2021

AUDIT REPORT

Table Of Contents

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report 5–8

Consolidated Financial Statements:

- Consolidated Income Statement 9-10
- Consolidated Statement of Financial Position 11
- Consolidated Statement of Changes in Equity 12-13
- Consolidated Statement of Cash Flows 14
- Notes to the Consolidated Financial Statements 15-109

CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2021

BDO
SEMAAN, GHOLAM & Co.

DFK FIDUCIAIRE DU MOYEN-ORIENT
A member firm of DFK International

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
IBL Bank S.A.L.
Beirut, Lebanon

Adverse Opinion

We have audited the consolidated financial statements of IBL Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion" section of our report, the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs').

Basis for Adverse Opinion

1. As disclosed in Note 2.1 to the consolidated financial statements, the Group did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies "IAS 29" in the accompanying consolidated financial statements for the year ended 31 December 2021. Had the Group applied the requirements of IAS 29, many elements and disclosures in the accompanying consolidated financial statements, including the comparative financial information for the year ended 31 December 2020, would have been materially different. The effects on the consolidated financial statements arising from this departure have not been determined.
2. The Group translated its monetary assets and liabilities denominated in foreign currencies as well as all transactions in foreign currencies that occurred during the year ended 31 December 2021, using the official published exchange rates as disclosed in Note 1 to the consolidated financial statements. However, during the year, other exchange rates were introduced through legal exchange mechanisms, and several exchange rates became available, depending on the source and nature of the transaction or balance. As per IAS 21 - The Effects of Changes in Foreign Exchange Rates, when several exchange rates are available, the rate to be used is that 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. Due to the uncertainties disclosed in Note 1 to the consolidated financial statements, Management did not use the rate at which the future cash flows could have been settled. Had the Group used the rate at which the future cash flows could have been settled, many accounts and disclosures in the consolidated financial statements would have been materially different. The effects on the consolidated financial statements from the departure of IAS 21 and the uncertainties relating to the appropriate exchange rates have not been determined.
3. As at 31 December 2021, the Group holds balances with the Central Bank of Lebanon amounting to LL 3,753 billion (2020: LL 4,285 billion), balances with banks and financial institutions amounting to LL 18 billion

(2020: LL 32 billion), a portfolio of Lebanese government debt securities and certificates of deposit (under financial assets at amortized cost) totalling to LL 935 billion (2020: LL 1,615 billion), a portfolio of loans to the private sector amounting to LL 318 billion (2020: LL 505 billion), regulatory blocked funds amounting to LL 4,500 million (2020: LL 4,500 million) and refundable tax on interest from the Central Bank of Lebanon amounting to LL 12.6 billion (2020: LL -) concentrated in Lebanon which represent 82.51% of the Group's total assets as at 31 December 2021 (31 December 2020: 87.32%).

As disclosed in Note 1, the accompanying consolidated financial statements do not include adjustments, as required by IFRS 9 – Financial Instruments, to the carrying amounts of above assets and to many related accounts and disclosures that would result from resolution of uncertainties described in Note 1.

Also, as disclosed in Note 37, Management did not produce information about the fair value of these assets and other financial instruments concentrated in Lebanon and these consolidated financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

Had such adjustments and disclosures been determined and made, many elements and related disclosures in the accompanying consolidated financial statements for the years ended 31 December 2021 and 31 December 2020 would have been materially different. The effects of the resolution of these uncertainties on the consolidated financial statements and disclosures have not been determined.

4. Investment securities at fair value through profit or loss are carried in the consolidated statement of financial position at LL 448 billion (2020: LL 348 billion) were stated 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 necessary adjustments at 31 December 2021.
5. Provisions, which are carried in the consolidated statement of financial position at LL 137 billion (2020: LL 89 billion), include a provision for expected credit losses on off-balance commitments of LL 5 billion (2020: LL 10 billion). Management has not stated the allowance for expected credit losses on off-balance commitments by taking 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 necessary adjustments to this amount.
6. The events and conditions and practices that would not qualify as normal course of business in a non-crisis environment described in Note 1 and the matters described in paragraphs 1, 2 and 3 above affect the financial position, liquidity, solvency and profitability of the Group, and expose the Group to increased litigation and regulatory risks. Significant uncertainty exists in relation to the outcome of the litigations and claims raised against the Bank and the negative impact that they may have on the Group's offshore liquidity, foreign assets and foreign currency exposure as disclosed in Notes 1, 38 and 41 A. These events and conditions may cast significant doubt on the Group's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Group's ability to continue as a going concern.

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

Key Audit Matters

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

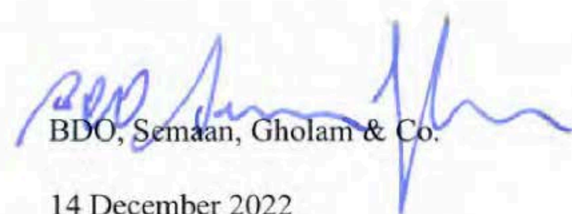
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Other important matters

The financial statements of the Group for the year ended 31 December 2020 were audited by Deloitte & Touche and DFK Fiduciaire du Moyen Orient who expressed an adverse opinion on those statements on 29 December 2021.



BDO, Semaan, Gholam & Co.

14 December 2022
Beirut, Lebanon

DFK Fiduciaire du Moyen Orient

IBL BANK S.A.L.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2021

	Notes	December 31,	
		2021 LL'000	2020 LL'000
Interest and similar income	4	647,983,794	861,427,280
Interest and similar expense	5	(127,405,121)	(369,279,219)
NET INTEREST INCOME		**520,578,673**	**492,148,061**
Fee and commission income	6	29,166,020	8,806,267
Fee and commission expense	6	(7,368,626)	(1,247,747)
NET FEE AND COMMISSION INCOME		**21,797,394**	**7,558,520**
Net trading gain / (loss)	7	157,246,643	(181,841,169)
Net loss from derecognition of financial assets at amortized cost		–	(35,438,757)
Other operating income	8	39,250,670	1,070,581
NET FINANCIAL REVENUES		**738,873,380**	**283,497,236**
Net impairment loss on financial assets	9	(559,151,868)	(253,009,142)
Write-off of loans and advances		(2,169,134)	(436,421)
NET OPERATING INCOME		**177,552,378**	**30,051,673**
Personnel expenses	10	(37,711,180)	(37,805,531)
Other operating expenses	11	(98,836,135)	(58,573,074)
Depreciation of property, equipment and right of use assets	20	(3,507,559)	(3,222,033)
Amortization of intangible assets	21	(224,296)	(277,894)
TOTAL OPERATING EXPENSES		**(140,279,170)**	**(99,878,532)**
Operating profit (loss)		37,273,208	(69,826,859)
Net loss on disposal of fixed assets and other expenses		(288,753)	(2,518,605)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**36,984,455**	**(72,345,464)**
Income tax expense	12	(20,754,410)	(25,344,659)
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**16,230,045**	**(97,690,123)**
DISCONTINUED OPERATIONS			
(Loss) for the year from discontinued operations, net of tax	34	(1,428,020)	(1,796,741)
PROFIT (LOSS) FOR THE YEAR		**14,802,025**	**(99,486,864)**
Other comprehensive income		–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR – PROFIT (LOSS)		**14,802,025**	**(99,486,864)**

IBL BANK S.A.L.

CONSOLIDATED INCOME STATEMENT *(continued)*
For the year ended 31 December 2021

	December 31,	
	2021 LL'000	2020 LL'000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR – PROFIT (LOSS)	14,802,025	(99,486,864)
Attributable to:		
Equity holders of the parent:		
Profit (loss) from continued operations	16,225,771	(97,731,795)
(Loss) from discontinued operations	(1,428,020)	(1,796,741)
Profit (loss) for the year attributable to equity holders of the parent	14,797,751	(99,528,536)
Non-controlling interests		
Profit from continued operations	4,274	41,672
Profit for the year attributable to non-controlling interests	4,274	41,672
	14,802,025	(99,486,864)

THE ACCOMPANYING NOTES 1 TO 44 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2021

	Notes	December 31,	
		2021 LL'000	2020 LL'000
ASSETS			
Cash and balances with Central Bank	13	3,826,471,953	4,337,088,000
Due from banks and financial institutions	14	108,139,272	95,730,172
Loans to banks	15	9,091,897	17,371,603
Loans and advances to customers at amortized cost	16	558,508,230	752,212,011
Loans and advances to related parties at amortized cost	17	7,219,974	7,734,896
Financial assets at fair value through profit or loss	18	447,916,562	348,409,491
Financial assets at amortized cost	19	934,912,199	1,614,504,320
Property, equipment and right-of-use assets	20	65,835,525	67,604,829
Intangible assets	21	526,434	627,345
Assets obtained in settlement of debt	22	53,314,589	53,364,352
Other assets	23	63,659,639	16,497,159
Assets held for sale	34	34,276,104	65,760,564
TOTAL ASSETS		6,109,872,378	7,376,904,742
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Bank	24	153,736,234	188,006,070
Due to banks and financial institutions	25	25,135,191	44,790,826
Customers' deposits at amortised cost	26	4,778,976,896	6,117,984,799
Deposits from related parties at amortised cost	27	102,664,624	156,934,103
Other liabilities	28	62,571,200	83,758,458
Provisions for risks and charges	29	137,237,826	88,686,564
Subordinated bonds	30	220,471,875	65,199,375
Liabilities held for sale	34	34,706,195	51,398,259
TOTAL LIABILITIES		5,515,500,041	6,796,758,454
EQUITY			
Equity attributable to equity holders of the parent:			
Share capital – common shares	31	150,000,000	150,000,000
Share capital – preferred shares	31	5,625,000	5,625,000
Issue premium – common shares	31	6,514,784	6,514,784
Issue premium – preferred shares	31	107,409,375	107,409,375
Non-distributable reserves	32	180,928,204	180,681,349
Retained earnings		100,448,180	200,811,241
Other components of equity	33	26,278,015	26,278,015
Profit (loss) for the year		14,797,751	(99,528,536)
		592,001,309	577,791,228
Non-controlling interest		2,371,028	2,355,060
TOTAL EQUITY		594,372,337	580,146,288
TOTAL LIABILITIES AND EQUITY		6,109,872,378	7,376,904,742

THE ACCOMPANYING NOTES 1 TO 44 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Share capital - common shares	Share capital - preferred shares	Issue premium - common shares	Issue premium - preferred shares	Non-distributable reserves	Retained earnings	Other components of equity	Profit (loss) for the year	Total attributable to the equity holders of the bank	Non - controlling interests	Total
	LL'000	LL'000	LL'000	LL'000	LL'000	LL'000	LL'000	LL'000	LL'000	LL'000	LL'000
Balance at 1 January 2020	150,000,000	5,625,000	6,514,784	107,409,375	180,763,238	380,347,948	19,561,405	(171,837,902)	678,383,848	2,313,388	680,697,236
Appropriation of 2019 losses	–	–	–	–	86,642	(171,924,544)	–	171,837,902	–	–	–
Reserves for assets acquired in settlement of debt	–	–	–	–	–	(6,716,610)	6,716,610	–	–	–	–
Difference on exchange	–	–	–	–	(168,531)	(895,553)	–	–	(1,064,084)	–	(1,064,084)
Comprehensive income for the year 2020 – loss	–	–	–	–	–	–	–	(99,528,536)	(99,528,536)	41,672	(99,486,864)
Balance at 31 December 2020	150,000,000	5,625,000	6,514,784	107,409,375	180,681,349	200,811,241	26,278,015	(99,528,536)	577,791,228	2,355,060	580,146,288
Appropriation of 2020 losses	–	–	–	–	294,898	(99,823,434)	–	99,528,536	–	–	–
Difference on exchange	–	–	–	–	(48,043)	(230,923)	–	–	(278,966)	–	(278,966)
Other movements	–	–	–	–	–	(308,704)	–	–	(308,704)	11,694	(297,010)
Comprehensive income for the year 2021 – profit	–	–	–	–	–	–	–	14,797,751	14,797,751	4,274	14,802,025
Balance at 31 December 2021	150,000,000	5,625,000	6,514,784	107,409,375	180,928,204	100,448,180	26,278,015	14,797,751	592,001,309	2,371,028	594,372,337

THE ACCOMPANYING NOTES 1 TO 44 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 LBP'000	2020 LBP'000
OPERATING ACTIVITIES			
Profit (loss) from continuing operations		16,230,045	(97,690,123)
Loss from discontinued operations		(1,428,020)	(1,796,741)
		14,802,025	(99,486,864)
Adjustments:			
Depreciation and amortization		3,860,578	3,666,226
Adjustment due to change in lease terms		–	180,434
Unrealized loss on investment securities at fair value through profit or loss		28,569,921	11,008,140
Allowance for expected credit loss		558,759,698	253,151,411
Write-off of loans and advances		2,834,431	436,421
Provision for risks and charges		50,561,269	34,518,086
Other adjustments and effect of exchange difference		(1,097,985)	(1,035,093)
Gain on disposal of property and equipment		71,710	17,522
Provision written back		(282,313)	(332,884)
Liabilities no more required		(37,974,048)	–
Write-off of property and equipment		–	898
Interest expense		127,820,182	373,292,258
Interest income		(754,321,277)	(896,268,396)
Income tax expense		20,826,706	25,423,746
		14,430,897	(295,428,095)
Decrease in loans and advances to customers		199,633,537	234,243,442
Decrease in loans and advances to related parties		1,561,985	15,912,372
Decrease in investment securities		130,211,248	682,723,491
Decrease in deposits with Central Bank		577,187,966	783,725,425
(Increase) decrease in due from banks and financial institutions		(19,641,058)	10,400,000
Decrease (increase) in loans to banks and financial institutions		9,000,000	(78,575,578)
Decrease in customer deposits		(1,340,781,094)	(1,488,878,787)
Decrease in related parties' deposits		(54,206,771)	(76,946,561)
Increase in other assets		(46,919,934)	(8,738,014)
Decrease in other liabilities		(4,403,437)	(9,012,654)
Payment of end of services indemnities		(640,253)	(2,476,664)
		(534,566,914)	(233,051,623)
Interest paid		(142,086,497)	(407,810,703)
Interest received		768,770,335	920,018,223
Income tax paid		(346,920)	–
Cash from operating activities		91,770,004	279,155,897
INVESTING ACTIVITIES			
Increase of property and equipment		(1,714,004)	(4,449,887)
Increase of intangible assets		(123,385)	(84,328)
Decrease of assets obtained in settlement of debt		49,763	–
Proceeds from disposal of property and equipment		2,278	20,126
Cash (used in) investing activities		(1,785,348	(4,514,089)
FINANCING ACTIVITIES			
Subordinated bonds issuance		155,272,500	–
Decrease in due to Central Bank		(34,269,836)	(17,147,279)
Cash from (used in) financing activities		121,002,664	(17,147,279)
INCREASE IN CASH AND CASH EQUIVALENTS		210,987,320	257,494,529
CASH AND CASH EQUIVALENTS	35		
At beginning of year		861,867,064	604,372,535
At end of year		1,072,854,384	861,867,064

THE ACCOMPANYING NOTES 1 TO 44 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

1. CORPORATE INFORMATION

IBL Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No 10472 at the commercial registry of Beirut and under No 52 on the banks' list published by the Central Bank of Lebanon.

The Bank's head office is located in Beirut, Lebanon.

The Bank, together with its subsidiaries (collectively "the Group"), provides a full range of banking activities through its head office as well as its branches in Lebanon, Iraq, and Cyprus. The operations of foreign branches are subject to the corresponding country laws and regulations.

The Bank's Board of Directors resolved in their meeting held on 6 July 2020 to close and liquidate all bank branches operating in Baghdad, Basra and Erbil and to withdraw permanently from the Iraqi banking market. The closure and liquidation procedures are in process and still pending certain legal and other formalities.

The Bank's Board of Directors resolved in their meeting held on 24 May 2022 the cessation of activities of Limassol – Cyprus branch and to close it permanently pursuant to the decision of the Central Council of the Central Bank of Lebanon No 172 m.m/3 dated 11 March 2022. The closure and liquidation procedure are in process.

The consolidated financial statements were authorised for issue on 14 December 2022 by the Board of Directors.

The consolidated subsidiaries consist of the following as at 31 December 2021:

Name of Subsidiary	Ownership		Country of incorporation	Business activity
	2021	2020		
Al-Itihadiah Real Estate s.a.l.	99.97%	99.97%	Lebanon	Real estate properties
IBL Holding s.a.l.	99.70%	99.70%	Lebanon	Holding
IBL Brokerage s.a.l.	99.80%	99.80%	Lebanon	Insurance brokerage
IBL Investment Bank s.a.l.	98.00%	98.00%	Lebanon	Investment bank

1.1. Macroeconomic environment

The Group's operations are mostly in Lebanon that has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis, as well as deep recession that have reached unprecedented levels. Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollar-denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and withdrawals of cash to private depositors, all of which added to the disruption of the country's economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt, and unemployment and poverty are rising fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 USD/LL. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Lira, impacting intensely the purchasing power of Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index.

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

a) Subsidised imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 USD/LL (the official exchange rate). During 2021, this subsidy was lifted.
b) Introduced the Platform Rate, currently at 8,000 USD/LL, to be used only in specific circumstances.
c) Subsidised imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate. During 2021, this subsidy was lifted.
d) Introduced exceptional measures for bank depositors to withdraw small amounts of cash in LL from their "local" foreign currency bank accounts at the Platform Rate, but up to limits set by the Bank.

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

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and "local" foreign currency bank accounts (subject to unofficial capital controls), and tossing Lebanon in hyperinflation and major economic collapse.

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

Lebanese Government's Financial Recovery Plan

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

Restructuring of the Banking Sector:

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

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

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

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

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

Alternative Plan submitted by Association of Banks in Lebanon

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

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

The ABL plan envisages a settlement mechanism that would include several features for capitalization and settlement of government debt to BDL.
The ABL approach deploys five strategic priorities allowing a prompt and sustainable economic and financial recovery in the wake of expected IMF (or 'the Fund') Balance of Payments ('BoP') support requested on May 1st by the Government:

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

International Monetary Fund (IMF)

Following the end of the IMF virtual mission from 24 January to 11 February 2022 with the Lebanese authorities on the framework and policies of an economic reform program that can be supported by the Fund, the IMF issued a release on Lebanon, saying that the unprecedented and complex nature of the Lebanese crisis requires a comprehensive economic and financial reform program to stabilize the economy, address deep–seated challenges, and lay the ground for sustainable and strong growth. On 7 April 2022 the IMF concluded a two–

week mission to Beirut with an announcement of a staff level agreement for a US$ 3 billion, 46–month Extended Fund Facility (EFF), this agreement is subject to the approval by IMF management and the Executive Board. Timely implementation of all prior actions and confirmation of international partners financial support is required before formal approval by the Executive Board. Prior actions include:

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

Beirut Port Explosion

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

COVID–19

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

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

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

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

1.2 Regulatory environment

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

- Basic Circular 150 issued on 9 April 2020 and exempting banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020 subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals …)
- Basic Circular 151 issued on 21 April 2020 and concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per the Platform Rate up to limits set by the Bank. The resulting

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

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

be drawn down during 2020 and 2021, but must be rebuilt, progressively, starting 2022, by at least 0.75% each year, to reach the minimum required of 2.5% by end of 2024.

- Preparing and presenting to the Central Bank of Lebanon, a comprehensive plan, for rectifying non–compliances with regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL), as well as other losses or provisions that the Bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non–compliances.
- Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortized over a period of 3 years (2022–2024 by 25% yearly).

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

  Eligible funds will be transferred to a subaccount over which banking secrecy will be lifted vis–à–vis BDL and BCC before being gradually withdrawn and remitted to the customer on a monthly basis. Customers' monthly entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LL equivalent to USD 400 and converted at a rate USD/LL 12,000, noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card.

  The financing of the aforementioned process will be secured equally through (i) BDL reduction of compulsory reserves requirements from 15% to 14% as per BDL Intermediary Circular 586 and (ii) the Bank's offshore liquidity. To that end, the Bank can use its foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition it reconstitutes it by 31 December 2022.
- Basic Circular 159 issued on 17 August 2021 preventing banks from processing foreign currency funds received from customers whether in the form of cash or through offshore transfers at a value other than its face value, with the exception of transactions pertaining to the settlement of loans. It also prevented banks from purchasing foreign currencies at parallel rate with the exception of the purchase foreign currencies duly recorded on the electronic platform and resulting from offshore incoming transfers with the purpose of (i) enhancing liquidity, (ii) engaging in medium or long term investments, (iii) settling international commitments. Finally the circular prevented banks from purchasing bankers' checks and other bank's accounts in foreign currencies whether directly or indirectly.
- Intermediate Circular 600 issued on 3 November 2021 requires banks to record existing and future provisions for expected credit losses in the same currency as the related assets and off–balance sheet exposures. Banks are also required to set in place necessary measures to manage their FX position resulting from provisions recorded in foreign currencies.
- Intermediate Circular 601 issued on 8 December 2021 is an amendment to the provisions of Basic Circular 151. The circular stipulates that the Platform Rate to be applied for withdrawal cash from foreign currencies accounts is LL 8,000 USD/LL up to a maximum limit of USD 3,000 per month.
- Basic Circular 161 issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return banks will provide the total amount to their customers at the same Sayrafa rate against LL at limits set by the bank until 31 July 2022.
- Intermediate Circular 616 issued on 3 March 2022 prohibiting banks from distributing dividends to ordinary shareholders from results of financial years 2019, 2020 and 2021.

1.3 Particular situation of the Group

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

	2021		2020	
	Year–end Rate LBP	Average Rate LBP	Year–end Rate LBP	Average Rate LBP
US Dollar	1507.5	1507.5	1,507.5	1,507.5
Euro	1,701.52	1,786.92	1,851.21	1,724.88
Iraqi Dinar	1.03	1.03	1.03	1.27

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

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

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

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

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment and management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Group uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not represent a reasonable estimate of expected cash flows in Lebanese Lira that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the consolidated financial statements. We are unable to estimate the effects on these consolidated financial statements and these consolidated financial statements do not include adjustments from any future change in the official published exchange rate. The impact of the valuation of the assets and liabilities in foreign currencies at a different rate is expected to be significant and will be recognised in these consolidated financial statements once the revamping of the peg is implemented by the Lebanese government. Foreign currency mismatch is detailed in Note 41 to these consolidated financial statements.

These consolidated financial statements do not include adjustments to the carrying amounts of the Group's assets with the Central Bank of Lebanon, the Parent Bank and the Lebanese Treasury to their recoverable amounts based on International Financial Reporting Standards and an expected credit losses model. The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the Lebanese government and all uncertainties and constraints are resolved and the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon, the Parent Bank and Lebanese government and the recognized loss allowances, as well as their staging are detailed in Note 40 to these consolidated financial statements.

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

Litigations and claims

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the applicable laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case–by–case basis when they occur. The Group has been subject to increased litigations as a result of these restrictive measures adopted by Lebanese banks in relation to withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Lira. Management is carefully considering the impact of these litigations and claims. There are still uncertainties related to the consequences of these restrictive measures based on the current available information and the prevailing laws and local banking practices. However due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, Management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency exposure (refer to Note 33 – Currency Risk). The amount cannot be determined presently.

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

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

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

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

The roadmap was submitted to the Central Bank of Lebanon on 25 February 2021. However, a reasonable and credible roadmap can only be achieved once the many material uncertainties still governing the outlook in Lebanon are resolved and the amount of recapitalisation needs is accurately determinable.

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

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

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Bank for the year ended 31 December 2021 have been prepared on a historical cost basis except for the measurement at fair value of financial assets at fair value through profit or loss.

The consolidated financial statements are presented in Lebanese Lira (LL) which is the Bank's functional currency, and all values are rounded to the nearest LL thousands except when otherwise indicated.

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

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

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

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

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

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

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

ii. Non–monetary items carried at the current value of the end date of the reporting period shall not be restated to be presented in the balance sheet, but the restatement process must be completed in order to determine into the current purchasing power at the end of the reporting period the income derived from such non–monetary items.

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

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

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

As of the date of the accompanying consolidated financial statements, for the reasons described below, Management is temporarily unable to apply the above–mentioned standard nor is it able to quantify the effect that the application of IAS 29 would have on the presented consolidated financial statements.

The Group uses the official exchange rate of 1,507.5 LL/USD to translate balances and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Sayrafa Rate" and the "Platform Rate", the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. The Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official published exchange rate as disclosed in Note 1.3, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the consolidated financial statements.

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

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

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

Statement of compliance

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Presentation of financial statements

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

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

The consolidated financial statements comprise the financial statements of IBL Bank sal and its subsidiaries as at 31 December 2021. Details of the principal subsidiaries are given in Note 1.

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

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

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

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

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

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

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

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

Non–controlling Interests

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non–controlling interests, even if this results in the non–controlling interests having a deficit balance.

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

2.3 New and Amended Standards and Interpretations

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The nature and the impact of each amendment is described below:

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

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

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

These amendments had no impact on the consolidated financial statements of the Group.

Covid–19–Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid–19–Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid–19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid–19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid–19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid–19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid–19–related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

2.4 Standards issued but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2021, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments and interpretations are as follows:

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non–life, direct insurance and re–insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short–duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The amendments are not expected to have a material impact on the Group.

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred consolidatedly.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The amendments are not expected to have a material impact on the Group.

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

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

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss–making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Group.

IFRS 1 First–time Adoption of International Financial Reporting Standards – Subsidiary as a first–time adopter

As part of its 2018–2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First–time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Group.

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non–mandatory guidance on the

application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

2.5 Summary of significant accounting policies

Business Combinations and Goodwill

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

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

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

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

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

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Investments in Associates

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

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

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor separately tested for impairment.

The income statement reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Groups

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Foreign currencies

The consolidated financial statements are presented in Lebanese Lira (LL) which is also the Group's functional currency.

(i) Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction (as disclosed in Note 1).

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange (as disclosed in Note 1) at the date of the statement of financial position. All differences are taken to "net trading (loss) gain" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign

currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non–monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or the income statement are also recognised in other comprehensive income or the income statement, respectively).

(ii) Group Companies

On consolidation, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date (as disclosed in Note 1), and their income statements are translated at the monthly average exchange rates for the year (as disclosed in Note 1). Exchange differences arising on translation are recognised in OCI. On disposal of a foreign entity, the deferred cumulative amount recognised in OCI relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the exchange rate on the reporting date (as disclosed in Note 1).

Financial instruments – initial recognition

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

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

(iii) Day 1 profit or loss

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

Financial assets – classification and measurement

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

(i) The business model within which financial assets are measured; and

(ii) Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI)).

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

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

All other financial assets are classified as measured at fair value through profit or loss.

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

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

Business model

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

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

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

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

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

The SPPI test

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

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

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

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are

solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value though profit and loss.

Financial assets at amortised cost

Balances with Central Bank, Due from banks and financial institutions, Loans and advances to customers and to related parties at amortized cost and Financial assets at amortized cost.

These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these are subsequently measured at amortised cost using the EIR, less expected credit losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net impairment loss on financial assets". Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "Net gain (loss) on derecognition of financial assets at amortised cost" in the consolidated income statement.

Financial assets at fair value through profit or loss

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

Debt instruments at fair value through profit or loss

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

Equity instruments at fair value through profit or loss

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

Financial liabilities (other than financial guarantees, letters of credit and loan commitments) – classification and measurement

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Contingent consideration recognised in a business combination in accordance with IFRS 3.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's Key Management Personnel; or

A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at fair value through profit or loss due to changes in the Group's own credit risk. Such changes in fair value are recognised in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk do not get recycled to the consolidated income statement.

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

Debt issued and other borrowed funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified under "Debt issued and other borrowed funds" where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

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

Due to Central Bank, Banks and financial institutions and Customers' and related parties' deposits

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

Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable,

provided in the case of a non–financial variable that the variable is not specific to a party to the contract (also known as the "underlying").

b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include currency swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in "Net trading (loss) gain" in the consolidated income statement, unless hedge accounting is applied, which is discussed in under "hedge accounting policy" below.

Embedded derivatives

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

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

a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;

b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

c) A consolidated instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

d) The hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

Reclassification of financial assets

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

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

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

Derecognition of financial assets and financial liabilities

Financial assets

(i) Derecognition due to substantial modification of terms and conditions

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

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

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

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

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

ii) Derecognition other than for substantial modification

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

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

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

Financial liabilities

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

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

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding consideration received (cash collateral provided) is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group properly discloses this fact in the notes.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid (cash collateral provided), including accrued interest is recorded in the consolidated statement of financial position within "Loans to banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net trading (loss) gain" in the consolidated income statement.

Impairment of financial assets

(i) Overview of the ECL principles

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

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

(ii) Measurement of ECLs

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

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

The key inputs into the measurements of ECL are:

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

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

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

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

(iii) Credit–impaired financial assets

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

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

(iv) Write offs

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

(v) Collateral repossessed

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

Upon sale of repossessed assets, any gain or loss realised is recognised in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves appropriated for capital increase" in the following financial year.

Fair value measurement

The Group measures financial instruments, such as financial assets at fair value through profit or loss, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

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

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

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

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

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

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

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

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

Management determines the policies and procedures for both recurring and non–recurring fair value measurement.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re–measured or re–assessed as per Group's accounting policies. For this analysis, Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

Hedge accounting

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

Setting the Risk Management Strategy and Objectives

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

The risk management strategy is established at the level of Executive Management and identifies the risks to which the Group is exposed and whether and how the risk management activities should address those risks. The strategy is typically maintained for a relatively long period of time. However, it may include some flexibility to react

to changes in circumstances. The risk management strategy is set out in general documentation and is cascaded down through policies containing more specific guidelines.

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

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

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

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

Hedge ineffectiveness is recognised in the consolidated income statement in "Net trading (loss) gain".

When the Group separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option, it shall account for the time value of the option as follows:

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

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

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

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Group decides to voluntarily discontinue the hedging relationship, the hedge relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Group discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

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

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

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

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

a) If a hedged forecast transaction subsequently results in the recognition of a non–financial asset or non–financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
b) For cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group

expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

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

(iii) Hedge of net investments

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

Leases

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

Group as a lessee

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

(i) Right–of–use assets

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

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

Depreciation charge for right–of–use assets is presented within "depreciation of property, equipment and right–of–use assets" in the consolidated financial statements.

(ii) Lease liabilities

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

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

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

(iii) Short–term leases and leases of low–value assets

The Group applies the short–term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low–value assets recognition exemption to leases that are considered of low value. Lease payments on short–term leases and leases of low–value assets are recognised as expense on a straight–line basis over the lease term. Other rental expenses (including non–lease components paid to landlords) are presented within other operating expenses in the consolidated income statement.

Group as a lessor

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

Revenue recognition

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

(i) Interest and similar income and expense

The effective interest rate (EIR)

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

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

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

Interest income and interest expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit–impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re–estimation of cash flows of floating rate

instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

Presentation
Interest income calculated using the effective interest method presented in the consolidated income statement includes interest on financial assets at amortised cost.

Interest expense presented in the consolidated income statement includes financial liabilities measured at amortised cost.

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

(ii) Fee and commission income

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

Fee Income Earned from Services That Are Provided over a Certain Period of Time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

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

(iii) Dividend income

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

(iv) Net trading (loss) gain

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

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises balances with original maturities of a period of three months or less including cash and balances with Central Bank and due from banks and financial institutions.

Property and equipment

Property and equipment except for buildings acquired prior to 1999, is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Buildings acquired prior to 1999 are stated at their revalued amounts based on market prices prevailing during 1999 less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissionisng of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

	%
• Buildings	2
• Fixtures and installations	20
• Furniture and equipment	8
• Computer equipment	20
• Vehicles	20

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Net gain from disposal of property and equipment" in the year the asset is derecognised.

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

Intangible assets

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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

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

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

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

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

- Computer software 20%

Assets obtained in settlement of debt, assets held for sale and discontinued operations

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

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

Provision for termination indemnity

End of service indemnity subscriptions paid and due to the National Social Security Fund are calculated on the basis of 8.5% of the staff salaries. The final termination indemnities due to employees after completing 20 years of service or at the retirement age or if the employee leaves permanently the employment, are calculated based on the last salary times the number of years of service; the Company is liable to pay to the National Social Security Fund the difference between the subscriptions paid at the rate of 8% and the total indemnity due to employees.

Provisions for risks and charges

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Group determines the level of provision by discounting the expected cash flows at a pre–tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement.

Taxes

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

(i) Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

The income tax rate is 17%.

(ii) Deferred Tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

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

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

Assets under management and assets held in custody and under administration

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

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

Segment reporting
The Group's segmental reporting is based on the following operating segments: corporate and commercial banking, retail and personal banking, treasury and capital markets and group functions and head office.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

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

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

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

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

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

The Group included the renewal period as part of the lease term for leases of head office and branches due to the significance of these assets to its operations. These leases have a short non–cancellable period and there will be a significant negative effect on the Group's operations if a replacement is not readily available.

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

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

Impairment losses on financial assets
The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Elements of the ECL models that are considered accounting judgements and estimates include:

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

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

Determining the number and relative weight of scenarios, the outlook for each type of product market, and the identification of future information relevant to each scenario:
When measuring the expected credit loss, the Group uses reasonable and supported future information based on the assumptions of the future movement of the various economic drivers and the manner in which they affect each other.

Probability of default "PD"
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"
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.

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

Leases – estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right–of–use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity–specific estimates (such as the subsidiary's stand–alone credit rating).

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

4. INTEREST AND SIMILAR INCOME

	31.12.2021 LL'000	31.12.2020 LL'000
Balances with the Central Bank	486,293,774	651,439,208
Due from banks and financial institutions	973,686	7,687,328
Loans to banks	465,545	798,157
Loans and advances to customers at amortized cost	60,092,272	82,957,919
Loans and advances to related parties at amortized cost	17,684	1,515
Financial assets at amortized cost	168,029,169	203,341,548
	715,872,130	**946,225,675**
Tax	(67,888,336)	(84,798,395)
Net interest and similar income	**647,983,794**	**861,427,280**

The components of interest and similar income from financial assets at amortized cost are detailed as follows:

	31.12.2021 LL'000	31.12.2020 LL'000
Certificates of deposit issued by the Central Bank of Lebanon	105,714,509	129,277,801
Lebanese Treasury Bills	62,314,660	74,063,747
	168,029,169	**203,341,548**

5. INTEREST AND SIMILAR EXPENSE

	31.12.2021 LL'000	31.12.2020 LL'000
Due to Central Bank	1,827,751	2,105,470
Due to banks and financial institutions	1,151,739	10,797,820
Customers' deposits at amortized cost	114,710,670	342,782,000
Deposits from related parties at amortized cost	17,331	8,903,442
Subordinated bonds (Note 30)	9,547,500	4,522,500
Lease liabilities (Note 28)	150,130	167,987
	127,405,121	**369,279,219**

6. NET FEE AND COMMISSION INCOME

	31.12.2021 LL'000	31.12.2020 LL'000
Fee and commission income		
Commercial banking income (*)	26,615,497	6,274,791
Trade finance income	1,612,995	1,482,012
Electronic banking	753,778	735,015
Assets management fees	29,509	24,625
Brokerage and custody income	153,887	–
Other fees and commissions	354	289,824
	29,166,020	8,806,267
Fee and commission expense		
Commission for LL banknotes (**)	(865,550)	(531,576)
Commercial banking expenses	(5,942,761)	(212,035)
Brokerage and custody fees	(503,655)	(340,896)
Commission on transactions with related banks	–	106,455
Other fees and commissions	(56,660	(269,695)
	(7,368,626)	(1,247,747)
Net fee and commission income	21,797,394	7,558,520

(*) Commercial banking income includes commission income on foreign exchange transactions amounting to LL'000 19,558,984 in 2021 (2020: LL'000 2,112,453).

(**) In order to service customers' need in LL denominated banknotes during periods of shortage, during 2021, the Bank paid a premium for the supply of LL denominated banknotes amounting to LL'000 865,550 (2020: LL'000 531 576) recorded under commission expense.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

7. NET TRADING GAIN / (LOSS)

	31.12.2021 LL'000	31.12.2020 LL'000
Interest income	37,665,788	29,017,681
Net profit on foreign exchange	152,750,116	13,751,410
Net realized loss	(836,849)	(30,222,608)
Net unrealized loss	(28,569,921)	(9,095,730)
Net loss on reclassification of financial assets from amortized cost to fair value through profit or loss portfolio	–	(184,247,763)
Dividends income	–	390,779
	161,009,134	(180,406,231)
Tax on interest	(3,762,491)	(1,434,938)
	157,246,643	(181,841,169)

8. OTHER OPERATING INCOME

	31.12.2021 LL'000	31.12.2020 LL'000
Liabilities no more required:		
– Income tax	34,966,875	–
– Lump sum tax on turnover	2,055,527	–
– Accrued expenses	951,646	–
	37,974,048	–
Other income	1,276,622	1,070,581
	39,250,670	1,070,581

9. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	31.12.2021 LL'000	31.12.2020 LL'000
Balances with central banks	398,681,013	163,382,458
Due from banks and financial institutions	15,294	(6,821)
Loans to banks	(774,330)	(206,523)
Loans and advances to customers at amortised cost	7,313,337	8,397,029
Loans and advances to related parties at amortised cost	(122,818)	515,218
Financial assets at amortised cost	159,156,334	81,247,511
Financial guarantees and other commitments	(5,116,962)	(319,730)
	559,151,868	**253,009,142**

10. PERSONNEL EXPENSES

	31.12.2021 LL'000	31.12.2020 LL'000
Salaries and related benefits	26,331,904	27,245,104
Attendance and representation fees	2,224,135	2,137,135
Social security contributions	2,775,725	2,954,655
Transportation	1,525,096	870,473
Schooling	1,248,006	1,519,599
End of service benefits (Note 29)	867,569	902,021
Medical expenses	1,747,947	1,125,013
Others	990,798	1,051,531
	37,711,180	**37,805,531**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

11. OTHER OPERATING EXPENSES

	31.12.2021 LL'000	31.12.2020 LL'000
Professional fees	15,228,923	4,554,631
Subscriptions fees	4,478,812	727,566
Post and telephone	2,782,141	936,884
Insurance	3,937,654	398,848
Water and electricity	3,713,929	790,601
Repairs and maintenance	5,947,895	2,319,519
Printing and stationery	1,940,929	819,129
Advertising	2,063,981	1,717,790
Provision for risks (Note 29)	49,693,700	33,720,975
Administrative expenses	3,165,468	1,309,431
Mark-up commission (*)	–	7,230,802
Miscellaneous expenses	5,882,703	4,046,898
	98,836,135	**58,573,074**

(*) In order to build up offshore liquidity, the Group introduced the "multiplier factor" which entails inciting depositors of foreign currency international liquidity, cash deposited or incoming border transfers to convert these funds into local foreign currency deposits after the application of multiplier factors during 2020. Book losses from these transactions amounted to LL'000 7,230,802 and were recorded under other operating expenses.

12. INCOME TAX

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

	31.12.2021 LL'000	31.12.2020 LL'000
Current tax:		
Current income tax	20,634,410	282,503
Built property tax	120,000	120,000
Lump sum tax on turnover	–	24,942,156
	20,754,410	**25,344,659**

Lump sum tax on turnover represents 2% on 2019 turnover as per Article No. 20 of the Budget Law 6/2020.

12. INCOME TAX (continued)

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the calculated amounts are shown in the table below:

	31.12.2021 LL'000	31.12.2020 LL'000
Operating profit (loss) before tax from continuing operations	36,984,455	(72,345,464)
Increase resulting from:		
Non–deductible provisions	596,765,558	209,058,070
Non–deductible expenses	14,507,048	114,542,642
	648,257,061	**251,255,248**
Decrease resulting from:		
4% of the value of the investment Bank's capital as per article 7 of Legislative Decree No 144 dated 12 June 1959	(1,200,000)	(1,200,000)
Provision recoveries previously subject to tax	(37,022,402)	(522,785,667)
Lump sum tax on turnover	–	(24,942,156)
Other deductibles	(1,213,537)	(88,920,934)
	(39,435,939)	**(637,848,757)**
Taxable profit (loss)	608,821,122	(386,593,509)
Reportable losses related to prior years	(486,287,299)	–
Income subject to tax	**122,533,823**	**–**
Income tax	**20,634,410**	**–**

The movement of current tax liabilities during the year is as follows:

	31.12.2021 LL'000	31.12.2020 LL'000
Balance at 1 January	35,313,795	35,036,292
Add/– Charges for the year	20,634,410	282,503
Less/– Tax paid on prior year tax liabilities	(346,920)	–
Less/– Liabilities no more required	(34,966,875)	(5,000)
Balance at 31 December	**20,634,410**	**35,313,795**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

13. CASH AND BALANCES WITH CENTRAL BANK

	31.12.2021 LL'000	31.12.2020 LL'000
Cash on hand	73,095,205	52,333,666
Current accounts	459,223,880	140,184,894
Term accounts	3,719,620,625	4,392,782,619
Accrued interest receivable	74,383,826	119,109,742
	4,253,228,331	**4,652,077,255**
	4,326,323,536	**4,704,410,921**
Expected credit losses	(499,851,583)	(367,322,921)
	3,826,471,953	**4,337,088,000**

During 2019 the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. As at 31 December 2021, time deposits with the Central Bank of Lebanon amounting to LL 1,986 billion (2020: LL 2,845 billion) and term borrowings from the Central Bank of Lebanon are reported on a net basis on the statement of financial position.

As at 31 December 2021, financial assets and financial liabilities that were settled on a net basis amounted to LL'000 996,541 (2020: LL'000 985,998).

Unamortized discounts amounting to LL 17.37 billion as at 31 December 2021 (2020: LL 21.2 billion) represents the surplus of specific swap deals on debt securities, whereby, discounts were deferred as yield enhancement on a time proportionate basis, over the period of the extended maturities.

During the year 2020, discounts of LL 37.4 billion related to placements redeemed before maturity, were reversed and recognized as interest income in the statement of profit or loss and other comprehensive income.

Obligatory reserves

In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon non–interest–bearing placements representing 14% (2020: 15%) of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts with the Central Bank of Lebanon amounted to LL 69 billion and LL 549 billion respectively as at 31 December 2021 (2020: LL 99 billion and LL 710 billion respectively).

14. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	31.12.2021 LL'000	31.12.2020 LL'000
Checks for collection	8,446,518	13,881,689
Current accounts	99,767,442	59,295,377
Term accounts	–	22,612,500
	108,213,960	**95,789,566**
Expected credit losses	(74,688)	(59,394)
	108,139,272	**95,730,172**

15. LOANS TO BANKS

	31.12.2021 LL'000	31.12.2020 LL'000
Loans	9,500,000	18,500,000
Accrued interest	120,495	174,531
	9,620,495	**18,674,531**
Expected credit losses	(528,598)	(1,302,928)
	9,091,897	**17,371,603**

Contractual maturities of loans to banks are as follows:

	31.12.2021		31.12.2020	
	Principal LL'000	Rate %	Principal LL'000	Rate %
1 to 3 months	–	–	–	–
Up to 1 year	4,000,000	2.35 – 4.30	9,000,000	3.10
1–3 years	5,500,000	2.35 – 4.30	8,000,000	3.43
3–5 years	–	–	1,500,000	4.30
	9,500,000		**18,500,000**	

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

16. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	31.12.2021			31.12.2020		
	Gross amount net of unrealized interest LL'000	Expected credit losses LL'000	Carrying amount LL'000	Gross amount net of unrealized interest LL'000	Expected credit losses LL'000	Carrying amount LL'000
Performing Loans – Stage 1 and 2						
Overdraft accounts	73,537,476	(36,012,116)	37,525,360	133,325,053	(41,971,286)	91,353,767
Term loans	525,735,599	(37,649,056)	488,086,543	660,802,269	(25,984,130)	634,818,139
Discounted bills and commercial papers	685,920	(336,672)	349,248	1,811,015	(439,670)	1,371,345
Non–Performing Loans – Stage 3						
Substandard loans	44,095,453	(25,981,316)	18,114,137	42,144,518	(24,734,280)	17,410,238
Doubtful and bad loans	40,209,889	(34,114,924)	6,094,965	42,139,880	(35,141,082)	6,998,798
Accrued interest	8,337,977	–	8,337,977	259,724	–	259,724
	692,602,314	**(134,094,084)**	**558,508,230**	**880,482,459**	**(128,270,448)**	**752,212,011**

Performing term loans, outstanding at year end 2021 and 2020, include an amount of LL 219 billion (LL 219 billion in 2020) related to a non–resident customer which is covered by LL 234 billion (LL 234 billion in 2020) cash collateral. Related interest income and expense amounted to LL 34 billion (LL 33.8 billion in 2020) and LL 28.1 billion (LL 27.9 billion in 2020) respectively.

17. LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	31.12.2021			31.12.2020		
	Gross amount net of unrealized interest LL'000	Expected credit losses LL'000	Carrying amount LL'000	Gross amount net of unrealized interest LL'000	Expected credit losses LL'000	Carrying amount LL'000
Performing Loans – Stage 1 and 2						
Overdraft accounts	4,391,917	(950,421)	3,441,496	4,913,442	(1,165,070)	3,748,372
Term loans	3,142,719	(333,865)	2,808,854	2,391,056	(4,152)	2,386,904
Discounted bills and commercial papers	1,300,058	(333,376)	966,682	2,167,191	(571,258)	1,595,933
Accrued interest	2,942	–	2,942	3,687	–	3,687
	8,837,636	**(1,617,662)**	**7,219,974**	**9,475,376**	**(1,740,480)**	**7,734,896**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2021 LL'000	31.12.2020 LL'000
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	310,942,595	182,929,665
Sovereign Eurobonds	123,710,703	153,165,633
Accrued interest	5,301,046	4,687,609
	439,954,344	340,782,907
Private sector and other securities		
Unquoted equity securities	2,440,450	2,440,450
Quoted equity securities	3,946,614	3,175,555
Mutual funds	1,575,154	2,010,579
	7,962,218	7,626,584
	447,916,562	348,409,491

During prior years, the Bank invested in mutual funds pursuant to the Central Bank circular No. 331, decision No. 6116 dated 7 March 1996. According to this circular, the Bank benefits from facilities granted from the Central Bank of Lebanon to contribute in certain newly established and growing businesses. The notional value of these investments amounted to LL 1,575 million as at 31 December 2021 (2020: LL 2,011 million).

During the year 2020, the Bank reclassified its portfolio of Lebanese Sovereign Eurobonds held at amortized cost amounting to a nominal value of LL 959 billion to investment securities at fair value through profit or loss based on the Bank's business model for managing those assets as a result of the credit deterioration of these debt securities.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

19. FINANCIAL ASSETS AT AMORTIZED COST

	31.12.2021			
	Gross amount LL'000	Expected credit losses LL'000	Accrued interest LL'000	Carrying amount LL'000
Lebanese sovereign and Central Bank of Lebanon				
Certificates of deposit	1,124,782,968	(436,978,615)	15,359,538	703,163,891
Lebanese treasury bills	298,110,257	(78,016,500)	10,229,881	230,323,638
Private sector				
Corporate bonds	1,507,500	(82,830)	–	1,424,670
	1,424,400,725	(515,077,945)	25,589,419	934,912,199

	31.12.2020			
	Gross amount LL'000	Expected credit losses LL'000	Accrued interest LL'000	Carrying amount LL'000
Lebanese sovereign and Central Bank of Lebanon				
Certificates of deposit	1,268,484,504	(87,978,481)	15,862,423	1,196,368,446
Lebanese treasury bills	411,329,761	(1,529,199)	5,320,312	415,120,874
Private sector				
Corporate bonds	3,015,000	–	–	3,015,000
	1,682,829,265	(89,507,680)	21,182,735	1,614,504,320

During 2019 the Bank and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualifies for netting under the requirements of IAS 32. As at 31 December 2021, Lebanese treasury bills amounting to LL 397 billion (same in 2020) and term borrowings from the Central Bank of Lebanon are reported on a net basis on the statement of financial position.

20. PROPERTY, EQUIPMENT AND RIGHT–OF–USE ASSETS

	Buildings LL'000	Furniture and equipment LL'000	Computer hardware LL'000	Vehicles LL'000	Right–of–use assets LL'000	Fixtures and installations LL'000	Work in progress LL'000	Total LL'000
Cost or revaluation								
At 1 January 2021	53,166,519	7,416,927	7,137,113	780,264	3,659,427	31,464,265	7,296,941	110,921,456
Additions	–	176,149	295,159	–	–	1,078,152	56,742	1,606,202
Movements related to discontinued operations	–	(239,648)	(338,015)	(6,511)	(16,226)	(2,306,890)	(32,708)	(2,939,998)
Transfer to assets held for sale	–	(226,689)	(331,314)	(74,020)	(184,443)	(913,561)	(4,700)	(1,734,727)
Tranfers	2,817,783	(4,096)	1,413	–	–	(1,340)	(2,816,438)	(2,678)
Other movement	–	(27,667)	(1,658)	–	(101,359)	(52,518)	(186,280)	(369,482)
At 31 December 2021	55,984,302	7,094,976	6,762,698	699,733	3,357,399	29,268,108	4,313,557	107,480,773
Depreciation:								
At 1 January 2021	3,363,366	5,730,085	6,055,268	778,229	1,736,362	25,398,552	–	43,061,862
Depreciation during the year	510,347	477,387	443,361	1,671	562,748	1,512,045	–	3,507,559
Movements related to discontinued operations	–	(214,752)	(284,699)	(6,511)	(10,818)	(2,301,086)	–	(2,817,866)
Transfer to assets held for sale	–	(222,777)	(277,200)	(74,156)	10,817	(904,997)	–	(1,468,313)
Other movement	(2)	(5,050)	(2,658)	(872)	(629,350)	(62)	–	(637,994)
At 31 December 2021	3,873,711	5,764,893	5,934,072	698,361	1,669,759	23,704,452	–	41,645,248
Net book value:								
At 31 December 2021	52,110,591	1,330,083	828,626	1,372	1,687,640	5,563,656	4,313,557	65,835,525
Net book value:								
At 31 December 2020	49,803,153	1,686,842	1,081,845	2,035	1,923,065	6,065,713	7,296,941	67,859,594

21. INTANGIBLE ASSETS

Software

	2021 LL'000	2020 LL'000
COST		
Balance at 1 January	5,566,961	5,337,120
Additions	123,385	84,328
Movements related to discontinued operations, net	(348,050)	–
Transfer to assets held for sale	(357,137)	–
Transfers	–	200,454
Translation adjustment	–	(54,941)
Balance at 31 December	4,985,159	5,566,961
AMORTIZATION		
Balance at 1 January	4,862,264	4,649,921
Amortization during the year	224,296	259,623
Movements related to discontinued operations, net	(304,702)	–
Transfer to assets held for sale	(323,133)	–
Translation adjustment	–	(47,280)
Balance at 31 December	4,458,725	4,862,264
NET BOOK VALUE		
At 31 December	526,434	704,697

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

22. ASSETS OBTAINED IN SETTLEMENT OF DEBT

The Group occasionally takes possession of assets in settlement of loans and advances. The Group is in the process of selling these assets. Gains or losses on disposal are recognized in the consolidated income statement for the year.

	2021 LL'000	2020 LL'000
COST		
At 1 January	53,595,517	51,004,727
Additions	–	2,857,617
Disposals	(49,763)	(266,827)
Balance at 31 December	53,545,754	53,595,517
IMPAIRMENT		
Impairment	(231,165)	(231,165)
NET BOOK VALUE		
At 31 December	53,314,589	53,364,352

23. OTHER ASSETS

	31.12.2021 LL'000	31.12.2020 LL'000
Electronic cards and regularization accounts	1,069,070	1,991,089
Receivable from central bank of Lebanon (*)	26,733,732	3,600,132
Regulatory blocked funds (**)	4,500,000	4,500,000
Refundable taxes (***)	3,728,309	3,434,652
Refundable tax on interest from the Central Bank of Lebanon (****)	12,626,841	–
Prepaid expenses	3,973,230	1,754,669
Sundry accounts receivables	978,457	1,216,617
Prepaid interest on subordinated bonds issued in 2021 (Note 30)	10,050,000	–
	63,659,639	16,497,159

(*) Receivable from Central Bank of Lebanon represents the foreign exchange position as at 31 December 2021 resulted mainly from the application of Basic Circulars No. 151, 158, 161 and Intermediary Circular No. 535.

(**) Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese treasury upon establishment of investment bank. This deposit is refundable in case of cease of operations according to the provisions of Article 132 of the Code of Money and Credit.

(***) During 2019, the Bank's records were subject to fiscal review by the tax authorities for the years 2013 till 2017 resulting as additional taxes and penalties amounting to LL 3 billion that were paid in 2020 and recorded as receivables from the tax authorities since the Bank objected the tax results in front of the tax authorities. The result of this objection is not yet known.

(****) In 2021, the Bank declared to the fiscal authorities the tax on interest paid on loans granted by the Central Bank of Lebanon to the Bank during the period from March 2018 till March 2021, in application to the provisions of article 51 of law 497/2003 and its amendments and recorded as refundable from the Central Bank of Lebanon.

24. DUE TO CENTRAL BANK

	31.12.2021 LL'000	31.12.2020 LL'000
Central Bank of Lebanon		
Subsidised loans	153,595,536	188,006,070
Other borrowings	140,698	–
	153,736,234	188,006,070

Subsidised Loans

As at 31 December 2021, subsidised loans consist of utilised amounts on facilities granted by the Central Bank of Lebanon for the purpose of lending to customers at subsidised rates in accordance with Decision No. 6116 dated 7 March 1996 and its amendments. Principals are repayable on monthly basis and based on the amounts withdrawn by the customers (2020: the same).

25. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31.12.2021 LL'000	31.12.2020 LL'000
Current accounts	2,110,531	3,878,886
Short term borrowings	22,988,691	40,861,394
Accrued interest	35,969	50,546
	25,135,191	44,790,826

Deposits from banks and financial institutions are segregated between resident and non–resident as follows:

	31.12.2021 LL'000	31.12.2020 LL'000
Resident	615,601	15,754,761
Non–resident	24,519,590	29,036,065
	25,135,191	44,790,826

26. CUSTOMERS' DEPOSITS AT AMORTIZED COST

	31.12.2021 LL'000	31.12.2020 LL'000
Sight deposits	1,637,191,913	1,099,305,748
Time deposits and saving accounts	2,844,216,531	4,686,833,446
Cash collateral and margins	272,514,944	286,673,935
Other deposits	14,623,977	20,839,254
	4,768,547,365	6,093,652,383
Accrued interest payable	10,429,531	24,332,416
	4,778,976,896	6,117,984,799

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

27. DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	31.12.2021 LL'000	31.12.2020 LL'000
Sight deposits	29,494,413	16,085,604
Time deposits and saving accounts	73,104,972	116,077,620
Cash collateral and margins	6,362	24,553,133
Accrued interest payable	58,877	217,746
	102,664,624	156,934,103

28. OTHER LIABILITIES

	31.12.2021 LL'000	31.12.2020 LL'000
Accrued expenses	18,008,929	6,365,947
Operational taxes	2,421,540	5,578,139
Social Security dues	237,126	262,990
Property building tax	411,711	291,711
Current tax liabilities (Note 12)	20,634,410	35,313,795
Lumpsum tax on turnover (Note 12)	–	24,942,156
Lease liabilities	1,834,134	1,904,035
Payable to the National Institute for the Guarantee of Deposits	6,593,500	3,555,500
Miscellaneous suppliers and other payables	12,429,850	5,544,185
	62,571,200	83,758,458

Lease liabilities

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

	2021 LL'000	2020 LL'000
Balance at 1 January	1,904,035	3,549,342
Termination	–	(1,104,663)
Interest expense (Note 5)	150,130	167,987
Paid during the year	(220,031)	(708,631)
Balance at 31 December	1,834,134	1,904,035

29. PROVISIONS FOR RISKS AND CHARGES

	31.12.2021 LL'000	31.12.2020 LL'000
Provision for risks and charges (a)	77,401,066	35,349,042
Provision for foreign currency fluctuations (b)	42,459,001	30,787,801
Employees' end of service benefits (c)	12,042,397	12,097,394
Provision for expected credit losses on off–balance commitments (Note 40)	5,335,362	10,452,327
	137,237,826	**88,686,564**

(a) Provision for risks and charges

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

	2021 LL'000	2020 LL'000
Balance at 1 January	35,349,042	26,099,300
Add/ –		
– Allowance for the year	38,022,500	9,690,174
– Transfers	4,786,058	–
	78,157,600	**35,789,474**
Less/– Other movements	(756,534)	(440,432)
Balance at 31 December	**77,401,066**	**35,349,042**

This provision has been set up to cover any contingent liabilities that may arise from the Group's activities.

(b) Provision for foreign currency fluctuations

The movement of provision for foreign currency fluctuations is as follows:

	2021 LL'000	2020 LL'000
Balance at 1 January	30,787,801	6,757,000
Add/ – Allowance for the year	11,671,200	24,030,801
Balance at 31 December	**42,459,001**	**30,787,801**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

(c) Employees' end of service benefits

The movement of provision for employees' end of service benefits during the year was as follows:

	2021 LL'000	2020 LL'000
Balance at 1 January	12,097,394	14,004,921
Add/–		
Allowance for the year	867,569	902,021
	12,964,963	**14,906,942**
Less/–		
– Payments during the year	(640,253)	(2,476,664)
– Provision no more required	(282,313)	(332,884)
	(922,566)	**(2,809,548)**
Balance at 31 December	**12,042,397**	**12,097,394**

30. SUBORDINATED BONDS

	31.12.2021 LL'000	31.12.2020 LL'000
USD 40,000,000 due 10 December 2025	60,300,000	60,300,000
USD 100,000,000 due 15 January 2028	150,750,000	–
Accrued interest	9,421,875	4,899,375
	220,471,875	**65,199,375**

USD 40,000,000 due 10 December 2025– 7.5%

The Extraordinary General Assembly of shareholders held on 24 August 2015, authorize the issuance of non–convertible, non–callable, cumulative subordinated bonds in the amount of USD.40 million comprising 400,000 bonds issued in denominations of USD.100 each. These bonds were issued on 10 December 2015 and mature on 10 December 2025 and are subject to an annual interest rate of 7.5% per annum subject to certain terms and conditions.

Repayment: Unless previously accelerated (any such acceleration being subject to the prior approval of the Central Bank of Lebanon), the bonds will be paid at their principal amount together with accrued but unpaid interest (if any) on the tenth anniversary of the issuance of the bonds.

USD 100,000,000 due 15 January 2028– 3% – 5%

The Extraordinary General Assembly of shareholders held on 30 December 2020, authorize the issuance of non–convertible, callable, cumulative subordinated bonds in the amount of USD.100 million comprising 1,000,000 bonds issued in denomination of USD.100 each. These bonds were issued on 15 January 2021 and mature on 15 January 2028 and are subject to an annual interest rate of 5.00% per annum for the first two interest periods which was paid in advance in 2021 and 3.00% per annum for the remaining five interest periods subject to certain terms and conditions.

Call option: Subject to compliance with any and all then applicable regulations and financial ratios of the Central Bank and the Banking Control Commission, including (i) verification of such compliance by the Banking Control Commission and (ii) the approval of the Central Bank in accordance with the provisions of Article 5, sub–article

5, of Central Bank Basic Circular 44, the Bank may, at its option, redeem and cancel the Bonds then outstanding in whole, but not in part, at any time following the date that is the fifth anniversary of the issue date, upon giving notice to the bondholders, at the principal amount thereof, together with accrued and unpaid interest to the date fixed for prepayment and any additional amounts in respect thereof.

Repayment: Unless previously accelerated (any such acceleration being subject to the prior approval of the Central Bank of Lebanon, or redeemed, as provided in call option), the bonds will be paid at their principal amount together with accrued but unpaid interest (if any) on the seventh anniversary of the issue date of the bonds.

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purpose of computation of Risk Based Capital Ratio to be decreased by 20% in a yearly basis.

Interest expense on subordinated bonds in 2021 amounted to LL 9.55 billion (2020: LL 4.5 billion) and recorded under "Interest expense" in the statement of profit or loss and other comprehensive income.

31. SHARE CAPITAL

The share capital of IBL Bank s.a.l. as at 31 December is as follows:

	31.12.2021			31.12.2020		
	Number of shares	Share capital LL'000	Issue premium LL'000	Number of shares	Share capital LL'000	Issue premium LL'000
Common shares	20,000,000	150,000,000	6,514,784	20,000,000	150,000,000	6,514,784
Preferred shares series "3"	750,000	5,625,000	107,409,375	750,000	5,625,000	107,409,375
	20,750,000	**155,625,000**	**113,924,159**	**20,750,000**	**155,625,000**	**113,924,159**

To meet the requirements of the Central Bank of Lebanon towards increasing its regulatory capital by 20%, the Bank issued in 2021 subordinated bonds amounting to USD 100,000,000 due on 15 January 2028 (note 30).

The Bank hedged part of its capital against fluctuations in the Lebanese currency through a fixed currency position of USD 6,300,000.

Preferred shares

Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 September 2016 the Bank issued series "3" preferred shares under the following terms:

– Number of shares:	750,000.
– Share's issue price:	USD 100.
– Share's nominal value:	LL 7,500.
– Issue premium:	Calculated in USD as the difference between USD 100 and the countervalue of the par value per share based on the exchange rate at the underwriting dates.
– Benefits:	Annual fixed amount of USD 7.5 representing a dividend yield of 7.5 percent.

The Extraordinary General Assembly of shareholders held on 31 October 2016 validated and ratified the capital increases according to the aforementioned terms for preferred shares series "3".

Paid dividends

In accordance with the Central Bank of Lebanon Intermediate Circulars No 567 and 616, no dividends were distributed.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

32. NON–DISTRIBUTABLE RESERVES

	31.12.2021 LL'000	31.12.2020 LL'000
Legal reserve (a)	94,507,382	94,260,547
Non–distributable reserves (b)	80,657,822	80,657,802
Other reserves	5,763,000	5,763,000
	180,928,204	**180,681,349**
Balance at 1 January	94,260,547	94,342,436
Add/– Appropriation to legal reserve	294,898	86,642
Less/– Difference of exchange	(48,063)	(168,531)
Balance at 31 December	**94,507,382**	**94,260,547**

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

(b) In compliance with article 16 of the basic circular no. 143 issued by the Central Bank of Lebanon, the Bank transferred in prior years the reserve for general banking risk and the general reserve for performing loans to a non–distributable reserve accounts.

33. OTHER COMPONENTS OF EQUITY

	31.12.2021 LL'000	31.12.2020 LL'000
Real estate revaluation reserve	2,752,680	2,752,680
Reserve for foreclosed assets	23,525,335	23,525,335
	26,278,015	**26,278,015**

Reserve for foreclosed assets

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

34. ASSETS AND LIABILITIES HELD FOR SALE AND NET LOSS FROM DISCONTINUED OPERATIONS

The Bank is in the process of liquidating its banking operations in Cyprus and Iraq.

The Bank represents the statement of financial position and the statement of comprehensive income items for these discontinued operations as follows:

	31.12.2021		31.12.2020	
	Cyprus LL'000	Iraq LL'000	Cyprus LL'000	Iraq LL'000
Assets				
Cash and balances with Central Bank	32,316,610	939,707	54,353,397	2,896,148
Due from banks and financial institutions	42,929	–	47,365	6,762
Loans and advances to customers at amortized cost	–	3	2,477	7,010,233
Property, equipment and right–of–use assets	57,233	13,918	160,362	94,403
Intangible assets	34,004	–	54,111	23,241
Other assets	58,540	813,160	88,309	1,023,756
Total assets	32,509,316	1,766,788	54,706,021	11,054,543
Liabilities				
Customers' deposits at amortised cost	32,840,103	57,633	45,549,869	3,545,045
Deposits from related parties at amortised cost	941,180	–	876,837	1,635
Other liabilities	618,736	248,543	458,700	291,523
Provisions for risks and charges	–	–	–	674,650
Total liabilities	34,400,019	306,176	46,885,406	4,512,853
Net assets (liabilities) classified as held for sale	(1,890,703)	1,460,612	7,820,615	6,541,690

The disposal groups above meet the requirements for presentation as a discontinued operation. As such, the results, which have been presented as the loss after tax in respect of the discontinued operation related to Cyprus and Iraq, are analysed in the income statement below.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

34. ASSETS AND LIABILITIES HELD FOR SALE AND NET LOSS FROM DISCONTINUED OPERATIONS (continued)

	2021		2020	
	Cyprus LL'000	Iraq LL'000	Cyprus LL'000	Iraq LL'000
Interest and similar income	25	783,336	36,516	816,111
Interest and similar expense	(839,634)	424,573	(4,101,000)	87,961
NET INTEREST INCOME (EXPENSE)	(839,609)	1,207,909	(4,064,484)	904,072
Fee and commission income	57,091	37,542	64,316	1,130,873
Fee and commission expense	(212,311)	(2,745)	(295,452)	(79,057)
NET FEE AND COMMISSION INCOME (EXPENSE)	(155,220)	34,797	(231,136)	1,051,816
Net trading gain	–	–	4,704,042	–
Other operating income	166,747	80,405	44,364	119,954
NET FINANCIAL REVENUES (EXPENSE)	(828,082)	1,323,111	452,786	2,075,842
Net impairment gain (loss) on financial assets	(41,123)	433,293	(92,863)	(49,406)
Write–off of loans and advances	–	(665,298)	–	–
NET OPERATING INCOME (LOSS)	(869,205)	1,091,106	359,923	2,026,436
Personnel expenses	(331,868)	(192,369)	(481,730)	(761,272)
Other operating expenses	(351,413)	(573,242)	(405,454)	(2,289,258)
Depreciation of property, equipment and right–of–use assets	(108,332)	(20,391)	(119,100)	(47,199)
(LOSS) PROFIT BEFORE TAX	(1,660,818)	305,104	(646,361)	(1,071,293)
Income tax expense	–	(72,306)	(11,107)	(67,980)
(LOSS) PROFIT FOR THE YEAR	(1,660,818)	232,798	(657,468)	(1,139,273)

35. CASH AND CASH EQUIVALENTS

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

	31.12.2021 LL'000	31.12.2020 LL'000
Cash and balances with Central Bank	964,597,356	766,037,189
Due from banks and financial institutions	108,257,028	95,829,875
	1,072,854,384	861,867,064

36. RELATED PARTY TRANSACTIONS

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

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

Balances and transactions with related parties as at and for the year ended 31 December 2021 and 2020 are as follows:

	31.12.2021 LL'000	31.12.2020 LL'000
Loans and advances	7,219,974	7,734,896
Deposits	102,664,624	156,934,103
Interest income	17,684	1,515
Interest expense	17,331	8,903,442
Attendance fees	2,197,000	2,110,000

The executive management remuneration amounted to LL 7.1 billion in 2021 (2020: 8.8 billion).

Two board members were granted an amount of LL 131 million in 2021 (2020: LL 177 million) for consultancy services.

Professional fees include an amount of LL 663 million paid to related parties in 2021 (2020: LL 665 million).

Indirect facilities

	31.12.2021 LL'000	31.12.2020 LL'000
Letters of guarantee	46,105	46,105

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs).

Effects of Exchange Rates on the Fair Value Measurements:

The fair value disclosures for other assets and liabilities are first determined in their original currency, which is not the Lebanese Lira in the case of most of the assets and liabilities reported below. These are then translated to Lebanese Lira at the official published exchange rate as discussed in Note 1.3. However, in light of the high deviation between the parallel market rate, the Sayrafa rates and the official published exchange rates, Management estimates that the amounts reported in this note in LL do not reflect a reasonable estimate of expected cash flows in Lebanese Lira that would have to be generated from the realisation of such assets or the payment of such liabilities at the date of the financial statements and Management is unable to estimate the effects on the fair value measurement. This matter should be taken into consideration when interpreting the fair value disclosures in this note, especially those under Level 1 and Level 2.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

The following table shows an analysis of asset classes carried at fair value by level of the fair value hierarchy:

	2021			
		Valuation techniques		
	Quoted market price Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total
	LL million	LL million	LL million	LL million
Financial assets at fair value through profit or loss: Lebanese sovereign and Central Bank of Lebanon				
Certificates of deposits	–	–	316,244	316,244
Eurobonds	123,711	–	–	123,711
Private sector and other securities:				
Equity instruments	3,947	–	2,440	6,387
Mutual funds	–	–	1,575	1,575

	2020			
		Valuation techniques		
	Quoted market price Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total
	LL million	LL million	LL million	LL million
Financial assets at fair value through profit or loss: Lebanese sovereign and Central Bank of Lebanon				
Certificates of deposits	–	–	194,270	194,270
Eurobonds	146,513	–	–	146,513
Private sector and other securities:				
Equity instruments	3,176	–	2,440	5,616
Mutual funds	–	–	2,011	2,011

There were no transfers between levels during 2021 (2020: the same).

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

Funds and Equity shares of non–listed entities

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

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Equity shares of non–listed entities comprise mainly the Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value.

The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value. Classification between level 2 and level 3 is based on the financial statements of the investee are recent and published or not. These instruments are fair valued using third–party information (NAV or financial statements of non–listed entities), without adjustment. Accordingly, quantitative information about significant unobservable inputs and sensitivity analysis cannot be developed by the Group in accordance with IFRS 13.93 (d).

Comparison of carrying and fair values for financial assets and liabilities not held at fair value

Financial assets and liabilities concentrated in Lebanon

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

Financial assets and liabilities not concentrated in Lebanon

These are not significant to the Bank's consolidated financial statements.

38. CONTINGENT LIABILITIES AND COMMITMENTS

Credit–related commitments and contingent liabilities

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

	31.12.2021	31.12.2020
	LL'000	LL'000
Guarantees and contingent liabilities	32,815,558	75,782,599

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

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

Derivative financial instruments

The Group enters into derivatives for trading and for risk management purposes. The notional amount, recorded gross, is the quantity of the derivative contracts' underlying instrument (being an equity instrument, commodity product, reference rate or index, etc.). The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market risk or credit risk.

Forwards and futures

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

	31.12.2021	31.12.2020
	LL'000	LL'000
Forward foreign exchange contracts	12,421,096	43,065,367

Legal claims

Litigation risk arises from pending or potential legal proceedings against the Group and in the event that legal issues are not properly dealt with by the Group. Litigation that may arise, whether from lawsuits or from arbitration proceedings, may affect the operations of the Group as well as its results.

Since 17 October 2019 and as a result of the de–facto capital control and other measures adopted by the Lebanese banks imposing various restrictions of free flow of customers' funds deposited with the banking sector, the Group has been subject to an increased litigation risk. Management is monitoring and assessing the impact of existing and/or potential litigation and claims against the Group in relation to these restrictive measures taking into consideration prevailing laws, regulations and local banking practices. Although there are uncertainties with respect to outcomes of any litigation in connection with the adoption of the various restrictive measures, management considers that any associated claims are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group.

Contingent liability

The Bank and two other third parties are respondents in an arbitration case filed by a non–resident company in front of the Lebanese Arbitration and Mediation Center (LAMC) since June 2018 in connection with a credit facility granted by the Bank to a non–resident customer. On 24 September 2021, the Arbitral Tribunal issued a decision providing that the Bank, in addition to the other respondents, committed dol inducing the claimant to enter into a subordination agreement related to the credit facility, that was declared null and void by the tribunal. However, the tribunal did not award the claimant damages to be paid by the respondents, including the Bank, other than the arbitral costs of approximately USD 2.5 million which are jointly and severally due by all the three respondents. The claimant announced that it will reserve its right to claim for damages against all respondents, including the Bank, on the basis of their participation in the deception of the claimant.

The Bank has filed a set–aside motion before the Court of Appeal of Beirut to have the award issued in the context of the arbitration case set–aside based on the following grounds (i) discovery process by virtue of which claimant obtained relevant information on client's deposit at IBL Bank s.a.l. violates public policies applicable in Lebanon, (ii) breach of the banking secrecy law, which also constitute a violation of Lebanese public policy, (iii) designated arbitrator did not fully disclose its involvement and business relation with one of the ultimate shareholders of the claimant.

On 13 December 2021, the non–resident Company referred to above commenced a second arbitral proceeding in front of the LAMC against the Bank seeking a minimum of US$ 97 million on alleged damages in connection with the subordination agreement.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

The Bank filed a stay application pending the decision on the set aside motion, and further filed a request for joinder aimed at adding two other third parties to the arbitration process.

The decision on the stay application and the request for joinder is still pending before the Arbitral Tribunal.

On 10 March 2022, the Beirut Executive Bureau (BEB) issued a conservatory attachment in an amount of US$3.12 million approximately pursuant to a final award issued by the LAMC. The order placed a conservatory attachment on several properties, financial assets and shareholdings of the Bank.

On 29 April 2022, the Bank filed a request for lifting the conservatory attachment against the submission of a bank guarantee.

A hearing was set by the BEB on 20 September 2022, which did not take place due to the ongoing strike of the judiciary.

On 14 December 2021, the non–resident company referred to above filed a sealed petition in the US District Court for the Southern District of New York (the district court) requesting that the district court (1) confirm the US$ 3 million costs–award from the First Arbitration, and (2) issue an order attaching "up.....to US$ 100 million" held in the Bank's accounts with US banks in anticipation of potential damages award in the Second Arbitration.

Following the Bank filing to vacate the attachment, the district court granted that motion on 16 March 2022, and issued an order which vacated any attachment on the Bank US correspondents exceeding US$ 3 million.

On 8 April 2022, the district court issued an order confirming the costs–award from the First Arbitration, and on 15 April 2022, issued a judgment requiring the Bank to pay the non–resident company an amount of US$ 2.9 approximately.

The non–resident company appealed the district court 16 March 2022 order to the US Court of Appeals for the Second Circuit ("Court of Appeals"). In a decision dated 5 August 2022, the Court of Appeals vacated the district court's order, and remanded the case back to the district court.

The parties filed opening briefs on 7 October 2022 and response briefs on 28 October 2022.

The Bank appealed the Judgment confirming the costs–award to the Court of Appeals.

No ruling has been issued until the date of issuance of these financial statements.

The legal Counsel of the Bank in the US do not express at this time an opinion on the eventual outcome and on the amount or range of any such potential loss that would be incurred by the Bank.

The legal Counsel of the Bank in Lebanon is of the opinion that the BEB will lift the conservatory attachment in reliance upon:

a) The supersedeas bond being accepted by the court in the US; and/or
b) The submission by the Bank of the bank guarantee before the BEB; and/or
c) The general principle of no double recovery.

Other contingencies

Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Group's books remain subject to the review of the tax authorities for the years 2018 till 2021 and the review of the National Social Security Fund (NSSF) since inception till 2021. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

39. RISK MANAGEMENT

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

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

Risks are managed through a process of ongoing identification, measurement, monitoring, mitigation and control, and reporting to relevant stakeholders. The Group ensures that risks and rewards are properly balanced and in line with the risk appetite framework, which is approved by the Board of Directors.

The credit Committee, Assets and Liabilities Committee work under the mandate of the board to set up risk limits and manage the overall risk in the Group. Risk Committee was established whose role is to supervise the proper implementation of risk management procedures at the Group and all its branches abroad, in compliance with regulations issued or will be issued by the Central Bank of Lebanon and Banking Control Commission.

40. CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its obligors or counterparties fail to meet their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off–balance sheet exposures including bank placements, loans and advances, credit commitments, financial guarantees and investments in debt securities (including sovereign).

40.1 Credit risk management

Credit risk appetite and limits are set at the Group level by the Board and are cascaded to entities. The Group manages and controls credit risk by setting concentration limits on counterparties, geographies and sectors. It also monitors on a regular basis the risk profile in relation to these limits.

Credit risk is monitored by the Credit Review and Credit Risk functions in each entity, which are independent from business lines. These functions ensure a proper coverage of credit risk though the implementation of various processes, including but not limited to: i) providing independent opinions on credit files, ii) reviewing and approving obligors risk ratings assignments, iii) conducting portfolio reviews, iv) ensuring compliance with the Group's credit policy and limits, and v) aggregating data and reporting the credit risk profile to relevant stakeholders.

The Group has established various credit monitoring processes for the early detection of changes in borrowers' credit quality and accordingly, and the design of effective remedial measures. These processes include regular loan portfolio reviews, IFRS 9 Impairment Committee meetings, as well as individual credit assessments of borrowers with their corresponding facilities. The latter process is mainly applicable for non–retail obligors.

The Group has also established an approval limit structure for granting and renewing credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to their own assigned limits.

Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Since October 2019 events, the challenging economic situation in Lebanon has been exerting significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types. In order to address this challenging operating condition, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing the loan portfolio, ii) increasing collection capacity across various business lines, iii) increasing specific and collective provision coverages, and iv) setting up an independent, centralised and specialised remedial function to proactively manage problematic borrowers.

40.2 Expected Credit Losses

40.2.1 Governance and oversight of expected credit losses

The IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the implementation of the Excepted Credit Loss (ECL) framework. This is being done by: i) approving the IFRS–9 Impairment Policy; ii) reviewing key assumptions and estimations that are part of the ECL framework; iii) approving the forward–looking economic scenarios; iv) approving staging classifications on a name–by–name basis for material exposures; and v) reviewing ECL results.

The Group reviews its IFRS–9 Impairment Policy on, at minimum, annual basis and amends it accordingly to reflect any change in the estimation methodology, embedded assumptions or regulatory requirements.

Key judgments inherent in this policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data–driven methodologies.

ECL is estimated using a model that takes into account the borrower's exposure, internal obligor risk rating, facility characteristics, and collateral information among other. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and so they may be subject to errors affecting the accuracy of their outputs. To manage the model risks, the Group has established a systematic approach for the development, validation, approval, implementation and on–going use of the models. Models are validated by a qualified independent party to the model development function, before first use and at regular intervals thereafter.

Each model is designated an owner who is responsible for: i) monitoring the performance of the model, which includes comparing estimated ECL versus actual realised losses; and ii) proposing post–model development adjustments to enhance model's accuracy or to account for situations where known or expected risk factors and information have not been considered in the modelling process. Models used in the estimation of ECL, including key inputs, are governed by a series of internal controls which include the validation of completeness and accuracy of data, reconciliation with finance data, and documentation of the calculation steps.

ECL estimation takes into account a range of future economic scenarios which are set by economists within the Group's Research Department using independent models and expert judgment. Forward–looking economic scenarios, with their corresponding probabilities of occurrence, are updated annually or more frequently in the event of a significant change in the prevailing economic conditions.

40.2.2 Definition of default and cure

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay his credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).
- The borrower is more than 90 days past due on any material credit obligation to the Group.

As part of the qualitative assessment process of default identification, the Group carefully considers other criteria than the ones listed above in order to determine if an exposure should be classified in Stage 3 for ECL calculation purpose or if a Stage 2 classification is deemed more appropriate.

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

In response to the COVID–19 global pandemic, governments and regulators around the world have introduced a number of support measures for both retail and non–retail customers under system–wide programs. In Lebanon, the Central Bank of Lebanon issued Intermediary Circular 567 dated 26 August 2020 (which was later extended till end of 2021 as per Intermediary Circular 594 dated 2 September 2021), by which it required banks operating in Lebanon to keep the regulatory classification unchanged for obligors that were negatively impacted by this pandemic and not to consider their past–dues, when existing, as evidence of SICR. However, under exceptional circumstances and in case an obligor ceases to be operating under a going concern basis, banks should immediately downgrade the borrower's classification to Stage 3.

40.2.3 Loss given default

LGD is the magnitude of the likely loss in the event of a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties that were fully settled, as well as on the potential future recoveries on defaulted counterparties that still have outstanding balances. LGD estimation is dependent on the counterparty and collateral type, as well as recovery costs. For portfolios with limited historical data, external benchmark information is used to supplement available internal data.

40.2.4 Exposure at default

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

40.2.5 Netting agreement

The Group sometimes further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group makes use of master netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although, these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they, nevertheless, reduce the Group's exposure to credit risk, as shown in the tables on the following pages. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit is eliminated only to the extent of amounts due to the same counterparty.

40.2.6 Significant increase in credit risk

The Group monitors all financial assets that are subject to 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 Group will measure the loss allowance based on lifetime rather than 12–month ECL.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categories exposures according to their degree of risk of default. The Group's credit risk grading framework comprises ten categories.

The S&P module is used by the Group to compute the probability of Default (PD) and the Loss Given Default (LGD) of corporate portfolio.

In order to calculate the PD, the S&P module will estimate the likelihood that a borrower will be unable to meet his debt obligations based on the following criteria:

- Country risk: the country in which the client operates along with the percentage of EBIDTA or sales turnover generated from each country (if the client operates in multiple regions).
- Industry: the industry nature and the percentage of EBITDA or sales turnover generated from each industry the client operates in (if the client operates in multiple sectors).
- Competitive advantage
- Diversification
- Operating efficiency
- Financial risk based on 1 year financials or on 3 or 5 year average financial figures. The main financial ratios to be considered are: FFO to Debt, Debt to EBITDA, EBITDA Interest coverage. Total Debt to Total Liabilities (Debt + Equity), FFO, Debt, EBITDA, Total Equity, Revenues.

The resulting PD will be subject to a list of modifiers which are a list of questions to which the credit officer will answer and will grant the client a grade. These questions are related to the client's portfolio diversification, to his capital structure, to his financial and liquidity policy, to his risk management and financial management, to his organizational effectiveness and finally to his governance policy.

To get the final rating, the module adds the effect of sovereign currency rating as well as the sensitivity of the client to the country risk in addition to the impact of the any support whether coming from a guarantor, a government related entity or a holding company.

As for the LGD, the module allows to estimate a percentage representing the share of the Group's loss on a defaulting loan prior to its default based on the following measures:

- The economic sector to which the client belongs in addition to the percentage of revenues generated from each economic sector in which the client operates.
- The country in which the client operates in addition to the percentage of revenues generated from each country region.
- The earning measure estimates the current economic value of the obligor based on his total adjusted assets. The Group defines this as simply total reported assets less intangibles and goodwill.
- Adjusted Total Assets =Total Assets – (Intangibles + Goodwill).

LGD estimates under three distinct scenarios, reflecting expectations of general economic conditions:

Positive: The organization has positive economic expectations over the short–term (1 to 3 years) for the country/ region to which the corporate is exposed.

Neutral: This selection is appropriate in cases where the expectations are of little or no GDP growth. Stagnating growth in other relevant factors are also expected. This phase is typically between a trough and peak of a credit cycle.

Negative: This selection signals the expectation of an impending economic downturn.

After determining the client's economic value, the calculation will follow a waterfall approach deducting from this economic value the debt and other liabilities (i.e. debt granted at other banks, recovery cost) and adding the collaterals and recovery enhancements.

All these criteria combined will allow the module to generate the percentage of loss on a facility.

Usage of PD and LGD

As a first step, the PD will allow us to classify the commercial loans portfolio into 3 stages based on the following:

IFRS 9 Stages	PD/Rating Brackets	BCC Internal Rating		Past due in Days	BDL Classification
Stage 1	0 ≤ PD ≤ 4.29 AAA < Rating < B	1	Excellent	Less Than 30 days	1–Current
	4.30 ≤ PD ≤ 8.48 Rating = B–	2	Strong		
	8.49 ≤ PD ≤ 12.79 Rating = CCC	3	Good	Between 31 and 60 days	2–Watch List
	12.80 ≤ PD ≤ 15.71 Rating = CCC	4	Satisfactory		
	15.72 ≤ PD ≤ 23.71 Rating = CCC	5	Adequate		
Stage 2	23.72 ≤ PD ≤ 29.12 Rating = CCC	6	Marginal	Between 61 and 90 days	3–Watch and Regularization
	29.13 ≤ PD ≤ 46.25 Rating = CCC	7	Vulnerable		
Stage 3	46.26 ≤ PD ≤ 53.96 Rating = CCC	8	Substandard	Between 91 and 180 days	4–Substandard
	PD < 53.97 Rating = CCC	9	Doubtful	Above 180 (Classification to be determined by the bank)	5–Doubtful
	PD ≥ 53.97 Rating = CCC–	10	Loss		6–Loss

Then based on the stage, and on the LGD obtained for each facility, the Group will be able to generate the ECL which is: ECL =PD x LGD x EAD for stage 1 clients, the PD will be point in time and for stage 2 and 3 clients, the PD will be converted to a lifetime PD.

For retail exposures: the simplified approach is used by the Group by which internally generated data of customer behaviour, affordability metrics etc. has been used, adjusted by Forward–looking information.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

40.2.7 Incorporation of forward–looking information

The Group uses forward–looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL which is also integrated in the S&P module used by the Group.

With respect to investments in Lebanese Government debt securities and as a result of the current situation, the Group classified these securities in foreign currency within stage 3, while it kept term placements and certificates of deposit issued by the Central Bank of Lebanon that are classified at amortized cost, under stage 2.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every 3 years and when a loan is individually assessed as impaired.

Generally, Collateral is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

Credit Risk monitoring and review

During 2019, the severe and unprecedented economic situation in Lebanon exerted significant pressure on the asset quality of the domestic loan portfolio. As a result, credit quality of the Lebanese loan portfolio has declined driven by a weakening in the borrowers' creditworthiness across various segment types.

The above deterioration in the credit quality of the loans' portfolio in Lebanon was intensified as a result of the massive and devastating explosion that occurred on 4 August 2020 and which resulted in the destruction of thousands of residential units and businesses in downtown Beirut as well as the eastern side of the capital leaving thousands of citizens homeless and/or jobless.

Write–off policy

The Group writes–off a loan or security (and any related allowances for impairment losses) when the Group's management and credit business unit determine that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

40.2.8 Financial assets and ECLs by stage

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

	Gross exposure				Impairment allowance				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net exposure
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LLMillion
31 December 2021									
Balances with Central Bank	–	4,253,229	–	4,253,229	–	499,852	–	499,852	3,753,377
Due from banks and financial institutions	108,214	–	–	108,214	75	–	–	75	108,139
Loans to banks	9,621	–	–	9,621	529	–	–	529	9,092
Loans and advances to customers at amortized cost	572,662	35,635	84,305	692,602	65,459	8,539	60,096	134,094	558,508
Loans and advances to related parties at amortized cost	8,838	–	–	8,838	1,618	–	–	1,618	7,220
Financial assets at amortized cost	309,847	1,140,143	–	1,449,990	78,099	436,979	–	515,078	934,912
Total	1,009,182	5,429,007	84,305	6,522,494	145,780	945,370	60,096	1,151,246	5,371,248

	Gross exposure				Impairment allowance				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net exposure
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LLMillion
31 December 2020									
Balances with Central Bank	4,652,077	–	–	4,652,077	367,323	–	–	367,323	4,284,754
Due from banks and financial institutions	95,789	–	–	95,789	59	–	–	59	95,730
Loans to banks	18,675	–	–	18,675	1,303	–	–	1,303	17,372
Loans and advances to customers at amortized cost	784,435	11,762	84,285	880,482	66,347	2,047	59,876	128,270	752,212
Loans and advances to related parties at amortized cost	9,476	–	–	9,476	1,741	–	–	1,741	7,735
Financial assets at amortized cost	1,704,012	–	–	1,704,012	89,508	–	–	89,508	1,614,504
Total	7,264,464	11,762	84,285	7,360,511	526,281	2,047	59,876	588,204	6,772,307

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

	2021			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	367,322,921	–	–	367,322,921
Net re–measurement and reallocations	(367,322,921)	766,003,934	–	398,681,013
Transfers	–	(265,866,351)	–	(265,866,351)
Difference of exchange	–	(286,000)	–	(286,000)
Balance at 31 December	**–**	**499,851,583**	**–**	**499,851,583**

	2020			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	203,940,463	–	–	203,940,463
Related to financial assets sold	(343,591)	–	–	(343,591)
Net re–measurements and reallocations	163,726,049	–	–	163,726,049
Balance at 31 December	**367,322,921**	**–**	**–**	**367,322,921**

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

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of due from banks and financial institutions:

	2021			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	59,394	–	–	59,394
Net re–measurements and reallocations	15,294	–	–	15,294
Balance at 31 December	**74,688**	**–**	**–**	**74,688**

	2020			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	66,215	–	–	66,215
Net re–measurements and reallocations	(6,821)	–	–	(6,821)
Balance at 31 December	**59,394**	**–**	**–**	**59,394**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans to banks:

	2021			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	1,302,928	–	–	1,302,928
Net re–measurements and reallocations	(774,330)	–	–	(774,330)
Balance at 31 December	**528,598**	**–**	**–**	**528,598**

	2020			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	1,509,451	–	–	1,509,451
Net re–measurements and reallocations	(206,523)	–	–	(206,523)
Balance at 31 December	**1,302,928**	**–**	**–**	**1,302,928**

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

	2021			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	68,088,010	2,047,556	59,875,362	130,010,928
Net re–measurements and reallocations	498,248	6,594,211	220,878	7,313,337
Recoveries	(19,665)	(103,153)	–	(122,818)
Transfers	(1,059,750)	–	–	(1,059,750)
Other movements	(429,951)	–	–	(429,951)
Balance at 31 December	**67,076,892**	**8,538,614**	**60,096,240**	**135,711,746**

	2020			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	63,753,381	2,112,929	55,230,646	121,096,956
Net re–measurements and reallocations	4,332,904	(65,373)	4,644,716	8,912,247
Other movements	1,725	–	–	1,725
Balance at 31 December	**68,088,010**	**2,047,556**	**59,875,362**	**130,010,928**

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

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of financial assets at amortised cost:

	2021			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	89,507,680	–	–	89,507,680
Net remeasurements and reallocations	(11,408,350)	170,564,684	–	159,156,334
Transfers	–	266,595,930	–	266,595,930
Difference of exchange	–	(181,999)	–	(181,999)
Balance at 31 December	**78,099,330**	**436,978,615**	**–**	**515,077,945**

	2020			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	64,476,506	–	535,576,467	600,052,973
Related to financial assets sold	(56,209,584)	–	(535,576,467)	(591,786,051)
Net remeasurements and reallocations	81,247,511	–	–	81,247,511
Other movement	(6,753)	–	–	(6,753)
Balance at 31 December	**89,507,680**	**–**	**–**	**89,507,680**

The following table represents a reconciliation of the opening to the closing balance of credit losses on off balance commitments:

	2021			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	9,171,644	2,550	1,278,133	10,452,327
Net remeasurements and reallocations	(4,721,770)	11,354	(406,546)	(5,116,962)
Other movements	–	–	(3)	(3)
Balance at 31 December	**4,449,874**	**13,904**	**871,584**	**5,335,362**

	2020			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	10,006,902	274	764,881	10,772,057
Net remeasurements and reallocations	(835,258)	2,276	513,252	(319,730)
Balance at 31 December	**9,171,644**	**2,550**	**1,278,133**	**10,452,327**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

40.3 Analysis of Risk Concentrations

40.3.1 Geographical Location Analysis

The Group controls credit risk by maintaining close monitoring credit of its assets and liabilities exposures by geographic location:

	2021					
	Lebanon LL Million	Middle East and Africa LL Million	America LL Million	Europe LL Million	Other LL Million	Total LL Million
ASSETS						
Balances with Central Bank	3,753,377	–	–	–	–	3,753,377
Due from banks and financial institutions	9,388	340	73,628	24,553	230	108,139
Loans to banks	9,092	–	–	–	–	9,092
Loans and advances to customers at amortized cost	310,769	245,448	–	1,986	305	558,508
Loans and advances to related parties at amortized cost	7,220	–	–	–	–	7,220
Financial assets at fair value through profit or loss	447,917	–	–	–	–	447,917
Financial assets at amortized cost	934,912	–	–	–	–	934,912
	5,472,675	**245,788**	**73,628**	**26,539**	**535**	**5,819,165**
LIABILITIES						
Due to Central Bank	153,736	–	–	–	–	153,736
Due to banks and financial institutions	2,114	2		23,019	–	25,135
Customers' deposits at amortised cost	3,775,110	757,292	82,100	137,960	26,515	4,778,977
Deposits from related parties at amortised cost	102,665	–	–	–	–	102,665
Subordinated bonds	220,472	–	–	–	–	220,472
	4,254,097	**757,294**	**82,100**	**160,979**	**26,515**	**5,280,985**

	2020					
	Lebanon LL Million	Middle East and Africa LL Million	America LL Million	Europe LL Million	Other LL Million	Total LL Million
ASSETS						
Balances with Central Bank	4,284,754	–	–	–	–	4,284,754
Due from banks and financial institutions	14,317	633	37,211	43,337	232	95,730
Loans to banks	17,372	–	–	–	–	17,372
Loans and advances to customers at amortized cost	496,977	251,760	–	2,615	860	752,212
Loans and advances to related parties at amortized cost	7,735	–	–	–	–	7,735
Financial assets at fair value through profit or loss	348,409	–	–	–	–	348,409
Financial assets at amortized cost	1,614,504	–	–	–	–	1,614,504
	6,784,068	**252,393**	**37,211**	**45,952**	**1,092**	**7,120,716**
LIABILITIES						
Due to Central Bank	188,006	–	–	–	–	188,006
Due to banks and financial institutions	15,797	3,134	–	25,860	–	44,791
Customers' deposits at amortised cost	5,006,143	846,095	85,461	134,412	45,874	6,117,985
Deposits from related parties at amortised cost	156,934	–	–	–	–	156,934
Subordinated bonds	65,199	–	–	–	–	65,199
	5,432,079	**849,229**	**85,461**	**160,272**	**45,874**	**6,572,915**

40.4 Credit quality

The classification of the Group's financial instruments, balances with Central Bank, due from banks and financial institutions and loans to banks as per external ratings are as follows:

	31.12.2021											
	Sovereign and Central Banks					Non–sovereign						
	AAA to BBB–	BB+ to B–	Below B–	Unrated	Total	AAA to AA–	A+ to BBB–	BB+ to B–	Below B–	Unrated	Total	Grand total
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Balances with Central Bank	–	–	–	3,753,377	3,753,377	–	–	–	–	–	–	3,753,377
Due from banks and financial institutions	–	–	–	–	–	52,347	46,142	–	–	9,650	108,139	108,139
Loans to banks	–	–	–	–	–	–	–	–	–	9,092	9,092	9,092
Financial assets at fair value through profit or loss	–	–	123,711	316,244	439,955	–	–	–	–	7,962	7,962	447,917
Financial assets at amortized cost	–	–	230,324	703,164	933,488	–	–	–	–	1,424	1,424	934,912
	–	–	354,035	4,772,785	5,126,820	52,347	46,142	–	–	28,128	126,617	5,253,437

	31.12.2020											
	Sovereign and Central Banks					Non–sovereign						
	AAA to BBB–	BB+ to B–	Below B–	Unrated	Total	AAA to AA–	A+ to BBB–	BB+ to B–	Below B–	Unrated	Total	Grand total
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Balances with Central Bank	–	–	–	4,284,754	4,284,754	–	–	–	–	–	–	4,284,754
Due from banks and financial institutions	–	–	–	–	–	–	54,798	7,578	–	33,354	95,730	95,730
Loans to banks	–	–	–	–	–	–	–	–	–	17,372	17,372	17,372
Financial assets at fair value through profit or loss	–	–	146,514	194,268	340,782	–	–	–	–	7,627	7,627	348,409
Financial assets at amortized cost	–	–	415,121	1,196,368	1,611,489	–	–	–	–	3,015	3,015	1,614,504
	–	–	561,635	5,675,390	6,237,025	–	54,798	7,578	–	61,368	123,744	6,360,769

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

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

	31.12.2021					
	Maximum exposure	Cash collateral and margins	Securities	Real estate	Other guarantees	Net credit exposure
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Balances with Central Bank	3,753,377	–	–	–	–	3,753,377
Due from banks and financial institutions	108,139	–	–	–	–	108,139
Loans to banks	9,092	–	–	–	–	9,092
Loans and advances to customers at amortised cost	558,508	247,398	3,196	282,286	244	25,384
Loans and advances to related parties at amortized cost	7,220	1	–	2,847	–	4,372
Financial assets at fair value through profit or loss	447,917	–	–	–	–	447,917
Financial assets at amortised cost	934,912	–	–	–	–	934,912
Contingent liabilities						
Financial guarantee given to customers	32,816	–	–	–	–	32,816
Total	**5,851,981**	**247,399**	**3,196**	**285,133**	**244**	**5,316,009**
Guarantees received from banks, financial institutions and customers		247,399	3,196	470,867	244	
Utilized collateral		247,399	3,196	285,133	244	
Surplus of collateral before undrawn credit lines		–	–	185,734	–	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 185,734 million as at 31 December 2021.

	31.12.2020					
	Maximum exposure	Cash collateral and margins	Securities	Real estate	Other guarantees	Net credit exposure
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Balances with Central Bank	4,284,754	–	–	–	–	4,284,754
Due from banks and financial institutions	95,730	–	–	–	–	95,730
Loans to banks	17,372	–	–	–	–	17,372
Loans and advances to customers at amortised cost	752,212	249,309	2,426	480,041	1,250	19,186
Loans and advances to related parties at amortized cost	7,735	7,541	–	194	–	–
Financial assets at fair value through profit or loss	348,409	–	–	–	–	348,409
Financial assets at amortised cost	1,614,504	–	–	–	–	1,614,504
Contingent liabilities						
Financial guarantee given to customers	77,083	–	–	–	–	77,083
Total	**7,197,799**	**256,850**	**2,426**	**480,235**	**1,250**	**6,457,038**
Guarantees received from banks, financial institutions and customers		256,850	2,426	616,098	1,250	
Utilized collateral		256,850	2,426	480,235	1,250	
Surplus of collateral before undrawn credit lines		–	–	135,863	–	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 135,863 million as at 31 December 2020.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Collateral and Other Credit Enhancements

The Group obtains collaterals during its lending activities as a protection against potential losses that may result when borrowers default on their credit obligations. The amount and type of collateral required depend usually on the obligor's creditworthiness. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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

The main types of collateral obtained are as follows:

- *Securities:* the balances shown represent the fair value of the securities.
- *Letters of guarantees:* the Group holds in some cases guarantees, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential):* the Group holds, in some cases, a first–degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.
- *Netting agreements:* the Group makes use of netting agreements and other arrangements not eligible for netting under IAS 32 Financial Instruments: Presentation, with its counterparties. Such arrangements provide for net settlement of all financial instruments covered by the agreements in the event of default. Although these netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk outstanding amounts of such contracts, as shown in the above table.

41. MARKET RISK

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

The responsibilities of the Market Risk function are to identify, measure, monitor control and report all current and future potential market risks to which the Group is exposed. This includes the effective implementation of a proper risk management framework around the treasury, investment portfolio, and asset and liability activities through the adoption of consistent and comprehensive risk management tools and methodologies. The Group monitors the risk profile generated by these activities in order to ensure that it remains within the approved risk policies and limits.

The Group conducts stress tests on a regular basis using various scenarios and assumptions that are deemed plausible and relevant to the Group's business model and operating environment.

A. CURRENCY RISK

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

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

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

	2021				
	LBP LL Million	US$ LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets					
Cash and balances with Central Bank	1,304,745	2,243,871	268,021	9,835	3,826,472
Due from banks and financial institutions	2,862	77,359	14,531	13,387	108,139
Loans to banks	9,092	–	–	–	9,092
Loans and advances to customers at amortized cost	251,855	304,880	1,763	10	558,508
Loans and advances to related parties at amortized cost	2,078	5,138	4	–	7,220
Financial assets at fair value through profit or loss	316,577	131,339	–	1	447,917
Financial assets at amortized cost	552,407	382,505	–	–	934,912
Other assets	59,698	3,949	12	1	63,660
Total financial assets	**2,499,314**	**3,149,041**	**284,331**	**23,234**	**5,955,920**
Financial liabilities					
Due to Central Bank	152,597	1,139	–	–	153,736
Due to banks and financial institutions	414	21,417	3,279	25	25,135
Customers' deposits at amortised cost	1,035,262	3,441,234	278,547	23,934	4,778,977
Deposits from related parties at amortised cost	2,827	96,364	3,463	11	102,665
Other liabilities	44,437	8,522	3,910	5,702	62,571
Total financial liabilities	**1,235,537**	**3,568,676**	**289,199**	**29,672**	**5,123,084**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

	2020				
	LBP LL Million	US$ LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets					
Cash and balances with Central Bank	1,402,470	2,598,740	326,462	9,416	4,337,088
Due from banks and financial institutions	2,981	67,724	10,948	14,077	95,730
Loans to banks	17,372	–	–	–	17,372
Loans and advances to customers at amortized cost	331,203	417,732	3,266	11	752,212
Loans and advances to related parties at amortized cost	2,848	4,886	1	–	7,735
Financial assets at fair value through profit or loss	187,951	160,458	–	–	348,409
Financial assets at amortized cost	888,701	725,803	–	–	1,614,504
Other assets	34,371	(17,973)	95	4	16,497
Total financial assets	**2,867,897**	**3,957,370**	**340,772**	**23,508**	**7,189,547**
Financial liabilities					
Due to Central Bank	185,896	2,110	–	–	188,006
Due to banks and financial institutions	15,198	25,591	3,977	25	44,791
Customers' deposits at amortised cost	1,632,900	4,148,780	313,441	22,864	6,117,985
Deposits from related parties at amortised cost	2,501	147,031	7,391	11	156,934
Other liabilities	77,896	33,419	(30,450)	2,893	83,758
Total financial liabilities	**1,914,391**	**4,356,931**	**294,359**	**25,793**	**6,591,474**

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

	2021			
	USD LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets				
Balances with Central Bank	2,228,700	265,711	9,835	2,504,246
Due from banks and financial institutions	6,382	140	4	6,526
Loans and advances to customers at amortized cost	304,880	1,763	10	306,653
Loans and advances to related parties at amortized cost	4,603	4	–	4,607
Financial assets at fair value through profit or loss	131,339	–	–	131,339
Financial assets at amortized cost	382,505	–	–	382,505
Other assets	3,949	12	1	3,962
Total financial assets	**3,062,358**	**267,630**	**9,850**	**3,339,838**
Financial liabilities				
Due to Central Bank	1,139	–	–	1,139
Due to banks and financial institutions	19,916	3,279	24	23,219
Customers' deposits at amortised cost	3,395,397	262,390	23,203	3,680,990
Deposits from related parties at amortised cost	95,712	3,463	11	99,186
Other liabilities	1,663	3,910	5,702	11,275
Total financial liabilities	**3,513,827**	**273,042**	**28,940**	**3,815,809**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

	2020			
	USD LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets				
Balances with Central Bank	2,593,670	325,043	9,416	2,928,129
Due from banks and financial institutions	11,023	283	2	11,308
Loans and advances to customers at amortized cost	417,732	3,266	11	421,009
Loans and advances to related parties at amortized cost	4,886	1	–	4,887
Financial assets at fair value through profit or loss	160,458	–	1	160,459
Financial assets at amortized cost	725,803	–	–	725,803
Other assets	(17,973)	95	4	(17,874)
Total financial assets	**3,895,599**	**328,688**	**9,434**	**4,233,721**
Financial liabilities				
Due to Central Bank	2,110	–	–	2,110
Due to banks and financial institutions	22,459	3,977	25	26,461
Customers' deposits at amortised cost	4,140,003	308,541	22,751	4,471,295
Deposits from related parties at amortised cost	146,514	7,391	11	153,916
Other liabilities	33,419	(30,450)	2,893	5,862
Total financial liabilities	**4,344,505**	**289,459**	**25,680**	**4,659,644**

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Positions are monitored on a daily basis by Management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Group expects the low interest rates environment for the local currency (or equivalent) to continue prevailing in Lebanon during 2022. The Group is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates used by the Lebanese banking sector through its various intermediate circulars.

C. PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. This is applicable for example on fixed rate loans when market interest rates fall.

In Lebanon and following the severe devaluation of the local currency in the parallel market and prevalence of multiple exchange rates, prepayment activities on the lending portfolio have accelerated during the course of 2021. However, in view of the quasi–absence of any local interest rate benchmarks due to the crisis and given that the Group in Lebanon prioritizing the implementation of a de–risking strategy (with the aim of alleviating pressure on credit asset quality), the Group considers the impact of prepayment risk resulting from these transactions to be benign.

Outside Lebanon, market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers the impact of prepayment risk on net profits to be not material after considering any penalty fees received on prepayment activities, when existing.

42. LIQUIDITY RISK

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

The Group manages liquidity at the entity level independently while keeping oversight of intra–group dependencies, when existing. The Group recognizes that its ability to meet its liquidity requirements, including international commitments, may come under increasing pressure under a deteriorating operating environment. Following October 2019 events, the Group's international liquidity in Lebanon came under an unprecedented pressure, which led Management to implement a series of remedial measures to mitigate this risk.

The following outlines the monitoring process that takes place at the entity level including some activities that are more relevant to the Lebanese operations.

Monitoring Process

Daily

Due to the ongoing economic and financial crisis in Lebanon, Management focused its efforts on the monitoring of international liquidity coverage relative to international commitments, including external account deposits.

To support this activity, the Treasury function monitors and reports daily and intra–day inflows and outflows for major currencies and ensures that funding gaps are met.

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Weekly

The Market Risk unit prepares a weekly report on the international liquid exposures showing the changes in the position compared to previous period, in addition to the liquidity position for other major currencies.

Monthly

The Market Risk function submits a monthly ALM report to ALCO showing changes in the liquidity position including future flows, as well as the coverage level relative to international commitments.

Quarterly

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

Periodic

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

Moreover, stress testing is carried out annually for all material banking units of the Group as part of the ICAAP preparation and submission. Scenarios used in these stress tests vary between entities to reflect their local market operating environments. Scenarios may include, among others, the following assumptions:

- Significant withdrawals of foreign currency deposits.
- Significant withdrawals of undrawn and committed credit lines.
- Significant haircut on liquid assets.
- Unavailability of wholesale (interbank) funding.
- Significant reduction in assets that are eligible as collateral in the refinancing operations.

Furthermore, the Group has put in place policies and measures for monitoring and managing liquidity risk. These include setting up remedial actions to be taken in response to potential liquidity stress events. Among these policies is the Asset Liability Management (ALM) Risk Policy which is reviewed by ALCO and submitted to the Board Risk Committee for review.

Liquidity Ratios

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Group. In Lebanon and since October 2019 events, the Group monitors on a regular basis the ratio of available international foreign currency liquidity to international commitments over various time horizons.

Sources of Funding

Customers' deposits were the main funding source of the Group as at 31 December 2021 and 2020. The distribution of sources and the maturity of deposits are actively monitored in order to avoid high concentration of deposits by maturity and size.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

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

	31.12.2021					
	Accounts with no maturity LL Million	Up to 3 months LL Million	3 to 12 months LL Million	1 to 5 years LL Million	Over 5 years LL Million	Total LL Million
Financial liabilities						
Due to Central Bank	1,272	6,075	12,139	61,091	73,159	153,736
Due to banks and financial institutions	33	2,117	5,110	17,875	–	25,135
Customers' deposits at amortised cost	1,674,884	2,710,205	291,648	102,134	106	4,778,977
Deposits from related parties at amortised cost	–	102,247	418	–	–	102,665
Subordinated bonds	9,422	–	–	60,300	150,750	220,472
Total financial liabilities	**1,685,611**	**2,820,644**	**309,315**	**241,400**	**224,015**	**5,280,985**

	31.12.2020					
	Accounts with no maturity LL Million	Up to 3 months LL Million	3 to 12 months LL Million	1 to 5 years LL Million	Over 5 years LL Million	Total LL Million
Financial liabilities						
Due to Central Bank	2,011	2,706	13,875	77,531	91,883	188,006
Due to banks and financial institutions	50	44,741	–	–	–	44,791
Customers' deposits at amortised cost	1,123,555	3,445,247	1,308,381	240,686	116	6,117,985
Deposits from related parties at amortised cost	–	156,934	–	–	–	156,934
Subordinated bonds	4,899	–	–	60,300	–	65,199
Total financial liabilities	**1,130,515**	**3,649,628**	**1,322,256**	**378,517**	**91,999**	**6,572,915**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Group's assets and liabilities.
The maturity profile of the financial assets and financial liabilities at **31 December 2021** is as follows:

	Total less than one year LL Million	Total more than one year LL Million	Total LL Million
Financial assets			
Balances with Central Bank	1,184,912	2,568,465	3,753,377
Due from banks and financial institutions	108,139	–	108,139
Loans to banks	3,592	5,500	9,092
Loans and advances to customers at amortized cost	322,701	235,807	558,508
Loans and advances to related parties at amortized cost	7,220	–	7,220
Financial assets at fair value through profit or loss	16,766	431,151	447,917
Financial assets at amortized cost	(142,203)	1,077,115	934,912
Total financial assets	**1,501,127**	**4,318,038**	**5,819,165**
Financial liabilities			
Due to Central Bank	19,486	134,250	153,736
Due to banks and financial institutions	7,260	17,875	25,135
Customers' deposits at amortised cost	4,676,735	102,242	4,778,977
Deposits from related parties at amortised cost	102,665	–	102,665
Subordinated bonds	9,422	211,050	220,472
Total financial liabilities	**4,815,568**	**465,417**	**5,280,985**

The maturity profile of the financial assets and financial liabilities at **31 December 2020** is as follows:

	Total less than one year LL Million	Total more than one year LL Million	Total LL Million
Financial assets			
Due from Central Bank	871,264	3,413,490	4,284,754
Due from banks and financial institutions	95,730	–	95,730
Loans to banks	7,872	9,500	17,372
Loans and advances to customers at amortized cost	344,777	407,435	752,212
Loans and advances to related parties at amortized cost	7,735	–	7,735
Financial assets at fair value through profit or loss	12,749	335,660	348,409
Financial assets at amortized cost	60,302	1,554,202	1,614,504
Total financial assets	**1,400,429**	**5,720,287**	**7,120,716**
Financial liabilities			
Due to Central Bank	18,592	169,414	188,006
Due to banks and financial institutions	44,791	–	44,791
Customers' deposits at amortised cost	5,877,183	240,802	6,117,985
Deposits from related parties at amortised cost	156,934	–	156,934
Subordinated bonds	4,899	60,300	65,199
Total financial liabilities	**6,102,399**	**470,516**	**6,572,915**

IBL BANK S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2021

43. OPERATIONAL RISK

The operational risk management framework is implemented by an independent Operational Risk function. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through annual reviews.

Operational risks are managed across the Group based on a set of principles and standards detailed in the Board–approved Group Operational Risk Policy. These principles and standards include at a minimum: redundancy of mission–critical systems, segregation of duties, four–eye principle, independency of employees performing controls, reconciliations, mandatory vacations, awareness and training. Controls are also embedded within systems and formalised in policies and procedures.

Incidents are captured and analysed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted to identify outstanding risk exposures and control vulnerabilities associated with existing or new products, processes, activities and systems. Key Risk Indicators (KRIs) are also developed continuously to detect breaches and alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Following October 2019 events, the Group has been subject to an increased compliance risk pressure as a result of the considerable number of regulatory circulars and memos issued since that date (40 BDL circulars and 8 BCC memos were published in total during 2021). These regulatory requirements, in addition to changes in the operating environment, have necessitated the rapid development and implementation of new systems' updates and processes, which also required adequate training to employees.

To ensure the continuity and timely resumption of critical business activities due to potential risk of disruptions of systems or other unforeseen events, the Group has been continuously maintaining a world–class business continuity and disaster recovery site that was awarded the Tier 4 – Fault Tolerant Certification of Design Documents and Constructed Facility. A Business Continuity Plan (BCP) was also developed and is being kept up–to–date to minimise the risk of interruption of critical operations in case of an adverse event.

The Group is also abreast of latest cybersecurity threats, countermeasures, technologies and tools, and is continuously implementing technical and non–technical measures to strengthen its cyber resilience posture. External expert support is sought when needed.

44. POLITICAL RISK

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