the severe financial crisis and unprecedented economic downturn, the effects of the Covid-19 pandemic and the explosion at Beirut Seaport in August 2020. As the situation is rapidly evolving, the magnitude of the possible adverse effects on the Lebanese economy and the banking sector, remains unknown.

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

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

3. Management has translated transactions and monetary assets and liabilities denominated in foreign currencies, to the Bank's functional currency in accordance with the accounting policy on foreign currency transactions described in Note 3, using the official published exchange rates. As described in Note 1 to the financial statements, other exchange rates and exchange mechanisms were introduced by the Central Bank of Lebanon during the year ended December 31, 2021 and which differ significantly from the official published exchange rates. In translating transactions and monetary assets and liabilities denominated in foreign currencies, management did not determine the exchange rate at which future cash flows or balances could have been settled if those cash flows had occurred at the measurement date, which constitutes a departure from IFRSs. Had the Bank translated transactions and monetary assets and liabilities denominated in foreign currencies at the exchange rate at which future cash flows or balances could have been settled if those cash flows had occurred at the measurement date, many elements of the accompanying financial statements, including disclosures, would have been materially impacted. The effects on the financial statements of this departure have not been determined.

4. Cash and deposits with central bank and investment securities at amortized cost, which are carried in the statement of financial position at LBP1,129billion and LBP193billion respectively (2020: LBP1,011billion and LBP192billion respectively), include balances and investments with the Central Bank of Lebanon and Lebanese government debt securities of LBP1,129billion and LBP193billion respectively which have been stated net of allowances for expected credit losses of LBP21billion and LBP57billion respectively (2020: LBP523billion and LBP224billion respectively which have been stated net of allowances for expected credit losses of LBP18billion and LBP59billion respectively). Management has not stated these balances net of allowances for expected credit losses which take into account the significant deterioration in credit quality since initial recognition which has arisen as a result of the continuing economic crisis in Lebanon and the government default on Eurobonds, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.

# Independent Auditor' s Report

To the Shareholders,
North Africa Commercial Bank S.A.L.
Beirut, Lebanon

5. Loans and advances to customers and deposits with banks and financial institutions, which are carried in the statement of financial position at LBP12billion and LBP2billion respectively, are stated net of allowances for expected credit losses of LBP18billion and LBPNil respectively (2020: LBP14billion and LBP126billion respectively net of allowances for expected credit losses of LBP18billion and LBP2billion respectively). Management has not stated these balances net of allowances for credit losses which take into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.

6. Investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income are carried in the statement of financial position at LBP3billion and LBP72billion respectively (2020: LBP6billion and LBP62billion respectively). Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing in Lebanon at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.

7. Deposits from banks and financial institutions and deposits from parent, sister and other related banks, which are carried in the statement of financial position at LBP8billion and LBP846billion respectively, include certain deposits of LBP15million and LBP15million respectively. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of these deposits as we could not confirm the amounts directly with the relevant banks. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

8. Other assets, which are carried in the statement of financial position at LBP9billion, include deferred tax assets of LBP7billion. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of deferred tax assets as we could not verify management's assertion that the deferred tax assets were recoverable. Consequently, we were unable to determine whether any adjustments to this amount were necessary.

9. Salaries and related charges, which are reported in the statement of profit or loss at LBP14billion, include leave and other allowances of LBP1billion. Management has stated leave and other allowances inclusive of amounts which were incurred prior to January 1, 2021, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount

10. Loss on foreign exchange is reported in the statement of profit or loss at LBP534million. Management has stated loss on foreign exchange inclusive of balances recovered from the Central Bank of Lebanon in the subsequent period, which constitutes a departure from IFRSs. The Bank's records indicate that had management not stated loss on foreign exchange inclusive of balances recovered from the Central Bank of Lebanon in the subsequent period, an amount of LBP437million would have been required to reduce loss on foreign exchange. Accordingly, the loss for the year would have been reduced by LBP437million, other assets would have been increased by LBP437million and total equity would have been increased by LBP437million.

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements for the year ended December 31, 2021.

Except for the matters described in the Basis for Adverse Opinion section of our report, we have determined that there are no other key audit matters to communicate in our report.

## Other Information

Management is responsible for the other information. Other information consists of the information included in the Bank's Annual Report other than the financial statements and our auditor's report thereon.
The Bank's Annual Report is expected to be

made available to us after the date of this auditor's report.

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

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

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

The Board of Directors and those charged with governance (referred to hereafter as "management") are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank 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.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

**Sidani & Co.** **Deloitte & Touche**
Beirut, Lebanon
November 23, 2022

# Financial Statements

## A. Statement of Financial Position

| | | December 31, | |
|---|---|---|---|
| **Assets** | **Notes** | **2021** | **2020** |
| | | LBP'000 | LBP'000 |
| Cash and deposits with Central Bank | 5 | 1,129,450,013 | 1,011,152,060 |
| Deposits with banks and financial institutions | 6 | 1,522,009 | 125,878,055 |
| Deposits with the parent, sister and other related banks | 7 | 20,839,294 | 31,835,763 |
| Loans and advances to customers | 8 | 12,439,577 | 14,134,329 |
| Investment securities at fair value through profit or loss | 9 | 2,626,554 | 6,444,449 |
| Investment securities at fair value through other comprehensive income | 9 | 71,938,135 | 61,807,735 |
| Investment securities at amortized cost | 9 | 192,595,111 | 191,791,316 |
| Property and equipment | 11 | 41,077,657 | 43,399,105 |
| Intangible assets | 12 | 66,123 | 159,465 |
| Other assets | 13 | 9,396,325 | 10,240,875 |
| **Total assets** | | **1,481,950,798** | **1,496,843,152** |
| **Liabilities** | | | |
| Deposits from a central bank | 14 | 80,311,418 | 80,410,591 |
| Deposits from banks and financial institutions | 15 | 7,545,462 | 11,526,992 |
| Deposits from the parent, sister and other related banks | 16 | 846,637,781 | 867,097,359 |
| Customers' deposits | 17 | 295,309,878 | 292,981,487 |
| Other liabilities | 18 | 9,134,756 | 8,835,965 |
| Provisions | 19 | 7,204,422 | 8,015,940 |
| **Total liabilities** | | **1,246,143,717** | **1,268,868,334** |
| **Equity** | | | |
| Capital | 20 | 15,000,000 | 15,000,000 |
| Cash contribution to capital | 20 | 148,488,750 | 148,488,750 |
| Reserves | 21 | 76,956,605 | 76,956,605 |
| Change in fair value of investment securities at fair value through other comprehensive income | 9 | (35,257,483) | (43,665,715) |
| Retained earnings | | 31,195,172 | 27,536,973 |
| (Loss)/profit for the year | | (575,963) | 3,658,205 |
| **Total equity** | | **235,807,081** | **227,974,818** |
| **Total liabilities and equity** | | **1,481,950,798** | **1,496,843,152** |
| **Financial instruments with off-balance sheet risks** | 29 | | |
| Letters of guarantee and standby letters of credit | | 6,555,996 | **19,491,535** |

The accompanying notes form an integral part of the Financial statements

# B. Statement of Profit or Loss

| | Notes | 2021 | 2020 |
|---|---|---|---|
| | | Year Ended December 31, | |
| | | LBP'000 | LBP'000 |
| Interest income | | 33,257,133 | 52,043,964 |
| Less: withholding tax on interest | | (3,632,084) | (4,295,997) |
| Interest income, net of withholding tax | 22 | 29,625,049 | 47,747,967 |
| Interest expense | 23 | (8,443,097) | (19,786,535) |
| • Net interest income | | 21,181,952 | 27,961,432 |
| Fee and commission income | 24 | 1,121,497 | 383,469 |
| Fee and commission expense | | (97,528) | (173,701) |
| • Net fee and commission income | | 1,023,969 | 209,768 |
| Net loss on investment securities at fair value through profit or loss | 25 | (743,768) | (1,573,964) |
| Loss on foreign exchange | | (534,931) | (119,775) |
| • Net financial revenues | | 20,927,222 | 26,477,461 |
| Allowance for expected credit loss | 31 | (152,511) | (9,546) |
| Net financial revenues after allowances for expected credit loss | | 20,774,711 | 26,467,915 |
| Salaries and related charges | 26 | (13,990,295) | (12,997,277) |
| Depreciation, amortization, and allowance for impairment | 11 & 12 | (2,414,790) | (3,397,666) |
| General and administrative expenses | 27 | (4,462,812) | (4,840,385) |
| Other revenues | | | 16,050 |
| • Total operating expenses | | (20,867,897) | (21,219,278) |
| (Loss)/profit before income tax | | (93,186) | 5,248,637 |
| Income tax expense | 18 | (482,777) | (1,590,432) |
| **(Loss)/profit for the year** | | **(575,963)** | **3,658,205** |

The accompanying notes form an integral part of the Financial statements

# C. Statement of Profit or Loss & Other Comprehensive Income

| | Notes | Year Ended December 31, 2021 | 2020 |
|---|---|---|---|
| | | LBP'000 | LBP'000 |
| **Net (Loss)/profit for the year** | | **(575,963)** | **3,658,205** |
| **Other comprehensive income / (loss):** | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| • Unrealized gain / (loss) on financial assets at fair value through other comprehensive income | 9 | 10,130,400 | (27,965,535) |
| • Deferred tax | 13 | (1,722,168) | 4,705,474 |
| Total other comprehensive income / (loss) | | 8,408,232 | (23,260,061) |
| **Total comprehensive income / (loss) for the year** | | **7,832,269** | **(19,601,856)** |

# D. Statement of Changes in Equity

| | Capital | Cash contribution to capital | Reserves | Change in fair value of investment securities | Retained earnings | (Loss)/profit for the year | Total |
|---|---|---|---|---|---|---|---|
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Balance January 1, 2020 | 15,000,000 | 148,488,750 | 76,956,605 | (20,405,654) | 70,534,040 | (42,997,067) | 247,576,674 |
| Allocation of 2019 loss | – | – | – | – | (42,997,067) | 42,997,067 | – |
| Total comprehensive loss for the year 2020 | – | – | – | (23,260,061) | – | 3,658,205 | (19,601,856) |
| **Balance December 31, 2020** | **15,000,000** | **148,488,750** | **76,956,605** | **(43,665,715)** | **27,536,973** | **3,658,205** | **227,974,818** |
| Allocation of 2020 Profit | – | – | – | – | 3,658,205 | (3,658,205) | – |
| Total comprehensive Income for the year 2021 | – | – | – | 8,408,232 | – | (575,963) | 7,832,269 |
| Other movement | – | – | – | – | (6) | – | (6) |
| **Balance December 31, 2021** | **15,000,000** | **148,488,750** | **76,956,605** | **(35,257,483)** | **31,195,172** | **(575,963)** | **235,807,081** |

The accompanying notes form an integral part of the Financial statements

# E. Statement of Cash Flows

| | Notes | Year Ended December 31, 2021 | 2020 |
|---|---|---|---|
| | | LBP'000 | LBP'000 |
| **Cash flows from operating activities:** | | | |
| (Loss)/profit for the year before income tax | | (93,186) | 5,248,637 |
| Adjustments for: | | | |
| • Depreciation, amortization, and allowance for impairment | 11 & 12 | 2,414,790 | 3,397,666 |
| • Change in fair value of investment securities at fair value through profit or loss | 25 | 808,928 | 1,788,081 |
| • Allowance for expected credit losses | 31 | 152,511 | 9,546 |
| • Provision for employees' end-of-service indemnities | 19,26 ,27 | 538,300 | 693,373 |
| • Other provisions | 19 | (992,828) | 77,341 |
| • Dividend income | 25 | (65,160) | (214,117) |
| • Interest income | 22 | (29,625,049) | (47,747,967) |
| • Interest expense | 23 | 8,443,097 | 19,786,535 |
| Net change in compulsory deposits with Central Bank of Lebanon with maturities exceeding three months | | 10,907,912 | 27,612,811 |
| Net change in deposits with banks and financial institutions with maturities exceeding three months | | 37,463,758 | 336,509,668 |
| Net change in investment securities at fair value through profit or loss | | 3,008,967 | 3,971,510 |
| Net change in investment securities at fair value through other comprehensive income | 9 | – | 14,968,390 |
| Net change in investment securities at amortized cost | 9 | (309,946) | 32,268,078 |
| Net change in loans and advances to customers | 8 | 1,542,241 | 1,377,801 |
| Net change in other assets | 13 | (877,618) | (368,272) |
| Net change in deposits from banks and financial institutions | 15 | (3,953,317) | (12,184,096) |
| Net change in customers' deposits | 17 | 3,891,372 | 15,240,186 |
| Net change in other liabilities | 18 | 1,262,184 | 1,188,714 |
| Settlements of employees' end-of-service indemnities | 19 | (356,990) | (503,513) |
| | | **34,159,966** | **403,120,372** |
| Income tax paid | | (1,446,170) | (3,727,912) |
| Dividends received | 25 | 65,160 | 214,117 |
| Interest received | | 29,395,829 | 53,012,861 |
| Interest paid | | (10,184,270) | (24,119,408) |
| **Net cash generated from operating activities:** | | **51,990,515** | **428,500,030** |
| **Cash flows from financing activities:** | | | |
| • Net change in Deposits from central banks | 14 | (78,432) | 86,476 |
| • Other movement | | (6) | – |
| • Net change in Deposits from parent, sister and other related banks | 16 | (20,330,340) | 28,195,341 |
| • Net cash (used in)/generated from financing activities | | (20,408,778) | 28,281,817 |
| Net increase in cash and cash equivalents | | 31,581,737 | 456,781,847 |
| Cash and cash equivalents beginning of year | | 905,691,700 | 448,909,853 |
| **Cash and cash equivalents end of year** | **28** | **937,273,437** | **905,691,700** |

The accompanying notes form an integral part of the Financial statements

# F. Notes to the Financial Statements

Year ended December 31, 2021

## 1. General Information

North Africa Commercial Bank S.A.L. is a Lebanese joint-stock company registered in the Trade Register in 1973 under Number 30199 and in the Central Bank of Lebanon list of banks under number 62.

The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations. The head office is located in Downtown Beirut, Block "C" building in plot 1524.

The Bank is 99.56% owned by the Libyan Foreign Bank (parent bank).

### 1.1 The Macro Economic Environment

The Bank's operations are mostly carried in Lebanon that has been witnessing, since the last quarter of 2019, severe events which had and continue to have a significant impact on the fiscal, monetary and economic outlook along with their related adverse impact on the business community as a whole and the banking system in particular, mainly: social unrest and business disruption across the country, series of downgrades to the level of default ranking for private and sovereign credit risk by all major rating agencies, restrictions on cash withdrawals and movement of funds in foreign currencies, non-ability to transfer funds from local bank accounts in foreign currency to foreign accounts with correspondent banks, and the Lebanese Republic default on its Eurobonds due on March 9, 2020 and then the decision to discontinue payments on all of its outstanding USD-denominated Eurobonds.

The Eurobonds default precludes access to international markets for foreign financing, while the domestic banking system is severely impaired.

The dry up of the dollar inflow to the country was accompanied with systemic failures across banking, debt, exchange rate and the collapse of basic services. A significant portion of the Lebanese banks holdings consist of sovereign lending, including deposits with Central Bank of Lebanon, which made banks unable to meet their dollar obligations to customers. Banks have imposed unofficial strict capital controls, ceased financing activities and stopped attracting deposits.

The banking sector endures in a segmented payment system that differentiates between the pre-crisis 'legacy dollar' (onshore dollars) deposits and the post crisis 'fresh dollar' (offshore dollars) inflows, yet minimal.

The legacy dollar deposits are subject to sharp deleveraging through de facto lirafication. The difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies increased, deviating significantly from the official peg of 1507.5 LBP/USD.

The Lebanese currency continues to lose value as inflation rates remain in the triple digits. This has resulted in an uncontrolled rise in prices and in the consumer price index; lifting import subsidies on food, fuel and medication; loss of confidence in the economy and deterioration in the economic fundamentals. The financial crisis has been intensified by the COVID-19 and the devastating explosion at the Beirut seaport on August 4, 2020 causing severe property damages across a wide area of the capital along with a large number of casualties.

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 several measures including the subsidy of Tier 1 essential imports (fuel oil, medicine and wheat) at the official exchange rate (1507.5 LBP/USD) and the subsidy of Tier 2 essential imports as defined by the Central Bank of Lebanon. Both subsidies were discontinued during 2021. Further measures introduced by the Central Bank of Lebanon during 2020 included the platform rate to be used in specific circumstances and for the purpose of allowing depositors to withdraw small amounts of cash from their pre-crisis foreign currency bank accounts based on monthly limits set by each bank separately.

During 2021 the Central Bank of Lebanon introduced Basic Circular # 157 "Exceptional Procedures on Foreign currency Operations" enacting the legal and regulatory framework of the electronic 'Sayrafa' foreign exchange trading platform which should be used by banks operating in Lebanon to process customers' foreign exchange transactions (buy and sell).

However, the above measures remain unsustainable and despite these efforts, inflation continues to increase 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.

## Lebanese Government Financial Recovery Plan

On May 1, 2020 the Lebanese government addressed a formal request for support from the International Monetary Fund (IMF) as part of its Financial Recovery Plan (the 'Plan') approved on April 30, 2020, which included among other items, reviewing the peg policy, restructuring of the government debt, restructuring of the financial system and the banking sector, and international financial assistance. This Plan was challenged by the Association of Banks in Lebanon (ABL) and by certain political parties and has not been implemented.

On April 7, 2022 the Lebanese government signed a staff-level agreement with the IMF for a 46-month extended fund facility, under which the Lebanese government has requested access to the equivalent of around USD3billion. This agreement is subject to the approval of the IMF management and its Executive Board, and this approval is contingent on enacting a slew of economic reforms and restructuring of the financial sector, including:

i. Cabinet/parliamentary approval of a bank restructuring strategy enabling legislation in conjunction with an audit of the largest 14 banks;

ii. Parliamentary approval of a reformed bank secrecy law;

iii. Completion of the Central Bank of Lebanon's audit;

iv. A restructuring of the outstanding commercial debt (including Eurobonds);

v. Parliamentary approval of the 2022 budget; and

vi. Unification by the Central Bank of Lebanon of the exchange rates for authorized current account transactions.

On May 20, 2022 the Council of Ministers endorsed a financial recovery roadmap which includes several measures to secure international aid and unlock funds from the IMF discussed above. The roadmap includes the following:

i. Full audit on the Central Bank's forex financial position by July 2022.

ii. Cancelling a large part of the Central Bank of Lebanon obligations in foreign currency to commercial banks.

iii. Audit of the largest 14 commercial banks, representing 83% of total assets.

iv. Viable banks should be recapitalized with significant contributions from respective shareholders and large depositors. The plan said it would protect small depositors 'to the maximum extent possible' in each viable bank, without specifying the minimum protected amount.

v. Dissolving non-viable banks by November 2022.

Following the parliamentary elections on May 15, 2022 the Council of Ministers has lost its decision-making powers and a new Cabinet is yet to be formed. Parliamentary approvals for the matters indicated above are yet to be endorsed, including the capital control bill which was repeatedly opposed in the past.

The financial recovery plan and roadmap along with the assumptions made were severely criticized by the Association of Banks in Lebanon (ABL).

## 1.2 Central Bank of Lebanon (BDL) policy initiatives

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

### Regulatory framework:

• **Intermediate Circular 567:**

- BDL licensees should apply the following minimum regulatory expected credit loss ("ECL") ratios, while permitting banks to constitute progressively those ECLs over a period of five years (starting from 2020). The BDL Central Council may consider the extension of the period to 10 years, for banks that manage to complete the 20% cash contribution to capital requirement:
- Foreign currency placements with BDL, including certificates of deposits: 1.89%
- Local currency deposits with BDL: 0%
- Lebanese government bonds in foreign currencies: 45%
- Lebanese treasury bills in local currency: 0%
- BDL licensees are allowed not to downgrade loans exposures showing past dues (principal and interest) between February 2020 and December 2020 as a result of COVID-19, unless borrower ceases to operate as a going concern, in which case exposure should be automatically downgraded to Stage 3.
- Prohibition of dividends distribution on banks' common shares for the years 2019 and 2020.
- By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018. The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these are liquidated within 5 years.
- Banks can include the revaluation surplus of property and equipment in Tier I capital, subject to BDL approval on the revaluation.
- Banks must comply with the minimum capital adequacy ratios. Bank should refrain from dividend distribution, should these ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio.

Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022.

- Banks are required to submit to a comprehensive plan to Central Bank, reflecting own strategies to comply with the regulatory minimum capital requirements, including the timeline to achieve compliance. The plan should incorporate allowances required by the Banking Control Commission of Lebanon against different risks banks are exposed to.
- As exceptional measures, 100% of ECL on Stage 1 and Stage 2 exposures (except those against sovereign and BDL exposures in local and foreign currency), may be added to common equity Tier I capital. These will be gradually amortized to 75% in 2022, 50% in 2023 and 25% in 2024.

### • Basic Circular 154:

- Banks should perform a fair value assessment of their assets and liabilities and set a plan to comply with all applicable regulatory requirements, namely those related to liquidity and capital adequacy, and restore their levels of service which were in place before the economic crisis. Banks should also submit a request to the

BDL Central Council to reconstitute/raise their capital to the required levels by the end of the first quarter of the year 2021, where applicable. In this respect, banks shall consider soliciting their depositors to convert their deposits into shares or bonds, provided listing the bank's shares on the Beirut Stock Exchange.

- In order to enhance their offshore liquidity, banks are required to instigate those depositors to repatriate 30% (in the case of banks' key executives and politically exposed persons) and 15% (for other depositors) of their overseas transfers made since July 1, 2017 and exceeding the equivalent of USD500,000. Funds received will be deposited in special saving accounts for 5 years and will not be subject to compulsory reserve requirements.
- Banks should secure by February 28, 2021, offshore foreign currency deposits equivalent to a minimum of 3% of their total foreign currency as at July 31, 2020.

• *Intermediate Circular 575* approving banks to book exceptionally one third of the capital gains arising from the revaluation of assets received in settlement of debts, under Tier II capital subject to the approval of the BDL Central Council on the revaluation methodology and raising capital before December 31, 2021 as follows:

- Add a maximum of one third of the revaluation gains under Tier 2 capital,
- Increase common equity Tier I capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier II capital.

## Monetary policies and socio-economic support:

**• Intermediate Circular 536: Stipulates the following measures:**

- Interest earned on by banks on USD Certificates of Deposits issued by BDL, are received 50%-50% in USD and LBP respectively. Similarly, interest on customers deposits denominated in foreign currencies are paid 50%-50% in the account currency and LBP respectively.

- Banks should comply with interest rate ceilings on customer deposits capped at 5% and 8.5% on foreign currency and LBP denominated deposits respectively.
- The Beirut Reference Rates (BRR) should reflect the lower deposit rates.

• Basic Circular 150 exempting banks from compulsory reserve requirements on fresh foreign currency deposits received after April 9, 2020, subject to conditions.
• Intermediate Circulars 547 and 552 requesting banks to rollover loans to customers in local and foreign currencies maturing between March 2020 to June 2020 up to 5 years at zero interest rate and fees, subject to the bank assessment of the customers' inability to settle their dues because of the economic situation. BDL also allowed the extension of loans to businesses to fund salaries and operating expenses, at the same terms mentioned above. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
• Basic Circular 152 and Intermediate Circular 569 allowing banks extension of loans up to 5 years at zero interest rate, to help those affected by the Beirut Seaport explosion. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.
• Intermediate Circular 568 requesting banks to accept repayment by resident customers of their USD denominated retail loans (up to USD800,000 for housing loans and USD100,000 for retail loans) in local currency at the official exchange rate (LBP1,507.5 to the USD).

## Foreign exchange policies:

• Basic Circular 151 "Cash Withdrawals from Foreign Currency Bank Accounts" dated April 21, 2020 provides withdrawals of pre-crisis customers' deposits in foreign currencies with banks, at the rate of 3,900 LBP/ USD, which was then increased to 8,000 LBP/ USD and within a monthly limit of USD3,000 by bank account. Effective until December 31, 2022.

• Basic Circular 157 "Exceptional Procedures on Foreign currency Operations" issued on May 10, 2021 enacting the legal and regulatory framework of the 'Sayrafa' foreign exchange trading platform developed by the Central Bank of Lebanon. Transactions that can be conducted on the 'Sayrafa' platform consist of purchasing LBP in exchange of fresh foreign currency and purchasing fresh foreign currency in exchange of LBP. The bid/ask spread that banks are allowed to achieve, is capped at 1% of the purchase price. The Central Bank of Lebanon may at its sole discretion, interfere on the Platform to stabilize the exchange rate. The 'Sayrafa' platform is not available for trading onshore pre-crisis foreign currency bank accounts as these are subject to unofficial capital control.

The average daily trading exchange rates and daily volume of foreign currency traded on the Sayrafa platform are published on the Central Bank of Lebanon website.

Closing average exchange rate on December 31, 2021: USD1 = LBP22,700
Average exchange rate during the period from May 10, 2021 to December 31, 2021: USD1 = LBP16,266

Closing average exchange rate on December 31, 2020: Not applicable.
Average exchange rate during the year ended December 31, 2020: Not applicable.

• Basic Circular 158 "Exceptional Measures for the Gradual Withdrawal of Deposits in Foreign currencies" issued on June 8, 2021 setting out an exceptional framework for the settlement of onshore foreign currency deposits up to an amount equivalent to USD50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met. Customers' monthly entitlements are (i) an amount of USD400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD400 and converted at a rate USD/ LBP12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

The financing of the aforementioned process will be secured equally through (i) BDL release of compulsory reserves requirements in foreign currency with BDL and (ii) the bank's offshore liquidity.

To that end, banks can use their foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition they reconstitute it by December 31, 2023.

## 1.3 The Bank's Financial particulars

### 1.3.1 Foreign exchange

The Bank's monetary assets and liabilities in foreign currency, were converted in Lebanese Pound at the official exchange rate peg of USD1 = LBP1,507.5 as published by the Central Bank of Lebanon on a monthly basis. Since the last quarter of 2019, several exchange rates emerged deviating significantly from each other and from the official peg as at December 31, 2021 and December 31, 2020 as discussed under Note 1.2, in addition to the estimated exchange rates detailed in the government's Financial Recovery Plan.

The existence of multiple foreign exchange rates as well as the accessibility to such rates, necessitates the review of the appropriate exchange rates that entities should use in accounting for and reporting their foreign currency transactions. The judgment of which foreign exchange (FX) rate to use depends on the official FX rate at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. This should take into account the specific facts and circumstances relating to each transaction or balance.

In the light of uncertainties, management did not determine the rates at which future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Bank's transactions and monetary assets and liabilities in foreign currencies, whether onshore or offshore, were converted in Lebanese pound at the official exchange rate peg of USD1 = LBP1,507.5.

As the official exchange rate significantly deviates from the exchange rates in the parallel markets, this does not represent a reasonable estimate of expected cash flows that would have to be generated/used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the financial statements. The valuation of the Bank's assets and liabilities in foreign currencies at a different rate is expected to significantly impact the Bank's financial statements once the regulatory authorities adopt a free-floating exchange rate policy.

### 1.3.2 Hyperinflation in Lebanon

IAS 29 'Financial Reporting in Hyperinflationary Economies' does not prescribe when hyperinflation arises, however it does provide characteristics of an economic environment of a country which indicate hyperinflation and allows judgement as to when restatement of financial statements becomes necessary. Characteristics of the economic environment of a country which indicate the existence of hyperinflation include:

• the cumulative inflation rate over three years approaches, or exceeds 100%;

• the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

• the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

• sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short; and

• interest rates, wages, and prices are linked to a price index.

Since the year 2020, the economic environment in Lebanon experienced the acceleration of inflation indices, a three-year cumulative inflation rate exceeding 100%, and the significant devaluation of the Lebanese pound. The Lebanese national statistics office reported 3-year and 12-month cumulative rates of inflation of 753% and 224%, respectively, as of December 31, 2021 (2020: 173% and 146% respectively). Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after December 31, 2020.

The basic principles in IAS 29 is that the financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date. Comparative figures for prior period(s) should be restated into the same current measuring unit.

Restatements are made by applying a general price index. Items such as monetary items that are already stated at the measuring unit at the balance sheet are not restated. Other items are restated based on the change in the general price index between the date those items were acquired or incurred and the balance sheet date.

The Bank has not applied the principles of IAS 29 in the preparation of these financial statements given among other considerations, the significant divergence in market perception of the exchange rate in comparison to the official exchange rate; consensus on the use of same general price index across entities that report in Lebanese pound; and any views of relevant regulators including taxation.

### 1.3.3 Exposure to financial instruments

As at December 31, 2021, the Bank's net credit exposure to Lebanese sovereign debt, including BDL, represented approximately 89% of total assets (2020: 80%).

The material uncertainties discussed under Note 1.1 above and the lack of observable indicators, have impacted management ability to formulate adequate loss allowances on the Bank's exposures to BDL, Lebanese Government bonds, deposits with banks, and other financial instruments originated by Lebanese banks and other corporate entities. Therefore, the loss allowances recognized in these financial statements do not represent a reasonable estimate of the expected credit losses on these exposures and have not been assessed in accordance with IFRS 9. This applies as well to the credit risk Staging of these exposures as disclosed in these financial statements.

The adverse economic conditions and the severe recession resulted in a significant deterioration of the credit quality of the customers' loans portfolio concentrated in Lebanon since the last quarter 2019 despite the drop in the customers' loans portfolio.

The Bank's credit assessment of the customers' loans portfolio is based on information available to management which did not take into account the circumstances prevailing as a result of the continuing and aggravating economic crisis and recession which has further deteriorated as a result of the explosion in the seaport of Beirut and Covid-19 pandemic.

Given the high level of uncertainties, Management is unable to estimate in a reasonable manner the impact of these matters on the Bank's financial position.

Fair values of financial assets originated in Lebanon have been determined by the Bank using notional prices quoted on inactive and illiquid markets or using yield curves that are not reflective of economic reality and market conditions.

In the absence of reliable data, the Bank did not disclose the fair value of financial assets and financial liabilities measured at amortized cost as required by IFRS 13 Fair Value Measurements.

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

The Bank's capital adequacy ratio as at December 31, 2021 and 2020, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

### 1.3.4 Litigations and claims

The Lebanese crisis continues to impose severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon.

Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US dollar, resulted in 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 banks operating in Lebanon to increased litigation and regulatory risks and negatively impact their financial position, the 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 Bank's financial position, future cashflows, results of operations, regulatory ratios and covenants.

The Bank'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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

## 2.1 New and amended IFRS that effective for the current year

In the current year, the Bank has applied the below amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after January 1, 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| **Interest Rate Benchmark Reform "phase two" amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16** | The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. |
| **19-Related Rent Concessions beyond June 30, 2021 [IFRS 16]** | In May 2020 the International Accounting Standards Board (IASB) amends IFRS 16, which relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification, that applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2021. In March 2021, IASB extended the availability of the practical expedient to rent concessions for which any reduction in lease payments affects payments originally due on or before June 30, 2022, provided the other conditions for applying the practical expedient are met. This is the only change made to the practical expedient. |

## 2.2 New and revised IFRS in issue but not yet effective and not early adopted

The following IFRS have been issued but are not yet effective and have not been early adopted by the Bank. The Bank intends to adopt them when they become effective.

| | |
|---|---|
| IFRS 17 Insurance Contracts | The amendments defer the date of initial application of IFRS 17 (incorporating the amendments). Effective for annual reporting periods beginning on or after January 1, 2023. |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current<br>The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. |
| Amendments to IFRS 3 Reference to the Conceptual Framework | The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. |
| Amendments to IAS 16 Property, Plant and Equipment—Proceeds before Intended Use | The amendments are effective for annual periods beginning on or after January 1, 2022, with early application Permitted. |
| Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract | The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. |
| Annual Improvements to IFRS Standards 2018-2020 Cycle | |
| Amendment to IFRS 4 | |
| Amendment to IAS 1 and IFRS Practice Statement 2 | Disclosure of accounting policies<br>the amendment is effective for annual periods beginning on or after January 1, 2023. |
| Amendments to IAS 8 | Definition of accounting estimates<br>The amendment is effective for annual periods beginning on or after January 1, 2023. |

Management anticipates that these new Standards, Interpretations and amendments will be adopted in the Bank's financial statements for the period of initial application and adoption of these new Standards, Interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

# 3. Significant Accounting Policies

### Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).
The financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value.
The financial statements are presented in Lebanese Pound (LBP) which is the Bank's functional currency.
Assets and liabilities are grouped according to their nature and presented in the statement of financial position in an approximate order that reflects their relative liquidity.

### Summary of Significant Accounting Policies

Following is a summary of the most significant accounting policies applied in the preparation of these financial statements:

**A. Foreign currencies**

Transactions in currencies other than the Bank's functional currency (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 official rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the official rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, which are recognized in other comprehensive income.

**B. Financial instruments**

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

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

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

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

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

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

**C. Financial assets**

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

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

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

**Specifically:**

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

All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

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

The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in OCI; and:

The Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

### Financial assets at FVTOCI

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis. The Bank has more than a single business model to manage investments instruments which reflect the bank's management of its financial assets for the purpose of generating cash flows.

The Bank's business models specify whether the cash flows will collect contractual cash flows or sell financial assets or both.

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.

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

### Financial assets at FVTPL

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

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Fair value is determined in the manner described below.

### Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified.

The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets.

### Impairment of financial assets

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

loans and advances to banks; loans and advances to customers; debt investment securities; leases receivable loan commitments issued; and financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

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

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

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.

For all other financial instruments, ECLs are measured at an amount equal to the 12- month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses.

These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank 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 difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank 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.

### 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:

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date.

To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

### Definition of default

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

**The Bank considers the following as constituting an event of default:**

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

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

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

The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending.

Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis.

The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

### Significant increase in credit risk

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

### Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset.

A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

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

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss.

A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/ loss previously recognized in OCI is not subsequently reclassified to profit or loss.

### Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it).

This is the case when the Bank 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 Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

## D. Financial liabilities and equity

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

Financial liabilities are contractual obligations to deliver cash or a financial asset or to exchange financial assets or financial liabilities with another entity under unfavorable terms to the Bank, or a contract that will be settled against the banks own equity which is a contract different from derivatives in which the Bank is obliged to deliver variable number of its own equity instruments or a derivative contract on its equity which will be performed other than exchanging a specific amount of cash or another financial asset to a certain number of the banks own equity instruments.

### Equity instruments:

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 Bank are recognized at the proceeds received, net of direct issue costs.

### Financial liabilities:

Financial liabilities are classified at "Fair value through profit or loss" or "Other financial liabilities".

**Financial Liabilities at fair value through Profit or Loss:**

Financial liabilities are classified at fair value through profit or loss when financial liabilities are held for trading or classified at fair value through profit or loss.

**The financial obligation is classified as held for trading if:**

it was incurred basically to repurchase it in the near future; on initial recognition, it is considered a part of an instrument portfolio managed by the Bank for a short time purpose to collect profit; or unspecific derivative designated as an effective hedging instrument.

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

such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the

Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

### E. Offsetting of financial assets and financial liabilities

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

### F. Fair value

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

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

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

The Bank uses the market price to measure the fair value of its financial instruments that have an active market.

However, if the instrument market is not active, the Bank uses valuation techniques for which data are available to measure fair value, maximizing the use of relevant observable inputs as applicable.

**IFRS 13 specified the following hierarchy levels:**

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and

Level 3 - Inputs are unobservable inputs for the asset or liability.

### G. Financial guarantee contracts

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

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

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

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

### H. Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost of property and equipment, other than land and advance payments on capital expenditures over the estimated useful lives of the related assets using the straight-line method as follows:

| | Years |
|---|---|
| Buildings | 50 |
| Furniture | 12,5 |
| Office equipment | 12,5 |
| Computer equipment | 5 |
| Vehicles | 4 |
| Leasehold improvement | 16,5 |

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

### I. Intangible assets

Intangible assets consisting of computer software are amortized on a straight-line basis over 5 years. Intangible assets are subject to impairment testing.

Cost incurred subsequently on software assets are capitalized only if it increases the future economic benefit of the specific asset.
All other costs are booked as expenses when incurred.

### J. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances are measured at cost less any accumulated impairment losses.

The acquisition of such assets is regulated by the local banking authorities who 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 and accumulated in equity.

### K. Impairment of non-financial assets

At the end of each reporting period, the Bank 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).

The recoverable amount of an asset is the higher of fair value less costs to sell and the 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 the current market assessment 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.

### L. 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 voluntary 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 monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund.

### M. Provisions

Provision is recognized if, as a result of a past event, the Bank 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.

### N. Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net (loss)/income from financial assets at fair value through profit or loss.

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

The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts.

For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

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

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

For financial assets purchased or originated credit impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

### O. Net fee and commission income

Fees and commission income include fee and commission income and expense that are integral to the effective interest rate.

Fees reflected in the caption of the Bank's profit or loss including among other things, commissions and fees earned on loans, and the fee of not using the facilities of loans when it is not probable for loan arrangement and consortium financing to take place.

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

### P. Net income from financial assets at fair value through profit or loss

Net income from financial instruments financial instruments at FVTPL includes all gains and losses from changes in the fair value of financial assets and financial liabilities at FVTPL and related interest income, expense and dividends.

### Q. Dividend income

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

### R. Income tax

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

Current tax is the expected tax payable on the taxable profit for the year, using rates enacted at the financial position date.

Taxable income differs from income reflected in the statement of profit or loss due to the untaxable or un-deductible captions.


Income tax payable is reflected in the statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and is accounted for using the liability method in the statement of financial position.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences can be utilized.

### S. Cash and cash equivalents

Cash and cash equivalents comprise balances with original contractual maturities of a period of three months including: cash and balances with the central banks, deposits with banks and financial institutions and deposits with parent, sisters and other related banks.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the reported 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments in applying the Bank's accounting policies:

### A. Going Concern

Notwithstanding the uncertainties resulting from the events and conditions disclosed under Note 1, these financial statements have been prepared based on the going concern assumption which assumes that the Bank will have adequate resources to continue in operational existence for the foreseeable future.

The Board of Directors and those charged with governance are monitoring the current situation and believe they are taking all possible attainable measures under these circumstances to ensure the sustainability of the business and viability of the Bank.

**Provision for expected credit losses:**

Management is required to use significant judgments and estimates to estimate the amounts and timing of future cash flows and assess the risks of a significant increase in credit risks for financial assets after initial recognition and future measurement information for the expected credit losses.

The most important policies and estimates used by the Bank's management are detailed in note 31.

**Business model assessment:**

Classification and measurement of financial assets depends on the results of the settlement of the original amount, interest on the outstanding original amount and the business model test.

The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed.

The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

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

**Significant increase of credit risk:**

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets.

An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk.

In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

The estimates used by the Bank related to the significant change in the credit risks which leads to the change in the stages classification (1, 2 and 3) are detailed in Note 31.

**Establish groups of assets with similar credit risk characteristics:**

When the expected credit losses are measured on a collective basis, the financial instruments are grouped on the basis of common risk characteristics (i.e. instrument type, credit risk, collateral type, initial recognition date, remaining maturity period, industry, borrower's geographic location, etc.).

The Bank monitors the appropriateness of credit risk characteristics on an ongoing basis to assess whether they are still similar. This is required to ensure that, in the event of a change in the credit risk characteristics, the asset is properly reallocated.

This may result in the creation of new portfolios or the transfer of assets to an existing portfolio that better reflects the credit risk characteristics of that group of assets.

**B. Key sources of estimation uncertainty:**

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

**Probability of default:**

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

**Loss given default:**

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

# 5. Cash and Deposits with Central Banks

| | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| | LBP'000 | LBP'000 |
| Cash on hand | 792,734 | 1,472,820 |
| Current accounts with Central Bank of Lebanon (including compulsory reserves) | 656,536,777 | 553,372,819 |
| Term placements with Central Bank of Lebanon | 486,677,521 | 467,698,335 |
| Accrued interest receivable | 6,707,806 | 6,635,899 |
| | 1,150,714,838 | 1,029,179,873 |
| Allowance for expected credit losses | (21,264,825) | (18,027,813) |
| | **1,129,450,013** | **1,011,152,060** |

Current accounts with Central Bank of Lebanon include cash compulsory reserves in Lebanese Pound in the amount of LBP8.92billion (LBP9.08billion in 2020).

This compulsory reserve is non-interest earning and is computed on the basis of 25% and 15% of the average weekly demand and term customers' deposits in Lebanese Pounds respectively, in accordance with the local banking regulations. Compulsory deposits are not available for use in the Bank's day-to-day operations.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP156billion (LBP178billion in 2020) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, which includes all types of deposits (except for fresh funds deposits made after April 9,2020), certificates of deposit and loans acquired from financial sector with remaining maturities of one year or less.

# 6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

| | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| | LBP'000 | LBP'000 |
| Current accounts with correspondents | 1,522,009 | 1,507,098 |
| Term placements | -- | 125,986,327 |
| Accrued interest receivable | -- | 264,408 |
| | 1,522,009 | 127,757,833 |
| Allowance for expected credit losses | -- | (1,879,778) |
| | **1,522,009** | **125,878,055** |

# 7. DEPOSITS WITH THE PARENT, SISTER AND OTHER RELATED BANK

| | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| | LBP'000 | LBP'000 |
| Current accounts | 10,391,417 | 17,618,915 |
| Term placements | 10,552,500 | 14,321,250 |
| Accrued interest receivable | 59 | 280 |
| | 20,943,976 | 31,940,445 |
| Allowance for expected credit losses | (104,682) | (104,682) |
| | **20,839,294** | **31,835,763** |

# 8. Loans and Advances to Customers

| | December 31, 2021 | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Gross amount net of unrealized interest | Allowance for expected credit losses | Carrying amount | Gross amount net of unrealized interest | Allowance for expected credit losses | Carrying amount |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Performing loans** | | | | | | |
| Retail | 126,764 | (13,899) | 112,865 | 926,016 | (158,425) | 767,591 |
| Housing loans | 887,426 | – | 887,426 | 1,032,714 | – | 1,032,714 |
| Small and medium enterprises | 671,423 | (548,268) | 123,155 | 936,743 | (892,305) | 44,438 |
| | **1,685,613** | **(562, 167)** | **1,123,446** | **2,895,473** | **(1,050,730)** | **1,844,743** |
| **Non-performing loans** | | | | | | |
| Doubtful and bad | 28,959,037 | (17,642,906) | 11,316,131 | 29,303,319 | (17,013,733) | 12,289,586 |
| | 28,959,037 | (17,642,906) | 11,316,131 | 29,303,319 | (17,013,733) | 12,289,586 |
| | **30,644,650** | **(18,205,073)** | **12,439,577** | **32,198,792** | **(18,064,463)** | **14,134,329** |

# 9. Investment Securities

| | December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | At fair value through profit or loss | At amortized cost | | | At fair value through other comprehensive income |
| | Balance | Balance | Allowance for expected credit losses | Total | Balance |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Unquoted equity securities | 245,375 | _ | _ | _ | _ |
| Quoted equity securities | 221,357 | _ | _ | _ | 71,938,135 |
| Investment funds | 2,159,822 | _ | _ | _ | _ |
| Lebanese treasury bills | _ | 25,964,683 | _ | 25,964,683 | _ |
| Lebanese Government bonds | _ | 152,421,528 | (71,085,855) | 81,335,673 | _ |
| Certificates of deposit issued by the Central Bank of Lebanon | _ | 82,702,136 | (141,679) | 82,560,457 | _ |
| | **2,626,554** | **261,088,347** | **(71,227,534)** | **189,860,813** | **71,938,135** |
| Accrued interest receivable | _ | 2,734,298 | _ | 2,734,298 | _ |
| | **2,626,554** | **263,822,645** | **(71,227,534)** | **192,595,111** | **71,938,135** |

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | At fair value through profit or loss | At amortized cost | | | At fair value through other comprehensive income |
| | Balance | Balance | Allowance for expected credit losses | Total | Balance |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Unquoted equity securities | 245,375 | – | – | – | – |
| Quoted equity securities | 139,995 | – | – | – | 61,807,735 |
| Investment funds | 6,059,079 | – | – | – | – |
| Lebanese treasury bills | – | 35,127,511 | – | 35,127,511 | – |
| Lebanese Government bonds | – | 138,972,178 | (68,833,964) | 70,138,214 | – |
| Certificates of deposit issued by the Central Bank of Lebanon | – | 82,721,671 | (141,679) | 82,579,992 | – |
| | **6,444,449** | **256,821,360** | **(68,975,643)** | **187,845,717** | **61,807,735** |
| Accrued interest receivable | – | 3,945,599 | – | 3,945,599 | – |
| | **6,444,449** | **260,766,959** | **(68,975,643)** | **191,791,316** | **61,807,735** |

The movement of investment securities during 2021 and 2020 is summarized as follows:

| | 2021 | | |
|---|---|---|---|
| | Investments at fair value through profit or loss | Investments at amortized cost | Investments at fair value through other comprehensive income |
| | LBP'000 | LBP'000 | LBP'000 |
| Balance as at January 1 | 6,444,449 | 256,821,360 | 61,807,735 |
| Redemptions | (3,006,399) | | – |
| Disposals | – | 4,743,027 | – |
| Unrealized loss from change in fair value (Note 25) | (818,443) | – | – |
| Unrealized gain from change in fair value (Note 25) | – | – | 10,130,400 |
| Amortization of discount/premium | – | (476,040) | – |
| Effect of exchange rates changes | 6,947 | – | – |
| **Balance as at December 31** | **2,626,554** | **261,088,347** | **71,938,135** |

| | 2020 | | |
|---|---|---|---|
| | Investments at fair value through profit or loss | Investments at amortized cost | Investments at fair value through other comprehensive income |
| | LBP'000 | LBP'000 | LBP'000 |
| Balance as at January 1 | 12,204,040 | 285,589,035 | 104,848,498 |
| Redemptions | – | (26,579,979) | – |
| Disposals | (3,974,329) | – | (15,075,000) |
| Unrealized loss from change in fair value (Note 25) | (1,843,633) | – | (27,965,535) |
| Realized loss from change in fair value (Note 25) | 55,552 | – | – |
| Amortization of discount/premium | – | (2,187,696) | – |
| Effect of exchange rates changes | 2,819 | – | (228) |
| **Balance as at December 31** | **6,444,449** | **256,821,360** | **61,807,735** |

## a. Investments at Fair Value Through Profit or Loss

| | December 31, 2021 | | |
|---|---|---|---|
| | Cost | Carrying Value | Cumulative change in fair value |
| | LBP'000 | LBP'000 | LBP'000 |
| Unquoted equity securities | 245,375 | 245,375 | – |
| Quoted equity securities | 166,098 | 221,357 | 55,259 |
| Investment funds in local banks | 8,289,851 | 2,159,822 | (6,130,029) |
| | **8,701,324** | **2,626,554** | **(6,074,770)** |

| | December 31, 2020 | | |
|---|---|---|---|
| | Cost | Carrying Value | Cumulative change in fair value |
| | LBP'000 | LBP'000 | LBP'000 |
| Unquoted equity securities | 320,750 | 245,375 | (75,375) |
| Quoted equity securities | 136,917 | 139,995 | 3,078 |
| Investment funds in local banks | 13,977,131 | 6,059,079 | (7,918,052) |
| | **14,434,798** | **6,444,449** | **(7,990,349)** |

## b. Investments at Amortized Cost

| | December 31, 2021 | | |
|---|---|---|---|
| | Amortized Cost | Allowance for expected credit losses | Accrued interest receivable |
| | LBP'000 | LBP'000 | LBP'000 |
| Lebanese Government bonds | 152,421,528 | (71,085,855) | – |
| Lebanese treasury bills | 25,964,683 | – | 1,046,154 |
| Certificate of deposit issued by the Central Bank of Lebanon | 82,702,136 | (141,679) | 1,688,144 |
| | **261,088,347** | **(71,227,534)** | **2,734,298** |

| | December 31, 2020 | | |
|---|---|---|---|
| | Amortized Cost | Allowance for expected credit losses | Accrued interest receivable |
| | LBP'000 | LBP'000 | LBP'000 |
| Lebanese Government bonds | 138,972,178 | (68,833,964) | – |
| Lebanese treasury bills | 35,127,511 | – | 2,270,093 |
| Certificate of deposit issued by the Central Bank of Lebanon | 82,721,671 | (141,679) | 1,675,506 |
| | **256,821,360** | **(68,975,643)** | **3,945,599** |

### c. Investment Securities at Fair Value Through Other Comprehensive Income

| | December 31, 2021 | | |
|---|---|---|---|
| | Cost | Fair Value | Cumulative Change in Fair Value |
| | LBP'000 | LBP'000 | LBP'000 |
| Nominal shares – listed local banks | 114,417,031 | 71,938,135 | (42,478,896) |
| | 114,417,031 | 71,938,135 | (42,478,896) |
| Deferred tax liability (Note 13) | | | 7,221,413 |
| | | | **(35,257,483)** |

| | December 31, 2020 | | |
|---|---|---|---|
| | Cost | Fair Value | Cumulative Change in Fair Value |
| | LBP'000 | LBP'000 | LBP'000 |
| Nominal shares – listed local banks | 114,417,031 | 61,807,736 | (52,609,295) |
| | 114,417,031 | 61,807,736 | (52,609,295) |
| Deferred tax liability (Note 13) | | | 8,943,580 |
| | | | **(43,665,715)** |

In the year 2020, the priority shares were transferred to nominal shares and the Bank sold the certificates of deposit that are issued by a local bank to the local bank at cost. No profit or loss from this operation was attained.

# 10. Assets Under Leverage Arrangement with the Central Bank of Lebanon

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| **Assets under leverage arrangement:** | LBP'000 | LBP'000 |
| Term placements | 57,527,000 | 57,527,000 |
| Treasury bills | 48,669,040 | 48,669,040 |
| | **106,196,040** | **106,196,040** |
| Less: Funding Arrangements | 106,196,040 | 106,196,040 |
| **Net** | – | – |

Assets under leverage arrangement comprise term placements and treasury bills in LBP subject to interest rate between 7% and 10.5% pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP with an annual interest rate of 2%, for the purpose of yield enhancement on certain transactions related to fresh deposits in foreign currency placed in term deposits at the Central Bank of Lebanon as follows:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Term placements with Central Bank of Lebanon | 85,667,100 | 85,667,100 |

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

# 11. Property and Equipment

| | Property & Buildings | Office & Computer Equipment | Furniture & fixtures | Vehicles | Leasehold Improvements | Advance Payments | Total |
|---|---|---|---|---|---|---|---|
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Cost** | | | | | | | |
| Balance December 31, 2021 and 2020 | 43,784,115 | 3,918,628 | 2,406,866 | 579,475 | 10,607,106 | – | 61,296,190 |
| **Accumulated depreciation** | | | | | | | |
| Balance January 1, 2020 | (3,071,971) | (3,319,016) | (1,461,094) | (577,980) | (6,190,708) | – | (14,620,769) |
| Additions | (875,682) | (223,919) | (107,544) | (1,359) | (1,314,062) | – | (2,522,566) |
| Balance December 31, 2020 | (3,947,653) | (3,542,935) | (1,568,638) | (579,339) | (7,504,770) | – | (17,143,335) |
| Additions | (875,681) | (125,345) | (100,584) | (134) | (1,219,704) | – | (2,321,448) |
| Balance December 31, 2021 | (4,823,334) | (3,668,280) | (1,669,222) | (579,473) | (8,724,474) | – | (19,464,783) |
| **Allowance for impairment December 31, 2021 and 2020** | – | – | – | – | (753,750) | – | (753,750) |
| **Carrying value** | | | | | | | |
| December 31, 2021 | 38,960,781 | 250,348 | 737,644 | 2 | 1,128,882 | – | 41,077,657 |
| December 31, 2020 | 39,836,462 | 375,693 | 838,228 | 136 | 2,348,586 | – | 43,399,105 |

The allowance for impairment amounting to LBP754million was recognized during 2020 following management assessment of the damages incurred from the Beirut Sea Port explosion on August 4, 2020.

Property and building include the acquisition cost of the Bank's head office during 2015 for LBP37.3billion .

This property is pledged to BLOM bank for an amount of USD17.64million.

However, BLOM Bank and the owner of the property have committed in the sale agreement with North Africa Commercial Bank S.A.L. to remove the mortgage from the sold sections in the real estate register upon completion of the registration procedures in the name of the Bank.

The registration of this property in the name of the Bank has not been finalized and an amount of LBP4.4billion (USD2,950,000) is still payable to the owner and reflected under other liabilities - sundry payable (Note 18).

## 12. Intangible Assets

| | Computer Software |
|---|---|
| | LBP'000 |
| **Cost** | |
| Balance, December 31, 3021 and 2020 | 2,111,159 |
| **Accumulated amortization** | |
| Balance, January 1, 2020 | (1,830,344) |
| Amortization for the year | (121,350) |
| Balance, December 31, 2020 | (1,951,694) |
| Amortization for the year | (93,342) |
| Balance, December 31, 2021 | (2,045,036) |
| **Carrying value** | |
| Balance, December 31, 2021 | 66,123 |
| Balance, December 31, 2020 | 159,465 |

## 13. Other Assets

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Receivables from the National Social Security Fund | 453,589 | 394,868 |
| Deferred taxes (Note 9) | 7,221,413 | 8,943,580 |
| Prepaid expenses | 283,470 | 337,252 |
| Other assets | 1,437,853 | 565,175 |
| | **9,396,325** | **10,240,875** |

## 14. Deposits from a Central Bank

This caption consists of deposits from a foreign central bank – the ultimate parent company.

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Demand deposits | 4,935,413 | 5,013,845 |
| Term deposits | 75,375,000 | 75,375,000 |
| | 80,310,413 | 80,388,845 |
| Accrued interest payable | 1,005 | 21,746 |
| | **80,311,418** | **80,410,591** |

## 15. Deposits From Banks and Financial Institutions

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Current accounts | 7,545,462 | 4,230,029 |
| Term deposits | – | 7,268,750 |
| Accrued interest payable | – | 28,213 |
| | **7,545,462** | **11,526,992** |

Deposits from banks and financial institutions are distributed between residents and non-residents as follows:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Residents | – | 3,500,575 |
| Non-residents | 7,545,462 | 8,026,417 |
| | **7,545,462** | **11,526,992** |

# 16. Deposits from the Parent, Sister and Other Related Banks

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| **Current accounts** | | |
| Sister banks | 80,534,640 | 87,472,986 |
| Parent Bank | 63,790,376 | 2,052,460 |
| | **144,325,016** | **89,525,446** |
| **Term deposits** | | |
| Parent Bank | 640,779,077 | 777,385,645 |
| | **640,779,077** | **777,385,645** |
| Accrued interest payable | 61,533,688 | 186,268 |
| | **846,637,781** | **867,097,359** |

Deposits from the parent bank include an amount LBP61.8billion (USD41million) (2020: LBP61.8billion) assigned for the increase of the Bank's capital (Note 20).

# 17. Customers' Deposits

| | December 31, 2021 | | |
|---|---|---|---|
| | LBP | F/CY | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| **Deposits from customers** | | | |
| Current/demand deposits | 125,460 | 3,455,266 | 3,580,726 |
| Term deposits | 56,069,618 | 232,604,981 | 288,674,599 |
| Collateral against loans and advances | 110,615 | – | 110,615 |
| | **56,305,693** | **236,060,247** | **292,365,940** |
| **Margins and other accounts** | | | |
| Standby letter of credits | – | 489,761 | 489,761 |
| Accrued interest payable | 846,993 | 1,607,184 | 2,454,177 |
| | 846,993 | 2,096,945 | 2,943,938 |
| **Total** | **57,152,686** | **238,157,192** | **295,309,878** |

| | December 31,2020 | | |
|---|---|---|---|
| | LBP | F/CY | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| **Deposits from customers** | | | |
| Current/demand deposits | 188,851 | 2,036,899 | 2,225,750 |
| Term deposits | 59,331,531 | 226,782,218 | 286,113,749 |
| Collateral against loans and advances | 192,817 | 124,369 | 317,186 |
| | **59,713,199** | **228,943,486** | **288,656,685** |
| **Margins and other accounts** | | | |
| Standby letter of credits | 203 | 504,165 | 504,368 |
| Accrued interest payable | 675,815 | 3,144,619 | 3,820,434 |
| | 676,018 | 3,648,784 | 4,324,802 |
| **Total** | **60,389,217** | **232,592,270** | **292,981,487** |

Deposits from customers are allocated by brackets of deposits as follows:

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | | LBP | | F/Cy | | |
| | No. of Customers | Total Deposits | % to Total Deposits | Total Deposits | % to Total Deposits | Total |
| | | LBP'000 | % | LBP'000 | % | LBP'000 |
| Less than LBP 250 million | 1022 | 8,305,618 | 15 | 22,987,116 | 10 | 31,292,734 |
| Between LBP 250 million & LBP 1.5 billion | 123 | 16,381,334 | 28 | 50,621,818 | 21 | 67,003,152 |
| Above LBP 1.5 billion | 19 | 32,465,734 | 57 | 164,548,258 | 69 | 197,013,992 |
| | **1164** | **57,152,686** | **100** | **238,157,192** | **100** | **295,309,878** |

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | LBP | | F/Cy | | |
| | No. of Customers | Total Deposits | % to Total Deposits | Total Deposits | % to Total Deposits | Total |
| | | LBP'000 | % | LBP'000 | % | LBP'000 |
| Less than LBP 250 million | 1,010 | 10,061,882 | 17 | 23,119,678 | 10 | 33,181,560 |
| Between LBP 250 million & LBP 1.5 billion | 118 | 17,616,438 | 29 | 44,702,209 | 19 | 62,318,647 |
| Above LBP 1.5 billion | 21 | 32,710,897 | 54 | 164,770,383 | 71 | 197,481,280 |
| | **1,149** | **60,389,217** | **100** | **232,592,270** | **100** | **292,981,487** |

Customers' deposits at December 31, 2021 include coded deposit accounts in the aggregate of LBP198million (2020: LBP198million in 2020). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its Bank's independent auditors.

Customers' deposits include related party deposits in the amount of LBP1.6billion at December 31, 2021 (2020: LBP1.76billion).

Customers' deposits include fresh accounts deposits in foreign currency of LBP488million(2020: LBP212.5million). These deposits are exempt from compulsory reserve deposits in accordance with Central Bank of Lebanon circular No. 150.

# 18. Other Liabilities

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| income tax payable | 482,777 | 1,590,432 |
| Withheld taxes payable | 2,163,865 | 2,148,058 |
| Accrued charges | 61,402 | 390,243 |
| Due to the National Social Security Fund | 45,721 | 45,721 |
| Salaries payable | 79,260 | 179,270 |
| Allowances payable to Bank's key personnel (Note 26) | 1,249,773 | – |
| Sundry payables (Note 11) | 5,051,958 | 4,482,241 |
| | **9,134,756** | **8,835,965** |

The Bank's income tax returns since the year 2016 have not yet been reviewed by the relevant tax authorities and any additional tax liability depends on the outcome of this review, where applicable, and which cannot be determined at present.

Allowances payable to Bank's key personnel comprise leave and additional allowances in relation to their services during 2021 and prior years. The Bank's Board of Directors held on May 10, 2022 approved total allowances of LBP765million (USD509,536) of which LBP66million (USD43,901) relate to the period 2022. Furthermore, allowances of LBP605million (USD401,540) were approved by management in June 2022.

Income tax payable includes a provision for tax contingencies in the amount of LBP61million recognized during 2021 and recorded under "income tax expense" in the statement of profit or loss.

## 19. Provisions

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Provision for employees' end-of-service indemnity | 3,763,285 | 3,599,689 |
| Provision for end-of-service indemnity for the Bank's legal counsel | 130,399 | 116,077 |
| Total provision of end-of service indemnities | 3,893,684 | 3,715,766 |
| Provisions for loss on fixed foreign currency position | 169,000 | 169,000 |
| Provisions for risk and charges | 3,127,417 | 4,120,245 |
| Other provisions | 14,321 | 10,929 |
| | **7,204,422** | **8,015,940** |

The movement of the provision for end-of-service indemnities is summarized as follows:

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance, January 1 | 3,715,766 | 3,525,906 |
| Additions (Note 26) | 523,979 | 682,444 |
| Additions provision for Bank legal consultant | 14,321 | 10,929 |
| Settlements | (356,990) | (503,513) |
| Other movement | (3,392) | – |
| **Balance, December 31** | **3,893,684** | **3,715,766** |

The movement of provision for risk and charges is as follows:

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance, January 1 | 4,120,245 | 4,042,904 |
| Additions | 175,700 | 77,341 |
| Settlements | (1,168,528) | – |
| **Balance, December 31** | **3,127,417** | **4,120,245** |

Provisions for risks and charges at 2021 year-end are mainly against tax contingencies.

Settlements during the year 2021 represent the payment made to the Ministry of Finance for the year 2020 in accordance to law No.6/2020 related to the 2% tax flat rate on the Bank's turnover.

# 20. Share Capital

The Bank's authorized ordinary share capital amounted to LBP15,000million consisting of 300,000 fully paid shares of LBP50,000 par value each.

Cash contribution to capital amounting to LBP148billion is not subject to interest.

On November 4, 2020, the Central Bank of Lebanon issued a circular 532 requesting from banks operating in Lebanon to increase its share capital by 20% as at December 31, 2019 by cash contributions in US Dollars as follows:

- 10% before December 31, 2020.
- Additional 10% by June 30, 2020.

In this respect, the Central Bank of Lebanon, through its Intermediate Circular ("Circular") No. 567 dated August 26, 2020, extended the deadline period for increasing the capital by 20% until December 31, 2020. On June 29, 2022 the Bank received the final approval from the Banking Control Commission on the implementation of this circular and transferred the allocated USD41million (equivalent to LBP61billion) from the parent bank existing deposits in a separate account designated for capital increase.

# 21. Reserves

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Legal reserve (a) | 19,077,272 | 19,077,272 |
| Special reserve (b) | 11,707,541 | 11,707,541 |
| Non-distributable general reserve (c) | 22,027,268 | 22,027,268 |
| Free reserve for capital increase | 24,132,024 | 24,132,024 |
| Other reserves | 12,500 | 12,500 |
| | **76,956,605** | **76,956,605** |

a) The legal reserve is constituted from appropriations of 10% from yearly profits. This reserve is not available for distribution.

b) This special reserve is made in connection with the uncovered portion of doubtful debts and impaired loans subject of item No.4 of Article II of basic decision No. 7694 and Central Bank intermediary circular No. 209.

c) In compliance with the basic circular No. 143 issued by the Central Bank of Lebanon, banks should transfer the reserve for general banking risk and the general reserve for performing loans to a non-distributable reserve accounts.

# 22. Interest Income

| | 2021 | | |
|---|---|---|---|
| | Interest Income | Withheld Tax | Net Interest Income |
| | LBP'000 | LBP'000 | LBP'000 |
| **Interest income on** | | | |
| Deposits with Central Bank of Lebanon | 28,833,596 | (2,417,015) | 26,416,581 |
| Deposits with banks and financial institutions | (631,849) | (12,574) | (644,423) |
| Loans and advances to customers | 473,215 | – | 473,215 |
| Investment securities at amortized cost | 4,582,171 | (1,202,495) | 3,379,676 |
| | **33,257,133** | **(3,632,084)** | **29,625,049** |

| | 2020 | | |
|---|---|---|---|
| | Interest Income | Withheld Tax | Net Interest Income |
| | LBP'000 | LBP'000 | LBP'000 |
| **Interest income on** | | | |
| Deposits with Central Bank of Lebanon | 23,483,167 | (2,406,098) | 21,077,069 |
| Deposits with banks and financial institutions | 17,303,918 | (644,132) | 16,659,786 |
| Loans and advances to customers | 296,023 | – | 296,023 |
| Investment securities at amortized cost | 10,960,856 | (1,245,767) | 9,715,089 |
| | **52,043,964** | **(4,295,997)** | **47,747,967** |

# 23. Interest Expense

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| **Interest expense on:** | | |
| Deposits from banks and financial institutions | 2,347,169 | 9,370,706 |
| Deposits from customers | 6,076,151 | 10,363,347 |
| Deposits from related parties | 19,777 | 52,482 |
| | **8,443,097** | **19,786,535** |

# 24. Fees and Commission Income

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Commission on documentary credits and guarantees | 88,425 | 289,246 |
| Commission on banking operations | 879,190 | 62,935 |
| Fees and commission on credit facilities | 153,882 | 31,288 |
| | **1,121,497** | **383,469** |

# 25. Net Loss on Investment Securities at Fair Value Through Profit or Loss

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Dividend income | 65,160 | 214,117 |
| Unrealized loss (Note 9) | (818,443) | (1,843,633) |
| Net realized profit (Note 9) | 9,515 | 55,552 |
| | **(743,768)** | **(1,573,964)** |

# 26. Salaries and Related Charges

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Salaries | 8,651,738 | 8,405,512 |
| Vacation and other benefits(Note 18 and 30) | 1,949,749 | 1,243,815 |
| Provision for employees' end-of-service indemnity | 523,979 | 682,444 |
| Social Security contributions | 872,857 | 899,546 |
| Insurance expenses | 490,789 | 483,299 |
| School allowance | 583,000 | 788,333 |
| Transportation | 556,280 | 167,685 |
| Other allowance | 361,903 | 326,643 |
| | **13,990,295** | **12,997,277** |

Salaries and related charges include executive management salaries and benefits in the amount of LBP2.1billion in 2021 (LBP2billion in 2020).

Remuneration fees for the executive management amounted to LBP108million for the year 2021 (LBP100million for the year 2020).

## 27. General and Administrative Expenses

| | 2021 | 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Professional fees | 888,966 | 327,981 |
| Rent | 810,978 | 520,362 |
| Directors' remunerations, attendance fees and representation allowances | 625,613 | 557,022 |
| Subscriptions | 594,822 | 622,296 |
| Water, electricity and telecommunication | 338,507 | 212,041 |
| Maintenance and repairs | 531,348 | 442,156 |
| Insurance | 240,698 | 130,286 |
| Municipality and other taxes | 114,485 | 1,771,900 |
| Travel expenses | 63,340 | 24,618 |
| End-of-service for legal consultant | 14,321 | 10,929 |
| Other operating expenses | 239,734 | 220,794 |
| | **4,462,812** | **4,840,385** |

## 28. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of the following:

| | December 31 | |
|---|---|---|
| | 2021 | 2020 |
| | LBP'000 | LBP'000 |
| Cash and deposits with Central Bank of Lebanon (net of compulsory reserve) (a) | 925,464,693 | 796,258,828 |
| Term deposits with banks and financial institutions (a) | 1,522,009 | 83,627,211 |
| Term deposits with parent bank, sister and related banks (a) | 10,286,735 | 25,805,661 |
| | **937,273,437** | **905,691,700** |

a. Term deposits with banks comprise balances with original maturities of 90 days or less.

## 29. Financial Instruments with Off-Balance-Sheet Risks

Guarantees and standby letters of credit and documentary letters of credit represent financial instruments with contractual amounts that carry credit risk.

The guarantees and standby letters of credit represent irrevocable assurances that the Bank 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 balance sheet.

# 30. Balances and Transactions with Related Parties

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors and related companies.
Related-party transactions and outstanding balances at year-end are as follows:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| **a. Deposits with Parent, Sister and Other Related Banks (Note 7)** | | |
| **Current accounts** | | |
| Sister banks | 10,391,417 | 17,618,915 |
| Term deposits – related banks | 10,552,500 | 14,321,250 |
| Accrued interest | 59 | 280 |
| | **20,943,976** | **31,940,445** |
| **b. Deposits from a Central Bank (Foreign Central Bank –Ultimate Parent Company) (Note 14)** | | |
| Current accounts | 4,935,413 | 5,013,845 |
| Term deposits | 75,375,000 | 75,375,000 |
| Accrued interest payable | 1,005 | 21,746 |
| | **80,311,418** | **80,410,591** |
| **c. Deposits from Parent, Sister and Other Related Banks (Note 16)** | | |
| **Current accounts** | | |
| Sister banks | 80,534,640 | 87,472,986 |
| Parent Bank | 63,790,376 | 2,052,460 |
| | **144,325,016** | **89,525,446** |
| **Term deposits** | | |
| Parent Bank | 640,779,077 | 777,385,645 |
| Accrued interest payable | 61,533,688 | 186,268 |
| | **846,637,781** | **867,097,359** |
| **d. Customers' Deposits (Note 17)** | | |
| Customers'  deposits – related parties | 1,606,854 | 1,763,651 |
| **e. Interest Income and Expense** | | |
| **Interest Income on:** | | |
| Deposits with related banks and financial institutions | 7,132 | 3,118 |
| | **7,132** | **3,118** |
| Interest Expense on | | |
| Deposits from foreign Central Bank (ultimate parent company) | 161,679 | 779,844 |
| Deposits from parent, sister and other related banks | 2,125,591 | 7,660,986 |
| Customers' deposits – related parties | 19,778 | 52,482 |
| | **2,307,048** | **8,493,312** |
| **f. Board of Directors' Remunerations (Note 26 and 27)** | | |
| Board of directors' remunerations, representation and attendance fees | 625,613 | 557,022 |
| | **625,613** | **557,022** |
| **g. Allowances to Bank's key personnel (Note 18)** | | |
| Leave and other allowances | 1,249,773 | – |

# 31. Financial Risk Management

## Risk Management Framework

The Bank is exposed to different types of risk mainly credit risk, liquidity risk, operational risk and market risk.

These risks are inherent in the Bank's activities but are managed through an ongoing process of identification, measurement, monitoring and mitigation.

The Board of Directors, the Risk Management Committee and the Risk Management Division are responsible for overseeing the Bank's risks, while the Internal Audit Department has the responsibility independently to monitor the implemented risk management process to ensure adequacy and effectiveness of the risk control procedures.

The Risk Management Division ensures that the capital is adequate to cover all types of risks that the Bank is exposed to and monitors compliance with risk management policies, procedures and lending limits.

The Bank assesses its risk profile to ensure that it is in line with the bank's risk strategy and goals.

The Board of Directors receives quarterly risk reports on the Bank's risk profile and capital management process.

## 1. Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet its obligations. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers, investment securities and probable credit risk arising from off-balance sheet financial instruments such as documentary letters of credit and letters of guarantee.

Management of credit risk mainly includes:

a) Identifying credit risk through implementing credit processes related to credit origination, analysis, approval and review.

b) Measuring credit risk by ensuring that it is within the limits set by the Bank and the related authorities in addition to the assessment of guarantees taken.

c) Ensuring the Bank has policies and procedures in place to appropriately assess and measure ECL according to IFRS9.

d) Follow up on the criteria used to determine the increase in credit risk.

The corporate governance project applied to comply with IFRS9, requires the work of risk management department and financial control department to ensure the effective implementation through the formation of an internal committee for this purpose.

The committee reviews and approves the staging of financial assets and other key inputs and assumptions used in estimating the expected credit losses. The committee also assesses the appropriateness of the provisions to be taken for expected credit losses.

The Bank manages the level of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers and to geographical and industry segments without exceeding limits of the facilities set by the local Bank's regulations.

Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The principal collateral types for loans and advances consist of mortgages on real estate properties and cash collaterals. The Bank will seek additional collaterals from the counterparty as soon as impairment indicators noticed by the Bank shows a decrease in the value of advances.

## 2. Measurement of Credit Risk

The Bank recognizes provision for expected credit losses on financial assets that are not reflected at fair value.

The expected credit losses are measured at lifetime, except for the following that are measured as a 12-month ECL:

a) Debt securities with low credit risk at reporting date.
b) Other financial instruments on which credit risk has not increased significantly since their initial recognition.

### *Loans and advances to customers*

In measuring credit risk of loans and advances, the Bank considers the following:

• Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdue and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;

• 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.

The Bank assesses the probability of default of individual counterparties using internal rating tools.

The Bank's rating scale reflects the range of default probabilities defined for each rating class as explained below:

- Stage 1: 5 grades from 1 to 5 covering prime, high grade, upper medium grade, lower medium grade, non-investment grade speculative, are equivalent to grading 1 & 2 in the Central Bank's grading system. Reported as normal to the Central Bank, stage 1 includes customers with regular credit movements, respecting their repayment schedules.

The borrower's financial condition is good based on the most recent financial statements available, and the collateral is adequate to cover the loan.

- Stage 2: Customers graded 6 to 7 are related to more uncertain situations and that are under direct and continuous control from the credit risk division (considered a high risk) and are equivalent to special mention grading of 3 by the Central Bank's grading system.

The customers are reported as special mention to the Central Bank. Special mention loans display signs of irregular credit movements or exceed the authorized credit limit on a continuous basis.

Recent financial statements for the borrower are unavailable and adverse conditions and trends of an economic or other nature are present, which may affect the borrower's ability to repay the debt.

Collateral has not been evaluated for a period not exceeding 3 years.

The loans are considered as recoverable, however it is closely monitored for a year, at the end of which, if the specified conditions above are not regularized, the loan is to be reclassified.

- Stage 3: Customers graded 8, 9 & 10 are substandard, doubtful, and loss which is equivalent to grades 4,5 & 6 of the grading used by the Central Bank of Lebanon.

The expected credit loss allowance is measured according to the staging of the customers as follows:

a - Stage 1: An amount equal to 12 months ECL is recorded.

The ECL is computed using the PD occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a PD corresponding to the remaining term to maturity is used.

b - Stage 2: The computation of the ECL is based on the PD over the remaining estimated life of the financial instrument.

c- Stage 3: The allowance for credit losses captures the lifetime ECL.

The parameters used in computing the ECL, exposure at default (EAD) and probability of default (PD) and loss given default (LGD), are generally derived from internally developed statistical models and other historical data.

They are adjusted to reflect forward-looking information.

Forward looking information requires significant judgement.

The increase in credit risk is expected to lead to a Stage 2 classification and is to be measured by comparing:

a) The debtors' credit risk at origination,

b) The debtors' credit risk at the reporting date.

Expected credit losses (ECL) is computed as follows: PD x LGD x EAD.

## Debt investment securities and other bills

The bank's financial assets portfolio (excluding loans and advances) comprises sovereign financial assets classified at amortized cost or at fair value through other comprehensive income.

Examples of these assets are current accounts, time deposits and certificate of deposits with the Central Bank of Lebanon as well as Lebanese treasury bills.

There have been no significant increase in the credit risk of these financial assets since their inception and therefore have been classified as stage 1.

The Bank uses the change in the external credit rating of Moody's, S&P and Fitch to assess the significant increase in credit risk.

## 3. Maximum Exposure to Credit Risk

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

| | December 31, 2021 | | |
|---|---|---|---|
| | Gross | Allowance for expected credit losses | Carrying amount |
| | LBP'000 | LBP'000 | LBP'000 |
| Cash and deposits with central bank | 1,150,714,838 | (21,264,825) | 1,129,450,013 |
| Deposits with banks and financial institutions | 1,522,009 | – | 1,522,009 |
| Deposits with the parent, sister and other related banks | 20,943,976 | (104,682) | 20,839,294 |
| Loans and advances to customers | 30,644,650 | (18,205,073) | 12,439,577 |
| Investments at fair value through other comprehensive income | 71,938,135 | – | 71,938,135 |
| Investments at amortized cost | 263,822,645 | (71,227,534) | 192,595,111 |
| | 1,539,586,253 | (110,802,114) | 1,428,784,139 |
| **Letters of guarantees and stand by letters of credit** | **6,555,996** | **–** | **6,555,996** |

| | December 31, 2020 | | |
|---|---|---|---|
| | Gross | Allowance for expected credit losses | Carrying amount |
| | LBP'000 | LBP'000 | LBP'000 |
| Cash and deposits with central bank | 1,029,179,873 | (18,027,813) | 1,011,152,060 |
| Deposits with banks and financial institutions | 127,757,833 | (1,879,778) | 125,878,055 |
| Deposits with the parent, sister and other related banks | 31,940,445 | (104,682) | 31,835,763 |
| Loans and advances to customers | 32,198,792 | (18,064,463) | 14,134,329 |
| Investments at fair value through other comprehensive income | 61,807,735 | – | 61,807,735 |
| Investments at amortized cost | 260,766,959 | (68,975,643) | 191,791,316 |
| | 1,543,651,637 | (107,052,379) | 1,436,599,258 |
| **Letters of guarantees and stand by letters of credit** | **19,491,535** | **–** | **19,491,535** |

The following represents the movement of the balances which affected the expected loss allowance:

| | 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Balance, January 1, 2021** | | | | |
| Cash and deposits with central bank | 1,021,071,174 | – | – | 1,021,071,174 |
| Deposits with banks and financial institutions | 127,493,425 | – | – | 127,493,425 |
| Deposits with the parent, sister and other related banks | 31,940,165 | – | – | 31,940,165 |
| Loans and advances to customers | 2,717,213 | 178,260 | 29,303,319 | 32,198,792 |
| Investments at fair value through other comprehensive income | – | – | – | – |
| Investments at amortized cost | 256,821,361 | – | – | 256,821,361 |
| Letters of guarantees and stand by letters of credit | 19,491,535 | – | – | 19,491,535 |
| | **1,459,534,873** | **178,260** | **29,303,319** | **1,489,016,452** |
| **Net movement during the year** | | | | |
| Cash and deposits with central bank | 129,643,663 | – | – | 129,643,663 |
| Deposits with banks and financial institutions | (125,971,416) | – | – | (125,971,416) |
| Deposits with the parent, sister and other related banks | (10,996,189) | – | – | (10,996,189) |
| Loans and advances to customers | (1,144,584) | (65,443) | (344,282) | (1,554,309) |
| Investments at amortized cost | (145,902,729) | – | 152,904,013 | 7,001,284 |
| Letters of guarantees and stand by letters of credit | (12,935,539) | – | – | (12,935,539) |
| | **(167,306,794)** | **(65,443)** | **152,559,731** | **(14,812,506)** |
| **Balance, December 31, 2021** | | | | |
| Cash and deposits with central bank | 1,150,714,838 | – | – | 1,150,714,838 |
| Deposits with banks and financial institutions | 1,522,009 | – | – | 1,522,009 |
| Deposits with the parent, sister and other related banks | 20,943,976 | – | – | 20,943,976 |
| Loans and advances to customers | 1,572,629 | 112,650 | 28,959,037 | 30,644,650 |
| Investments at amortized cost | 110,918,632 | – | 152,904,013 | 263,822,645 |
| Letters of guarantees and stand by letters of credit | 6,555,996 | – | – | 6,555,996 |
| | **1,292,228,080** | **112,650** | **181,863,050** | **1,474,204,114** |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Balance, January 1, 2020** | | | | |
| Cash and deposits with central bank | 524,087,739 | – | – | 524,087,739 |
| Deposits with banks and financial institutions | 533,109,200 | – | – | 533,109,200 |
| Deposits with the parent, sister and other related banks | 30,462,320 | – | – | 30,462,320 |
| Loans and advances to customers | 3,551,418 | 1,094,013 | 28,934,393 | 33,579,824 |
| Investments at fair value through other comprehensive income | 7,424,438 | – | – | 7,424,438 |
| Investments at amortized cost | 285,589,035 | – | – | 285,589,035 |
| Letters of guarantees and stand by letters of credit | 19,217,633 | – | – | 19,217,633 |
| | **1,403,441,783** | **1,094,013** | **28,934,393** | **1,433,470,189** |
| **Net movement during the year** | | | | |
| Cash and deposits with central bank | 496,983,435 | – | – | 496,983,435 |
| Deposits with banks and financial institutions | (405,615,775) | – | – | (405,615,775) |
| Deposits with the parent, sister and other related banks | 1,477,845 | – | – | 1,477,845 |
| Loans and advances to customers | (834,205) | (915,753) | 368,926 | (1,381,032) |
| Investments at fair value through other comprehensive income | (7,424,438) | – | – | (7,424,438) |
| Investments at amortized cost | (28,767,675) | – | – | (28,767,675) |
| Letters of guarantees and stand by letters of credit | 273,902 | – | – | 273,902 |
| | **56,093,089** | **(915,753)** | **368,926** | **55,546,262** |
| **Balance, December 31, 2020** | | | | |
| Cash and deposits with central bank | 1,021,071,174 | – | – | 1,021,071,174 |
| Deposits with banks and financial institutions | 127,493,425 | – | – | 127,493,425 |
| Deposits with the parent, sister and other related banks | 31,940,165 | – | – | 31,940,165 |
| Loans and advances to customers | 2,717,213 | 178,260 | 29,303,319 | 32,198,792 |
| Investments at fair value through other comprehensive income | – | | | – |
| Investments at amortized cost | 256,821,360 | – | – | 256,821,360 |
| Letters of guarantees and stand by letters of credit | 19,491,535 | – | – | 19,491,535 |
| | **1,459,534,872** | **178,260** | **29,303,319** | **1,489,016,451** |

The following represents the movement of the expected loss allowance:

| | 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Balance, January 1, 2021** | | | | |
| Cash and deposits with central bank | 18,027,813 | – | – | 18,027,813 |
| Deposits with banks and financial institutions | 1,879,778 | – | – | 1,879,778 |
| Deposits with the parent, sister and other related banks | 104,682 | – | – | 104,682 |
| Loans and advances to customers | 158,425 | 892,305 | 17,013,733 | 18,064,463 |
| Investments at amortized cost | 68,975,643 | – | – | 68,975,643 |
| | **89,146,341** | **892,305** | **17,013,733** | **107,052,379** |
| **Net movement during the year** | | | | |
| Cash and deposits with central bank | 3,237,012 | – | – | 3,237,012 |
| Deposits with banks and financial institutions | (1,879,778) | – | – | (1,879,778) |
| Deposits with the parent, sister and other related banks | – | – | – | – |
| Loans and advances to customers | 403,742 | (892,305) | 629,173 | 140,610 |
| Investments at amortized cost | (68,833,964) | – | 71,085,855 | 2,251,891 |
| | **(67,072,988)** | **(892,305)** | **71,715,028** | **3,749,735** |
| **Balance, December 31, 2021** | | | | |
| Cash and deposits with central bank | 21,264,825 | – | – | 21,264,825 |
| Deposits with banks and financial institutions | – | – | – | – |
| Deposits with the parent, sister and other related banks | 104,682 | – | – | 104,682 |
| Loans and advances to customers | 562,167 | – | 17,642,906 | 18,205,073 |
| Investments at amortized cost | 141,679 | – | 71,085,855 | 71,227,534 |
| | **22,073,353** | – | **88,728,761** | **110,802,114** |

| | Balance as at December 31, 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | LBP’000 | LBP’000 | LBP’000 | LBP’000 |
| **Balance, January 1, 2020** | | | | |
| Cash and deposits with central bank | 8,287,453 | – | – | 8,287,453 |
| Deposits with banks and financial institutions | 10,987,032 | – | – | 10,987,032 |
| Deposits with the parent, sister and other related banks | 47,195 | – | – | 47,195 |
| Loans and advances to customers | 158,425 | 892,305 | 17,007,418 | 18,058,148 |
| Investments at fair value through other comprehensive income | 286,498 | – | – | 286,498 |
| Investments at amortized cost | 59,034,957 | – | – | 59,034,957 |
| | **78,801,560** | **892,305** | **17,007,418** | **96,701,283** |
| **Net movement during the year** | | | | |
| Cash and deposits with central bank | 9,740,360 | – | – | 9,740,360 |
| Deposits with banks and financial institutions | (9,107,254) | – | – | (9,107,254) |
| Deposits with the parent, sister and other related banks | 57,487 | – | – | 57,487 |
| Loans and advances to customers | – | – | 6,315 | 6,315 |
| Investments at fair value through other comprehensive income | (286,498) | – | – | (286,498) |
| Investments at amortized cost | 9,940,686 | – | – | 9,940,686 |
| | **10,344,781** | – | **6,315** | **10,351,096** |
| **Balance, December 31, 2020** | | | | |
| Cash and deposits with central bank | 18,027,813 | – | – | 18,027,813 |
| Deposits with banks and financial institutions | 1,879,778 | – | – | 1,879,778 |
| Deposits with the parent, sister and other related banks | 104,682 | – | – | 104,682 |
| Loans and advances to customers | 158,425 | 892,305 | 17,013,733 | 18,064,463 |
| Investments at amortized cost | 68,975,643 | – | – | 68,975,643 |
| | **89,146,341** | **892,305** | **17,013,733** | **107,052,379** |

## Concentration of Credit Risk by Geographical Location

The Bank distributes exposures to geographical segments based on the original country of the contracting party as follows:

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | Lebanon | Europe | Other | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Financial assets** | | | | |
| Cash and deposits with central bank | 1,129,450,013 | – | – | 1,129,450,013 |
| Deposits with banks and financial institutions | 1,519,430 | – | 2,579 | 1,522,009 |
| Deposits with the parent, sister and other related banks | – | 20,450,348 | 388,946 | 20,839,294 |
| Loans and advances to customers | 12,379,085 | 32 | 60,460 | 12,439,577 |
| Investments at fair value through profit and loss | 2,521,998 | 29,181 | 75,375 | 2,626,554 |
| Investments at fair value through other comprehensive income | 71,938,135 | – | – | 71,938,135 |
| Investment securities at amortized cost | 192,595,111 | – | – | 192,595,111 |
| | **1,410,403,772** | **20,479,561** | **527,360** | **1,431,410,693** |
| **Off-balance sheet exposures** | | | | |
| Letters of guarantee | 6,228,015 | – | 327,981 | 6,555,996 |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | Lebanon | Europe | Other | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Financial assets** | | | | |
| Cash and deposits with central bank | 1,011,152,060 | – | – | 1,011,152,060 |
| Deposits with banks and financial institutions | 125,875,228 | – | 2,827 | 125,878,055 |
| Deposits with the parent, sister and other related banks | – | 31,616,516 | 219,247 | 31,835,763 |
| Loans and advances to customers | 13,981,201 | – | 153,128 | 14,134,329 |
| Investment trading securities at fair value through profit or loss | 6,369,074 | – | 75,375 | 6,444,449 |
| Investments at fair value through other comprehensive income | 61,807,735 | – | – | 61,807,735 |
| Investment securities at amortized cost | 191,791,316 | – | – | 191,791,316 |
| | **1,410,976,614** | **31,616,516** | **450,577** | **1,443,043,707** |
| **Off-balance sheet exposures** | | | | |
| Letters of guarantee | 18,835,045 | 3,015 | 653,475 | 19,491,535 |

## Concentration of Credit Risk by Industry or Sector

| | December 31, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sovereign Risk | Financial Institutions | Manufacturing | Construction | Trading | Other | Individual | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Financial assets** | | | | | | | | |
| Cash and deposits with central bank | 1,129,450,013 | – | – | – | – | – | – | 1,129,450,013 |
| Deposits with banks and financial institutions | – | 1,522,009 | – | – | – | – | – | 1,522,009 |
| Deposits with the parent, sister and other related banks | – | 20,839,294 | – | – | – | – | – | 20,839,294 |
| Loans and advances to customers | – | – | 3,452,800 | 3,046,731 | 4,838,264 | 101,489 | 1,000,293 | 12,439,577 |
| Investment trading securities at fair value through profit and loss | – | 2,434,378 | – | 192,176 | – | – | – | 2,626,554 |
| Investments at fair value through other comprehensive income | – | 71,938,135 | – | – | – | – | – | 71,938,135 |
| Investment securities at amortized cost | 192,595,111 | – | – | – | – | – | – | 192,595,111 |
| | **1,322,045,124** | **96,733,816** | **3,452,800** | **3,238,907** | **4,838,264** | **101,489** | **1,000,293** | **1,431,410,693** |
| **Off-balance sheet exposures** | | | | | | | | |
| Letters of guarantee | – | 5,529,678 | 45,225 | 70,585 | 30,350 | – | 880,158 | 6,555,996 |

| | December 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sovereign Risk | Financial Institutions | Manufacturing | Construction | Trading | Other | Individual | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Financial assets** | | | | | | | | |
| Cash and deposits with central bank | 1,011,152,060 | – | – | – | – | – | – | 1,011,152,060 |
| Deposits with banks and financial institutions | – | 125,878,055 | – | – | – | – | – | 125,878,055 |
| Deposits with the parent, sister and other related banks | – | 31,835,763 | – | – | – | – | – | 31,835,763 |
| Loans and advances to customers | – | – | 3,767,318 | 3,046,731 | 5,783,646 | 221,744 | 1,314,890 | 14,134,329 |
| Investments at fair value through profit and loss | – | 6,335,180 | – | 109,269 | – | – | – | 6,444,449 |
| Investments at fair value through other comprehensive income | – | 61,807,735 | – | – | – | – | – | 61,807,735 |
| Investment securities at amortized cost | 191,791,316 | – | – | – | – | – | – | 191,791,316 |
| | **1,202,943,376** | **225,856,733** | **3,767,318** | **3,156,000** | **5,783,646** | **221,744** | **1,314,890** | **1,443,043,707** |
| **Off-balance sheet exposures** | | | | | | | | |
| Letters of guarantee | – | 18,621,998 | 15,175 | 70,585 | 100 | 540,064 | 243,613 | 19,491,535 |

## Guarantees Held Against Loans and Advances to Customers

| | December 31, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Collateral received | | | |
| | Gross exposure (Net of unrealized Interest) | Allowance for expected credit losses | Net exposure | Pledged funds | Mortgage | Personal guarantees | Total collateral |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Performing loans** | | | | | | | |
| Retail | 126,764 | (13,899) | 112,865 | – | – | 13,455 | 13,455 |
| Housing loans | 887,426 | – | 887,426 | 9 | 3,955,680 | – | 3,955,689 |
| **Performing loans - corporate** | | | | | | | |
| Small and medium enterprises | 671,423 | (548,268) | 123,155 | – | 2,213,540 | – | 2,213,540 |
| Doubtful and bad debts | 28,959,037 | (17,642,906) | 11,316,131 | – | 40,355,775 | – | 40,355,775 |
| | **30,644,650** | **(18,205,073)** | **12,439,577** | **9** | **46,524,995** | **13,455** | **46,538,459** |

| | December 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Collateral received | | | |
| | Gross exposure (Net of unrealized Interest) | Allowance for expected credit losses | Net exposure | Pledged funds | Mortgage | Personal guarantees | Total collateral |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Performing loans** | | | | | | | |
| Retail | 926,016 | (158,425) | 767,591 | 165,713 | – | 16,560 | 182,273 |
| Housing loans | 1,032,714 | – | 1,032,714 | – | 3,051,180 | – | 3,051,180 |
| **Performing loans - corporate** | | | | | | | |
| Small and medium enterprises | 936,743 | (892,305) | 44,438 | 42,644 | 2,612,428 | – | 2,655,072 |
| Doubtful and bad debts | 29,303,319 | (17,013,733) | 12,289,586 | – | 38,539,238 | – | 38,539,238 |
| | **32,198,792** | **(18,064,463)** | **14,134,329** | **208,357** | **44,202,846** | **16,560** | **44,427,763** |

## Market Risks

Market risk is defined as the risk of losses in on and off-financial position, arising from adverse movements in market prices. Market Risk includes: Interest Rate Risk for Financial Instruments and Foreign Exchange Risk.

### Foreign Exchange risk

Foreign exchange risk arises from the exposure on banking assets and liabilities, denominated in foreign currencies.

| | December 31, 2021 | | | |
|---|---|---|---|---|
| | LBP | Foreign currency (Restricted) | Foreign currency (Fresh) | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Assets** | | | | |
| Cash and deposits with central bank | 113,001,549 | 1,016,022,553 | 425,911 | 1,129,450,013 |
| Deposits with banks and financial institutions | 410,578 | 1,108,852 | 2,579 | 1,522,009 |
| Deposits with the parent, sister and other related banks | – | – | 20,839,294 | 20,839,294 |
| Loans and advances to customers | 140,383 | 12,299,194 | – | 12,439,577 |
| Investments at fair value through profit and loss | 170,000 | 2,456,554 | – | 2,626,554 |
| Investments at fair value through other comprehensive income | – | 71,938,135 | – | 71,938,135 |
| Investment securities at amortized cost | 52,415,377 | 140,179,734 | – | 192,595,111 |
| Property and equipment | 4,059,782 | 37,017,875 | – | 41,077,657 |
| Intangible assets | 66,123 | – | – | 66,123 |
| Other assets | 1,108,485 | 8,287,840 | – | 9,396,325 |
| **Total Assets** | **171,372,277** | **1,289,310,737** | **21,267,784** | **1,481,950,798** |
| **Liabilities** | | | | |
| Deposits from a central bank | – | 80,311,418 | – | 80,311,418 |
| Deposits from banks and financial institutions | – | 7,545,462 | – | 7,545,462 |
| Deposits from parent, sister and other related banks | – | 846,637,781 | – | 846,637,781 |
| Customers' deposits | 57,152,666 | 237,669,175 | 488,037 | 295,309,878 |
| Other liabilities | 2,814,312 | 6,320,444 | – | 9,134,756 |
| Provisions | 5,917,404 | 1,287,018 | – | 7,204,422 |
| Total Liabilities | 65,884,382 | 1,179,771,298 | 488,037 | 1,246,143,717 |
| Net Assets | **105,487,895** | **109,539,439** | **20,779,747** | **235,807,081** |

| | December 31, 2020 | | | |
|---|---|---|---|---|
| | LBP | Foreign currency (Restricted) | Foreign currency (Fresh) | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Assets** | | | | |
| Cash and deposits with central bank | 103,395,545 | 907,155,343 | 601,172 | 1,011,152,060 |
| Deposits with banks and financial institutions | 12,170,208 | 113,705,019 | 2,828 | 125,878,055 |
| Deposits with the parent, sister and other related banks | – | – | 31,835,763 | 31,835,763 |
| Loans and advances to customers | 549,614 | 13,584,715 | – | 14,134,329 |
| Investments at fair value through profit and loss | 170,000 | 6,274,449 | – | 6,444,449 |
| Investments at fair value through other comprehensive income | – | 61,807,735 | – | 61,807,735 |
| Investment securities at amortized cost | 39,200,317 | 152,590,999 | – | 191,791,316 |
| Property and equipment | 4,421,419 | 38,977,686 | – | 43,399,105 |
| Intangible assets | 159,465 | – | – | 159,465 |
| Other assets | 737,258 | 9,503,617 | – | 10,240,875 |
| **Total Assets** | **160,803,826** | **1,303,599,563** | **32,439,763** | **1,496,843,152** |
| **Liabilities** | | | | |
| Deposits from a central bank | – | – | 80,410,591 | 80,410,591 |
| Deposits from banks and financial institutions | 3,500,575 | – | 8,026,417 | 11,526,992 |
| Deposits from parent, sister and other related banks | – | – | 867,097,359 | 867,097,359 |
| Customers' deposits | 60,389,223 | 232,592,264 | – | 292,981,487 |
| Other liabilities | 3,897,279 | 4,938,686 | – | 8,835,965 |
| Provisions | 7,139,349 | 876,591 | – | 8,015,940 |
| Total Liabilities | 74,926,426 | 238,407,541 | 955,534,367 | 1,268,868,334 |
| Net Assets | **85,877,400** | **1,065,192,022** | **(923,094,604)** | **227,974,818** |

As disclosed in Note 1, the Bank's assets and liabilities in foreign currencies are valued at the official exchange rate, whereas there is high volatility and significant variance in the multiple unofficial exchange rates in the parallel markets that have emerged since the start of the economic crisis and the de-facto capital control on foreign currency withdrawals and transfers overseas, and therefore, management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis. The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the official exchange rate is changed by the relevant authorities.

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

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Doubtful & Substandard | Not Subject to Interest | Less than 1 Month | 1 to 5 Years | Over 5 Years | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Financial Assets** | | | | | | |
| Cash and deposits with central bank | – | 913,127,311 | 9,852,980 | 19,661,457 | 186,808,265 | 1,129,450,013 |
| Deposits with banks and financial institutions | – | 1,522,009 | – | – | – | 1,522,009 |
| Deposits with the parent, sister and other related banks | – | 10,286,734 | 10,552,560 | – | – | 20,839,294 |
| Loans and advances to customers | 11,316,144 | 1,123,433 | – | – | – | 12,439,577 |
| Investments at fair value through profit and loss | – | 2,626,554 | – | – | – | 2,626,554 |
| Investments at fair value through other comprehensive income | – | 71,938,135 | – | – | – | 71,938,135 |
| Investments at amortized cost | 138,690,000 | (58,110,290) | 6,514,007 | 74,545,350 | 30,956,044 | 192,595,111 |
| | **150,006,144** | **942,513,886** | **26,919,547** | **94,206,807** | **217,764,309** | **1,431,410,693** |
| **Financial Liabilities** | | | | | | |
| Deposits from a central bank | – | 4,935,413 | 75,376,005 | – | – | 80,311,418 |
| Deposits from banks and financial institutions | – | 7,545,462 | – | – | – | 7,545,462 |
| Deposits from parent, sister and other related banks | – | 144,325,016 | 702,312,765 | – | – | 846,637,781 |
| Customers' deposits | – | 230,638,554 | 64,671,324 | – | – | 295,309,878 |
| | **–** | **387,444,445** | **842,360,094** | – | **–** | **1,229,804,539** |

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Doubtful & Substandard | Not Subject to Interest | Less than 1 Month | 1 to 5 Years | Over 5 Years | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Financial Assets** | | | | | | |
| Cash and deposits with central bank | – | 762,328,215 | 39,164,736 | 27,063,049 | 182,596,060 | 1,011,152,060 |
| Deposits with banks and financial institutions | – | (372,679) | 126,250,734 | – | – | 125,878,055 |
| Deposits with the parent, sister and other related banks | – | 17,514,233 | 14,321,530 | – | – | 31,835,763 |
| Loans and advances to customers | 12,289,586 | 1,768,339 | 8,500 | 67,904 | – | 14,134,329 |
| Investments at fair value through profit and loss | – | 6,444,449 | – | – | – | 6,444,449 |
| Investments at fair value through other comprehensive income | – | 61,807,735 | – | – | – | 61,807,735 |
| Investment at amortized cost | 138,993,995 | (60,840,992) | 4,324,179 | 67,663,950 | 41,650,184 | 191,791,316 |
| | **151,283,581** | **788,649,300** | **184,069,679** | **94,794,903** | **224,246,244** | **1,443,043,707** |
| **Financial Liabilities** | | | | | | |
| Deposits from a central bank | – | 5,013,846 | 75,396,745 | – | – | 80,410,591 |
| Deposits from banks and financial institutions | – | 4,230,030 | 7,296,962 | – | – | 11,526,992 |
| Deposits from parent, sister and other related banks | – | 89,525,444 | 777,571,915 | – | – | 867,097,359 |
| Customers' deposits | – | 111,139,199 | 162,634,865 | 19,207,423 | – | 292,981,487 |
| | **–** | **209,908,519** | **1,022,900,487** | **19,207,423** | **–** | **1,252,016,429** |

## Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

That being said, Lebanon is facing adverse conditions and high level of uncertainty since October 2019, as a result of deterioration of the economic environment which lead to a severe disruption of normal business operations and the de-facto capital control, leading to incremental credit risks and restricted access to foreign currency among other adverse factors.

The Bank has subsequently met the Central Bank regulatory international liquidity ratio Basic circular 154 requirement by maintaining a 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 July 31, 2020 .

# 32. Capital Management

The Bank manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon, the Bank's lead regulator.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office (in Lebanon) and LBP500million for each local branch and LBP1.5billion on each branch abroad (for Lebanese banks, in addition to the required amount by the related authorities abroad).

The Bank's capital is split as follows:

**Tier I capital:**

Comprises share capital, cash contribution to capital, reserves from appropriation of profits, retained earnings (exclusive of profit for the year) after deductions for intangible assets.

**Tier II capital:**

Comprises 50% of the cumulative change in fair value of Investment securities at fair value through other comprehensive income.

The bank complied with the capital adequacy requirements in current period:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Tier I capital | 188,469,400 | 191,742,345 |
| Tier II capital | 10,580,617 | 12,520,936 |
| **Total regulatory capital** | **199,050,017** | **204,263,281** |
| Credit risk | 846,449,320 | 1,001,674,870 |
| Market risk | 13,685,690 | 23,321,000 |
| Operational risk | 4,061,250 | 32,620,313 |
| **Risk-weighted assets of credit, off balance sheet and operational risks** | **864,196,260** | **1,057,616,183** |
| Regulatory capital ratio | **23.03%** | **19.31%** |
| Tier I capital ratio | **21.81%** | **18.13%** |
| Risk based capital ratio- Tier I and Tier II capital | **21.81%** | **18.13%** |

The minimum capital ratios are as follows:

| | % |
|---|---|
| Common Equity Tier I ratio | 7.0 |
| Tier I ratio | 8.5 |
| **Total Capital ratio** | **10.5** |

Banks are prohibited from distributing any dividends in case their Capital Ratios are below the following:

| | % |
|---|---|
| Common Equity Tier I ratio | 7.0 |
| Tier I ratio | 10.0 |
| **Total Capital ratio** | **12.0** |

Increasing regulatory expected credit losses for all resident financial assets including bank's exposure to Central Bank of Lebanon in foreign currencies.

# 33. Contingent Liabilities

There are some lawsuits filed against the Bank; the Bank's management and legal advisor do not expect to incur material liabilities as result of the disputed claims.
The Bank's social security declarations since September 2020 remain subject to review by the Social Security authorities. Any additional liability depends on the outcome of such review.

As stated in Note 18, the income tax returns for the years 2016 till 2021 are still subject to tax examination and final assessment by the tax authorities.

# 34. Approval of the Financial Statements

The financial statements for the year ended December 31, 2021 were approved by the Board of Directors in its meeting held on October 14, 2022.