IBL BANK S.A.L.

2023 AUDIT REPORT

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CONSOLIDATED FINANCIAL STATEMENTS

AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2023

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 2023, 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 2023 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 2023. 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 2022, would have been materially different. The effects on the consolidated financial statements arising from this departure have not been determined. Our opinion for the year ended 31 December 2022 was modified for the same reasons.

2. The Group translated its assets and liabilities denominated in foreign currencies as at 31 December, and all transactions in foreign currencies that occurred during the year then ended, using the official published exchange rates as disclosed in Note 1 to the consolidated financial statements. However, other exchange rates through legal exchange mechanisms are available, depending on the source and nature of the operation or balance. As per IAS 21, 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. In addition, the Group engaged in several foreign currencies exchange transactions, at rates different than the official published exchange rate, which resulted in differences recorded in the consolidated income statement under "Net trading gain / (loss)" amounting to a loss of LL 379,148 million (2022: loss of LL 90,586 million). Had the Group applied the requirements of IAS 21 and had the Group used the rate at which the future cashflows could have been settled during 2021, 2022 and 2023, 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. Our opinion for the prior years including 31 December 2022 was also modified for same reasons.

3. As at 31 December 2023, the Group holds balances with the Central Bank of Lebanon amounting to LL 32,491 billion (2022: LL 3,999 billion), balances with banks and financial institutions amounting to LL 125 billion (2022: LL 246 billion), a portfolio of Lebanese government debt securities and certificates of deposit (under financial assets at amortized cost) totalling to LL 1,682 billion (2022: LL 873 billion), a portfolio of loans amounting to LL 196 billion (2022: LL 182 billion), regulatory blocked funds amounting to LL 4,500 million (2022: LL 4,500 million) and other balances from the Central Bank of Lebanon in other assets amounting to LL - (2022: LL 144 billion) concentrated in Lebanon which represent 87.16% of the Group's total assets as at 31 December 2023 (31 December 2022: 84.76%).

   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 to the consolidated financial statements.

   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 2023 and 31 December 2022 would have been materially different. The effects of the resolution of these uncertainties on the consolidated financial statements and disclosures have not been determined. Our opinion for the year ended 31 December 2022 was modified for the same reasons.

4. The Group holds financial instruments measured at fair value based on expected proceeds in Lebanon amounting to LL 864 billion (2022: LL 397 billion). The fair value of these instruments is measured based on unobservable data holding a high level of uncertainty due to lack of reliable market evidence considering the uncertainties described in Note 1. As such, it is not possible to determine the future effects that the economic crisis described in Note 1 would have on the carrying amounts of these assets. Consequently, we were unable to determine whether any adjustments should have been recorded on these amounts. Our opinion for the year ended 31 December 2022 was modified for same reasons explained above.

5. Provisions, which are carried in the consolidated statement of financial position at LL 2,242 billion (2022: LL 873 billion), include:

   a. Provision for undetermined risks of LL 2,112 billion at 31 December 2023 (2022: LL 845 billion) which constitute a departure from IFRS.

   b. Provision for end of service indemnities of employees of LL 101 billion (2022: LL 25 billion). The assumptions used in calculating this provision are subject to high uncertainty from the prevailing financial and economic situation in Lebanon as illustrated in note 1. Consequently, we were unable to determine whether any adjustments to these amounts, and related consolidated income statement were necessary.

   c. Provision for expected credit losses on off-balance sheet commitments of LL 29 billion (2022: LL 3 billion). Management has not stated the allowance for expected credit losses on off-balance sheet 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.

   Our opinion for the year ended 31 December 2022 was modified for the same reasons.

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. Our opinion for the year ended 31 December 2022 was modified for the same reasons.

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 2022. 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.

BDO, Semaan, Gholam & Co.

12 November 2024
Beirut, Lebanon

DFK Fiduciaire du Moyen Orient

IBL BANK S.A.L.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2023

	Notes	December 31,	
		2023 LL'000	2022 LL'000
Interest and similar income	4	1,354,282,957	562,388,458
Interest and similar expense	5	(321,083,488)	(60,031,008)
NET INTEREST INCOME		**1,033,199,469**	**502,357,450**
Fee and commission income	6	222,454,914	26,369,156
Fee and commission expense	6	(61,251,472)	(66,644,309)
NET FEE AND COMMISSION INCOME (EXPENSE)		**161,203,442**	**(40,275,153)**
Net trading gain / (loss)	7	382,068,663	(105,985,326)
Other operating income	8	709,266,008	32,581,331
NET FINANCIAL REVENUES		**2,285,737,582**	**388,678,302**
Net impairment gain on financial assets	9	11,031,414	651,492,044
Write-off of loans and advances		(248,598)	(309,243)
NET OPERATING INCOME		**2,296,520,398**	**1,039,861,103**
Personnel expenses	10	(296,500,303)	(107,007,571)
Other operating expenses	11	(1,812,910,265)	(904,761,770)
Depreciation of property, equipment and right of use assets	20	(4,152,181)	(3,555,272)
Amortization of intangible assets	21	(147,929)	(196,430)
TOTAL OPERATING EXPENSES		**(2,113,710,678)**	**(1,015,521,043)**
Operating profit		182,809,720	24,340,060
Net loss on disposal of fixed assets and other expenses		(9,014)	-
PROFIT BEFORE TAX		**182,800,706**	**24,340,060**
Income tax expense	12	(107,812,861)	(19,558,000)
PROFIT FOR THE YEAR		**74,987,845**	**4,782,060**
Other comprehensive income:		-	-
- Exchange difference on translation of foreign operations		**2,210,186**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR – PROFIT		**77,198,031**	**4,782,060**

IBL BANK S.A.L.

CONSOLIDATED INCOME STATEMENT *(continued)*
For the year ended 31 December 2023

	December 31,	
	2023 LL'000	2022 LL'000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR – PROFIT	**77,198,031**	**4,782,060**
Attributable to:		
Equity holders of the parent	77,171,080	4,696,174
Non-controlling interests	26,951	85,886
	77,198,031	**4,782,060**

THE ACCOMPANYING NOTES 1 TO 45 FORM PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2023

	Notes	December 31,	
		2023 LL'000	2022 LL'000
ASSETS			
Cash and balances with Central Bank	13	32,575,448,049	4,124,172,050
Due from banks and financial institutions	14	1,277,962,939	332,585,954
Loans to banks	15	1,444,804	5,269,572
Loans and advances to customers at amortized cost	16	3,005,250,035	395,280,532
Loans and advances to related parties at amortized cost	17	7,434,567	6,640,170
Financial assets at fair value through profit or loss	18	864,348,021	397,003,103
Financial assets at amortized cost	19	1,681,980,608	872,793,132
Property, equipment and right-of-use assets	20	63,826,827	67,009,693
Intangible assets	21	1,008,899	401,567
Assets obtained in settlement of debt	22	52,775,510	53,314,589
Other assets	23	47,624,795	173,489,666
Assets held for sale	34	-	1,428,836
TOTAL ASSETS		**39,579,105,054**	**6,429,388,864**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Bank	24	59,643,227	61,805,495
Due to banks and financial institutions	25	26,098,766	25,970,071
Customers' deposits at amortised cost	26	33,399,814,376	4,452,428,325
Deposits from related parties at amortised cost	27	704,031,471	85,187,581
Other liabilities	28	273,572,538	105,878,623
Provisions for risks and charges	29	2,242,384,045	872,615,224
Subordinated bonds	30	2,201,250,000	224,994,375
Liabilities held for sale	34	-	1,428,836
TOTAL LIABILITIES		**38,906,794,423**	**5,830,308,530**
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	183,219,567	181,246,033
Retained earnings		116,592,207	114,854,039
Other components of equity	33	25,738,937	26,278,015
Profit for the year		74,967,524	4,696,174
Foreign currency translation reserve		2,203,556	-
		672,270,950	**596,623,420**
Non-controlling interest		39,681	2,456,914
TOTAL EQUITY		**672,310,631**	**599,080,334**
TOTAL LIABILITIES AND EQUITY		**39,579,105,054**	**6,429,388,864**

THE ACCOMPANYING NOTES 1 TO 45 FORM PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	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 for the year	Foreign currency translation reserve	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	LL'000
Balance at 1 January 2022	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
Appropriation of 2021 profit	–	–	–	–	317,829	14,479,922	–	(14,797,751)	_	–	–	–
Difference on exchange	–	–	–	–	_	(74,063)	_	_	_	(74,063)	–	(74,063)
Comprehensive income for the year 2022 - profit	–	–	–	–	–	–	–	4,696,174	_	4,696,174	85,886	4,782,060
Balance at 31 December 2022	**150,000,000**	**5,625,000**	**6,514,784**	**107,409,375**	**181,246,033**	**114,854,039**	**26,278,015**	**4,696,174**	_	**596,623,420**	**2,456,914**	**599,080,334**
Appropriation of 2021 profit	–	–	–	–	1,182,456	(1,182,456)	–	–	_	—	–	–
Appropriation of 2022 profit	–	–	–	–	252,000	4,444,174	–	(4,696,174)	–	–	–	–
Transfer between reserves	–	–	–	–	539,078	–	(539,078)	–	–	–	–	–
Other movements	–	–	–	–	_	(1,523,550)	–	–	–	(1,523,550)	(2,444,184)	(3,967,734)
Comprehensive income for the year 2023 - profit	–	–	–	–	–	–	–	74,967,524	2,203,556	77,171,080	26,951	77,198,031
Balance at 31 December 2023	**150,000,000**	**5,625,000**	**6,514,784**	**107,409,375**	**183,219,567**	**116,592,207**	**25,738,937**	**74,967,524**	**2,203,556**	**672,270,950**	**39,681**	**672,310,631**

THE ACCOMPANYING NOTES 1 TO 45 FORM PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	2023 LBP'000	2022 LBP'000
OPERATING ACTIVITIES			
Profit for the year		74,987,845	4,782,060
Adjustments:			
Depreciation and amortization		4,300,110	3,751,702
Unrealized loss on investment securities at fair value through profit or loss		255,131,664	51,164,948
Impairment gain on financial assets		(11,031,414)	(651,492,044)
Write-off of loans and advances		–	309,243
Provision for risks and charges		1,446,197,654	768,378,861
Other adjustments and effect of exchange difference		11,991,814,325	(91,044,690)
Provisions written back		(505,325,402)	(30,000,000)
Interest expense		320,301,673	59,926,188
Interest income		(1,456,605,597)	(652,992,604)
Income tax expense		107,812,861	19,558,000
		12,227,583,719	**(517,658,336)**
Decrease in loans and advances to customers & related parties		1,757,082,342	188,056,930
Increase in investment securities at fair value through profit or loss		(101,130,821)	(223,372)
Decrease in investment securities at amortised cost		906,351,106	355,024,040
Decrease in deposits with Central Bank		5,516,660,399	1,288,469,413
(Decrease) increase in due to banks and financial institutions		(25,697,271)	598,049
Decrease in due from banks and financial institutions		415,902	43,068
Decrease in loans to banks and financial institutions		4,000,000	4,000,000
Net decrease in customer and related parties deposits		(990,288,080)	(363,262,127)
(Decrease) increase in other assets		205,201,724	(109,830,027)
(Decrease) increase in other liabilities		(29,859,610)	23,206,561
Payment of end of services indemnities		(2,971,184)	(607,610)
		19,467,348,226	**867,816,589**
Interest paid		(94,996,628)	(35,989,042)
Interest received		1,080,946,754	629,781,938
Cash from operating activities		**20,453,298,352**	**1,461,609,485**
INVESTING ACTIVITIES			
Increase of property, equipment and right-of-use assets		(991,731)	(4,983,094)
Increase of intangible assets		(755,761)	(71,563)
Decrease of assets obtained in settlement of debt		539,079	–
Cash (used in) investing activities		**(1,208,413)**	**(5,054,657)**
FINANCING ACTIVITIES			
Increase (decrease) in due to Central Bank		39,237,969	(91,930,739)
Cash from (used in) financing activities		**39,237,969**	**(91,930,739)**
INCREASE IN CASH AND CASH EQUIVALENTS		20,491,327,908	1,364,624,089
CASH AND CASH EQUIVALENTS	35		
At beginning of year		2,437,478,473	1,072,854,384
At end of year		**22,928,806,381**	**2,437,478,473**

THE ACCOMPANYING NOTES 1 TO 45 FORM PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

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.

The consolidated financial statements were authorised for issue on 12 November 2024 by the Board of Directors.

The consolidated subsidiaries consist of the following as at 31 December 2023:

Name of Subsidiary	Ownership		Country of incorporation	Business activity
	2023	2022		
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. (merged with the Bank)	-	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 increased constantly, deviating significantly from the peg of LL 1,507.5 LL / USD. 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. In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LL 1,507.5 to LL 15,000 to the US Dollars. In January 2024, the Central Bank of Lebanon changed the official published exchange rate from LL 15,000 to LL 89,500 to the US Dollars.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023

(b) Introduced the BDL Basic Circular 151 rate, to be used only in specific circumstances. At maturity as at 31 December 2023, the circular was not renewed.

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.

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 de-facto capital controls), and tossing Lebanon in hyperinflation and major economic collapse.

In mid-2021, BDL circular 158 was issued defining the mechanism for the gradual settlement of foreign currency deposits up to an amount of USD 50,000 based on several eligibility criteria. Eligible funds will be transferred to a subaccount and paid on a monthly basis of USD 400 (amended later on to US$ 300 for all contracts signed with customers after 1 July 2023 following the issuance of BDL intermediate circular 674 on 5 July 2023) in cash or equivalent and an amount in LL equivalent to USD 400 and converted at a rate of LL 12,000 to the US Dollars (before amendment at a rate of LL 15,000 to the US Dollar on 20 January 2023) that will be paid 50% in cash and 50% credited to a payment card. The Central Bank of Lebanon announced that as at 30 April 2023, 180,976 depositors have so far benefited from the application of this circular for a total amount of US$ 1.8 billion. The LL portion was later on removed with the issuance of Intermediate Circular 674 issued on 5 July 2023.

As a result of the de-facto 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 de-facto capital controls and those that are not subject to capital controls, onshore liabilities and offshore liabilities. 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

A financial recovery plan was ratified by the Cabinet on 20 May 2022. The document was passed by the Cabinet in its final session hours before losing decision-making powers, following the election of a new parliament on 15 May 2022.

Lebanon's government foresees cancelling "a large part" of the Central Bank's foreign currency obligations to commercial banks and dissolving non-viable banks by November, according to the Plan.

The latter includes several measures that are prerequisites to unlock funds from a preliminary deal with the International Monetary Fund agreed in April, that could help pull the country out of a three-year financial meltdown.

The endorsed plan foresees a full audit of the Central Bank's forex financial standing by July. Then, the government "will cancel, at the outset, a large part of the Central Bank's foreign currency obligations to banks in order to reduce the deficit in BDL's capital," the document said. The largest 14 commercial banks, representing 83% of total assets, would also be audited. Viable banks would be recapitalised with "significant contributions" from banks' shareholders and large depositors.

The plan made no mention of a sovereign fund to manage state-owned assets but pledges to limit recourse to public assets, which had been a demand of Lebanon's commercial banks. The plan said it would protect small

depositors "to the maximum extent possible" in each viable bank but did not lay out a minimum amount to be protected – unlike draft plans. Non-viable banks, however, would be dissolved by the end of November, it added. As of today, laws for the reinstatement of financial stability, for the resolution of banks and capital controls are yet to be issued. The timeline for their issuance is affected by the presidential vacuum and political deadlock facing Lebanon. It also said the government would unify the official exchange rate, ending a system in which the government offered various exchange rates for different operations.

International Monetary Fund (IMF)

The Lebanese authorities and the IMF team have reached a staff-level agreement (SLA) on comprehensive economic policies that could be supported by a 46-month Extended Fund Arrangement (EFF) with requested access of SDR 2,173.9 million (equivalent to about USD 3 billion). This agreement is subject to approval by IMF Management and the Executive Board, after the timely implementation of all prior actions and confirmation of international partners' financial support.

Prior actions include the following measures prior the IMF Board's consideration:

(i) Cabinet approval of a bank restructuring strategy that recognises and addresses upfront the large losses in the sector, while protecting small depositors and limiting recourse to public resources.

(ii) Parliament approval of an appropriate emergency bank resolution legislation which is needed to implement the bank restructuring strategy.

(iii) Initiation of an externally assisted bank-by-bank evaluation for the 14 largest banks.

(iv) Parliament approval of a reformed bank secrecy law to bring it in line with international standards.

(v) Completion of the special purpose audit of the BDL's foreign asset position.

(vi) Cabinet approval of a medium-term fiscal and debt restructuring strategy.

(vii) Parliament approval of the 2022 budget, to start regaining fiscal accountability.

(viii) Unification by BDL of the exchange rates for authorised current account transactions.

As of date, the parliament approved the reformed bank secrecy law and the 2022 budget. While no much progress was achieved on other fronts, the IMF issued in May 2023 its 2023 Article IV Mission.

At the end of a two-week staff visit to Lebanon in September 2023, the IMF issued a press release saying that Lebanon has not undertaken the urgently needed reforms, and this will weigh on the economy for years to come. The lack of political will to make difficult, yet critical, decisions to launch reforms leaves Lebanon with an impaired banking sector, inadequate public services, deteriorating infrastructure, worsening poverty and unemployment conditions, and a further widening of the income gap. Inflation remains in triple digits, further compressing real incomes, and foreign exchange (FX) reserves continued to decline in the first half of the year, including due to Banque du Liban's (BDL's) financing of quasi-fiscal operations and the large current account deficit.

A plan to restructure the banking sector is still not in place. This inaction has led to a significant decline in recoverable deposits and impedes the provision of credit to the economy. While work is progressing well on a revised bank resolution law, it needs to be completed so that the law can be resubmitted to Parliament. Amendments to the Bank Secrecy Law, which are aimed at addressing deficiencies, and the draft Law on Capital Controls and Deposit Withdrawals, are still awaiting parliamentary approval as per the IMF.

Budget Law 2024

Lebanon's parliament passed, on the 26 January 2024, an amended budget for the year 2024. The budget, amended over the course of months from a version that had been submitted to parliament by the Council of Ministers, anticipated higher state revenues earned through VAT and customs fees.

Maritime Border demarcation agreement

The maritime border demarcation agreement between Lebanon and Israel was finalised in October. The deal could enhance long-term economic prospects and improve the country's external position which is positive for Lebanon's credit profile, but implementation risks remain significant. International Rating Fitch disclosed that gas discoveries would generate important economic benefits for Lebanon, should the resources prove to be commercially viable. Moody's disclosed that the agreement is credit positive for Lebanon because it will help alleviate the country's chronic power deficit and kick-start an economic recovery as per Moody's. Such deals and initiatives are of a long term rather than imminent nature, and the timing of the flow of economic benefit and positive development on Lebanon is uncertain.

Although there was no hydrocarbons discovery as a result of the drilling in Block Number 9, the data and samples obtained from inside the well give impetus to exploration in the Lebanese offshore.

Presidential vacuum

The presidential term of President Michel Aoun has ended on 31 October 2022 without the election of a new President despite holding a number of electoral sessions that witness non-quorum in their second rounds. As such, Lebanon has entered a presidential vacuum since then, which has stalled cabinet formation, reforms and final IMF agreement.

Regional conflict

With the start of the fourth quarter of 2023, a security drift has erupted in the region with severe casualties and damages, and with potential repercussions to the Levant at large. Any broadening of the conflict to the Lebanese territory could imply further massive economic losses for Lebanon, with significant adverse effects on financial and monetary conditions.

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 exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars. At maturity as at 31 December 2023, the circular was not renewed.
- Intermediate Circular 552 issued on 22 April 2020 (amending Basic Circular 23) 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 (amending Basic Circular 23, 44 and 78), 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% (later on increased again to 75% by Intermediate Circular 649), 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):

- 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. Intermediate circular 649 issued on 24 November 2022 replaced the aforementioned five years and ten years deadline by the fixed dates of 31 December 2026 and 31 December 2029 respectively.
- 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 (Years 2021, 2022 and 2023 were subsequently added by way of Intermediate Circulars 616, 659 and 676 respectively).
- 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. On 20 January 2023, Intermediate Circular 659 capped the inclusion of revaluation of fixed assets at 50% under certain conditions while allowing the use of the prevailing Sayrafa rate at the end of each reporting period over 5 years. Besides, it widened the scope of revaluation to include participations and long-term loans to affiliated banks and financial institutions. Intermediate Circular 685 issued on 28 December 2023 increased the contribution of this revaluation to Common Equity Tier 1 from 50% to 75%.
- 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. After allowing banks to draw down the buffer fully during 2020 and 2021, a partial drawn up to 1.75% in 2022, latest regulatory changes introduced on 2 February 2024 via Intermediate Circular 689 allowed a full draw down of the 2.5% buffer during years 2023 and 2024. Central Bank of Lebanon will issue future instructions for reconstitution of capital.
- 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.

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- 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. The requirement was later amended through Intermediate Circular 645 to consider foreign currency deposits as at 30 September 2022 as the basis for the computation instead of 31 July 2020, thus lowering liquidity required levels as customers' deposits decreased over the period.
  - 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 (amending Basic Circular 81) 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.
  - On 20 January 2023, Intermediate Circular 656 revoked the aforementioned provision effective 1 February 2023.

On 20 January 2023, Intermediate Circular 656 revoked the aforementioned provision effective 1 February 2023.

- 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 US$ 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) (amended later on to US$ 300 for all BDL 158-based contracts signed with the customers after 1 July 2023 following the issuance of BDL intermediate circular 674 on 5 July 2023) and (ii) an amount in LL equivalent to US$ 400 and converted at a rate US$/LL 12,000 (before amendment US$/LL at 15,000 on 20 January 2023), noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card. The portion in LL was later on removed with the issuance of BDL Intermediate Circular 674. On 17 November 2023, BDL issued Intermediate Circular 682 adding an eligibility criteria to benefit from Basic Circular 158; Customers who have transferred their funds after the crisis to another local Bank can benefit from the provisions of said circular if (i) transferred funds are returned to the originating bank, and if (ii) the customer hadn't benefited from the circular neither from the originating Bank, nor the destination Bank.

  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, extended to 31 December 2023 by Intermediate Circular 626 issued on 21 June 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 (which was subsequently removed by Intermediate Circular 671 issued on 20 June 2023). 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 (amending Basic Circular 73) 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. On 20 January 2023, Intermediate Circular 657 amended the rate to be 15,000 instead of 8,000 while reducing the limit from USD 3,000 per month to USD 1,600 per month. On 5 July 2023, Intermediate Circular 673 removed the maximum conversion amount of US$ 1,600 per month per customer. However, BDL maintained its commitment to buy from the Bank a maximum amount of US$ 1,600 per month per customer. At maturity as at 31 December 2023, the circular was not renewed.
- 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.
- 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 (year 2022 and 2023 were added through Intermediate Circular 659 and 676 respectively).
- Basic Circular 162 issued on 28 March 2022 requesting from banks to secure a level of liquidity sufficient to allow public sector employees to withdraw their monthly salaries and other compensations without setting any type of limits.
- Basic Circular 163 issued on 27 May 2022 defining the framework for the monitoring of the accounts of public officials, the performance of due diligence on their operations and the reporting to the Special Investigation Committee on the basis of founded suspicion.
- Intermediate Circular 637 issued on 27 July 2022 (amending Basic Circulars 65 and 78) requires banks selling real estate properties or participations acquired in accordance with the provisions of Article 153 or 154 of the CMC, only against fresh USD or its equivalent in LBP based on Sayrafa rate.
- Basic Circular 164 issued on 12 October 2022 and requesting banks to report to the Banking Control Commission on the cost of their monthly operating expenses that should be paid with fresh money, the resources for settling these expenses and how to ensure those resources.
- Intermediate Circular 648 issued on 1 November 2022 (amending Basic Circulars 14 and 67) reduced by 50% the interest rates served on foreign currencies placements with BDL and on Certificate of Deposits issued by BDL while continuing paying 50% of coupon payment in the instrument's currency and 50% in LL at official rate (LL 1,507.5 to the US Dollar until 31 January 2023 and LL 15,000 to the US Dollar afterwards). This circular was later amended on 2 February 2024 by Intermediate Circular 686 increasing the interest rate reduction on foreign currencies placements with BDL and on Certificates of Deposits issued by BDL from 50% to 75% while limiting the coupon payment to be in FCY only.
- Intermediate Circular 649 issued on 24 November 2022 (amending Basic Circulars 44 and 143) introduced a forbearance treatment in capital ratios computation by allowing the exclusion from Common Equity Tier 1 of a portion of losses incurred from FX purchases from BDL against LL banknotes (66% and 33% respectively in 2022 and 2023).
- Intermediate Circular 664 issued on 28 March 2023 (amending Basic Circular 81) requires banks to comply with article 863 of the Civil Procedure Law, which does not allow blocking partially or in full the wages and retirement pensions of employees, workers and servants and the salaries of civil servants, for the settlement of retail loans in foreign currencies except according to the ceilings set in the mentioned article. Banks were requested to reschedule retail loans provided in foreign currencies so that the related monthly settlements don't exceed the ceilings of article 863 nor 35 % of the family income. On 3 November 2023, the Intermediate Circular 680 was issued and requested from banks to also comply with article 865 (in addition to article 863) of the Civil Procedure Law and article 860 of the same law on the prohibition of seizing the retirement pensions of civil servants.
- Basic Circular 165 issued on 19 April 2023 and requesting banks to open new accounts at BDL in LL and in US Dollars specifically and exclusively for the "Cash Money" (i.e. money transferred from abroad and/or received as banknotes in foreign currencies after 17 November 2019 in addition to the money deposited or which will be deposited as banknotes in new accounts in LL and which respect the conditions set in BDL basic circular 150 for "fresh money"). These new accounts will be used for the settlement, compensation & transfer operations through BDL National Payment System (BDL-NPS).

- Intermediate Circular 667 issued on 13 April 2023 (amending Basic Circular 69) enhancing the framework of "Electronic Banking and Financial Operations" by introducing mainly new detailed rules applicable to E-signature, E-KYC and data protection, along with the related authorization processes from regulatory bodies.
- Intermediate Circular 683 issued on 17 November 2023 amending the provisions BDL Basic Cicular 32 which defines the framework of Foreign Exchange ("FX") operations in Banks operating in Lebanon and various FX positions computation. This circular came on the wake of several amendments applied in 2023 (Intermediate Circular 659, Intermediate Circular 675 and Intermediate Circular 677) aiming at converging to the IAS 21: The Effects of Changes in Foreign Exchange Rates differentiating monetary from non-monetary items and the corresponding impact on the Bank's FX position. Based on the new definition, the Bank is authorized to hold a Special Long FX position to hedge its core equity against FX risk. This special long FX position is to be deducted from the FX open position to reach the FX Trading Position. Besides, the circular reintroduced the 1% maximum limit (if the Bank holds concurrently a long open position and a net long trading position) on net trading position and 40% limit on Global position, while cancelling all previously authorized structural/fixed positions and any forbearance limit. The circular states that excesses over set limits at end of December 2023 should be liquidated by 31 December 2024 if long and by 31 December 2025 if short.
- Intermediate Circular 689 issued on 2 February 2024 permitting the full inclusion in Common Equity Tier 1 of balance of Foreign Currency Translation Adjustments as well as 75% of net changes from FVTOCI instruments. Besides, it allowed a full draw down of the 2.5% capital conservation buffer during years 2023 and 2024.
- Intermediate Circular 690 issued on 2 February 2024 permitting the full inclusion in the regulatory equity of positive balance (gains) of Foreign Currency Translation Reserve noting that this equity is used for the computation of various regulatory ratios other than capital adequacy ratios (FX position, limit of placement with FI, Code of money credit ("CMC") 153 limit.
- Basic Circular 166 issued on 2 February 2024 defining a new mechanism for the repayment of restricted funds in foreign currencies and de-facto replacing Basic Circular 151, which authorized limited withdrawals in LL from FCY accounts at pre-defined exchange rates and has not been renewed. Beneficiaries from said circular -who cannot be old or current beneficiaries from Basic Circular 158 - would be able to withdraw on a monthly basis US$.150 in cash up to a cumulative amount of US$.4,350 until June 2026. 50% of said amount will be financed from the Bank's own liquidity and 50% from the Bank's restricted funds with BDL. Certain exclusions parameters apply to potential customers wishing to benefit from the circular (Customers who did not return offshore transfers as per basic circular 154, traders of checks, customers who converted LL deposits into foreign currencies for at least US$.300,000 post-crisis with the exception of those who converted their end of service indemnity, customers who settled their FCY loans for an amount equivalent to US$.300,000 from LL proceeds, beneficiaries of Sayrafa transactions above or equal to US$.75,000, corporate clients, etc.).
- Basic Circular 167 issued on 2 February 2024 defining the published rate on BDL's electronic platform as the FX translation rate for the Bank's FCY monetary items as well for the non-monetary assets measured at fair value and assets measured as per equity method in line with IAS 21. This measure applies starting January 2024 reported financials.

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1.3 Particular situation of the Group

Exchange Rates

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

	2023		2022	
	Year–end Rate LBP	Average Rate LBP	Year–end Rate LBP	Average Rate LBP
US Dollar	15,000	13,875.63	1507.5	1,507.5
Iraqi Dinar	11.45	10.58	1.03	1.03

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.

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. 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:

	2023		2022	
	Rate as at 31 December	Average rate for the year ended 31 December	Rate as at 31 December	Average rate for the year ended 31 December
	LL	LL	LL	LL
US Dollar	89,500	78,116	38,000	26,146

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

In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LL 1,507.5 to LL 15,000 to the US Dollars. Sayrafa Rates and parallel market rates remained highly volatile and divergent from the new official published exchange rate (LL 42,000 and LL 58,200 respectively at 1 February 2023).

In January 2024, the Central Bank of Lebanon changed the official published exchange rate from LL 15,000 to LL 89,500 to the US Dollars.

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 Bank 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.

The consolidated financial statements as at and for the year ended 31 December 2023 do not include adjustments from the change in this rate from LL 15,000 to LL 89,500 to the US Dollars (the consolidated financial statement as at and for the year ended 31 December 2022 do not include adjustments from the change in this rate from LL 1507.5 to LL 15,000 to the US Dollars).

The Bank will use the new electronic platform rate of LL 89,500 to the US Dollars in its subsequent financial information reporting, with the first period being the quarterly reporting as of 31 March 2024.

Excepted Credit Losses

As at 31 December 2023, loss allowances on assets held at the Central Bank of Lebanon are recorded in these consolidated financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circulars 567. Due to the high levels of uncertainty and to the lack of observable indicators and visibility on the government's plans with respect to banks' exposure to the Central Bank of Lebanon and Lebanese sovereign, we are unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit loss model.

The impact is expected to be pervasive and will be reflected in the consolidated financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved and once the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognized loss allowances, as well as their staging are detailed in Note 40.2 to these consolidated financial statements.

As a result of the negative economic conditions and the deepening of the recession, the credit quality of the private loans portfolio concentrated in Lebanon has significantly deteriorated since the last quarter of 2019. The deterioration was further aggravated by the effects of the COVID-19 pandemic and the significant high inflation in Lebanon. Since the start of the Lebanese crisis, the Bank has been implementing a de-risking strategy by considerably reducing its assets size specifically its portfolio of private loans concentrated in Lebanon. It has also set up a centralized and specialized remedial function to proactively review and manage the quality of its various portfolios. The private loans portfolio of Lebanese entities has significantly contracted since the onset of the Lebanese crisis. With all other variables held constant, Management believes that the significant devaluation of the Lebanese Lira (and de-facto local US Dollars) and the triple digit inflation, reduced the risks of default compared to 31 December 2019. However, given the high level of uncertainties facing the Lebanese economy and the expected type of instruments underlying future cash flows, on the settlement of these private loans, loss allowances have been estimated based on the best available information at the reporting date about past events, current conditions and forecasts of economic conditions combined with expert judgement. Maximum exposures to the credit risk of the Bank's portfolio of private loans and the recognized loss allowances, as well as their staging are detailed in Note 40.2 to these consolidated financial statements.

The consolidated financial position of the Bank, 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 uncertainty on the 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. Management anticipates that the above matters will have a materially adverse impact on the Bank's consolidated financial position and its consolidated equity.

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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. Management believes that a legislative solution is urgently needed, through the enactment of laws that are appropriate for the adjudication of the unconventional legal disputes arising under the current exceptional circumstances. Due to recent developments and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, 2022 and 2023, Management considers that they may affect negatively the offshore liquidity of the Group (refer to Note 42). The amount cannot be determined presently.

Taxes, Social Security Contributions and Related Provisions

Due to the availability of several exchange rates in the Lebanese market, the determination of taxes, social security contributions and related provisions in relation to transactions or activities in foreign currencies are highly sensitive to the exchange rates applied. As a result of the unprecedented events and circumstances, there is high level of judgment involved in deciding on the exchange rates used and any change in these exchange rates, would result in a different determination of taxes, social security contributions and related provisions.

Measures by the Group

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.

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 Group is also uncertain whether the measures set out in its roadmap above would be sufficient to cover all its commitments as they become due and restore the activities of the 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, 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 de-facto 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 is inherently uncertain.

2 MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Bank for the year ended 31 December 2023 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 2023, and 2022, 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 2,005% and 192%, respectively as at 31 December 2023 (31 December 2022: 1,670% and 122%, respectively.). Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after 31 December 2020.

Therefore, entities whose functional currency is the Lebanese 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:

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(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, 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 due to the following considerations: the significant divergence in exchange rates, the lack of consensus on the general price index and the lack of views of relevant regulators, including tax authorities. However Management estimates such effects to be significant. This situation must be taken into account when interpreting the information reported by the Bank in the accompanying financial statements including its statement of financial position, income statement, statement of comprehensive income and cash flow statement.

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"). These consolidated financial statements incorporate the results of operations, assets and liabilities of the head office and Lebanese and foreign branches only, without consolidating the operating results and financial position of the subsidiaries. Consolidated financial statements as at 31 December 2023 are also presented by the Group and are available at the Bank's offices.

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.

2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of IBL Bank sal and its subsidiaries as at 31 December 2023. 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:

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- 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.

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 2023. The nature and the impact of each amendment is described below:

Definition of accounting estimates – amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Group's consolidated financial statements.

Disclosure of accounting policies – amendments to IAS 1 and IFRS practice statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide 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 had no impact on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

Deferred tax related to assets and liabilities arising from a single transaction - amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Group's consolidated financial statements.

International tax reform—pillar two model rules – amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

- An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
- An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The amendments had no impact on the Group's consolidated financial statements as the Bank is not in scope of the Pillar Two model rules as the Group's consolidated revenue including is less than EUR 750 million/year.

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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 2023, 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:

Amendments to IFRS 16: lease liability in a sale and leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

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:

a. What is meant by a right to defer settlement.

b. That a right to defer must exist at the end of the reporting period.

c. That classification is unaffected by the likelihood that an entity will exercise its deferral right.

d. 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.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 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.

Supplier finance arrangements - amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments:

Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Lack of exchangeability – amendments to IAS 21

In August 2023, the Board issued Lack of Exchangeability (Amendments to IAS 21). The amendment to IAS 21 specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency, it discloses information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted but will need to

be disclosed. When applying the amendments, an entity cannot restate comparative information. The Group is currently assessing the impact of the amendments on the Group's consolidated financial statements.

Sale or contribution of assets between an investor and its associate or joint venture – amendments to IFRS 10 and IAS 28

The amendments address the conflict between IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The amendments must be applied prospectively. Early application is permitted and must be disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

IFRS 18 presentation and disclosure in financial statements

On 09 April 2024, the International Accounting Standards Board (the IASB or the Board) issued IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) which replaces IAS 1 Presentation of Financial Statements (IAS 1). The new IFRS accounting standard is a result of the IASB's Primary Financial Statements project, which is aimed at improving comparability and transparency of communication in financial statements.

The new requirements include:

- Required totals, subtotals and new categories in the statement of profit or loss
- Disclosure of management - defined performance measures or 'MPMs'

Guidance on aggregation and disaggregation

Some requirements previously included in IAS 1 have been moved to IAS 8 and limited amendments have been made to IAS 7 and IAS 34.

IFRS 18 is effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements. The Group is currently assessing the impact of the amendments on the Group's consolidated financial statements.

2.5 Summary of material 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

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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.

Foreign currencies

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

Transactions in foreign currencies are initially recorded at the functional official published currency rate of exchange (Refer to Note 1).

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position as disclosed in Note 1. All differences are taken to "Net trading (loss) gain" in the consolidated income statement.

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 as disclosed in note 1. 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).

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;

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- 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); and
- 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 to banks, 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.

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.

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

After initial measurement, due to Central Bank, due to 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 gain / (loss)" 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.

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

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– 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.

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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 is 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.

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

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- 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).

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".

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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 Group 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.

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 expense presented in the consolidated income statement includes financial liabilities measured at amortized 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.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised as revenues on expiry.

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 decommissioning 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:

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	%
• 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, 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.

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents.

Taxes

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

(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%.

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(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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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.

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.

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.

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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.

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).

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4. INTEREST AND SIMILAR INCOME

	31.12.2023 LL'000	31.12.2022 LL'000
Balances with the Central Bank	635,622,144	422,387,466
Due from banks and financial institutions	86,864,342	1,367,231
Loans to banks	107,272	231,777
Loans and advances to customers at amortized cost	383,257,182	57,036,402
Loans and advances to related parties at amortized cost	1,022,347	529,509
Financial assets at amortized cost	309,643,603	132,993,932
	1,416,516,890	**614,546,317**
Tax	(62,233,933)	(52,157,859)
Net interest and similar income	**1,354,282,957**	**562,388,458**

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

	31.12.2023 LL'000	31.12.2022 LL'000
Certificates of deposit issued by the Central Bank of Lebanon	283,225,135	97,505,595
Lebanese Treasury Bills	26,418,468	35,488,337
	309,643,603	**132,993,932**

5. INTEREST AND SIMILAR EXPENSE

	31.12.2023 LL'000	31.12.2022 LL'000
Due to Central Bank	828,315	844,401
Due to banks and financial institutions	744,727	1,037,868
Customers' deposits at amortized cost	244,586,392	45,046,138
Deposits from related parties at amortized cost	2,864	937,781
Subordinated bonds (Note 30)	74,139,375	12,060,000
Lease liabilities (Note 28)	781,815	104,820
	321,083,488	**60,031,008**

6. NET FEE AND COMMISSION INCOME (EXPENSE)

	31.12.2023 LL'000	31.12.2022 LL'000
Fee and commission income		
Commercial banking income (*)	209,730,557	21,968,056
Trade finance income	6,274,740	942,949
Electronic banking	4,648,611	3,261,814
Assets management fees	1,208,671	35,578
Brokerage and custody income	-	75,950
Other fees and commissions	592,335	84,809
	222,454,914	**26,369,156**
Fee and commission expense		
Commission for LL banknotes (**)	(46,498,680)	(53,161,864)
Commercial banking expenses	(8,093,770)	(12,056,674)
Brokerage and custody fees	(6,157,262)	(1,225,637)
Other fees and commissions	(501,760)	(200,134)
	(61,251,472)	**(66,644,309)**
Net fee and commission income (expense)	**161,203,442**	**(40,275,153)**

(*) Commercial banking income includes commission income on foreign exchange transactions amounting to LL'000 15,352,900 in 2023 (2022: LL'000 6,362,334).

(**) The Group paid in 2022 and 2023 a premium for the supply of LL denominated banknotes in order to service customers' need in LL denominated banknotes during periods of shortage.

7. NET TRADING GAIN / (LOSS)

	31.12.2023 LL'000	31.12.2022 LL'000
Interest income from financial assets at fair value through profit or loss	40,088,706	38,521,964
Net profit (loss) on foreign exchange	599,779,037	(89,883,078)
Net unrealized loss (a)	(255,131,664)	(51,164,948)
	384,736,079	**(102,526,062)**
Tax on interest	**(2,667,416)**	**(3,459,264)**
	382,068,663	**(105,985,326)**

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(a) Net unrealized loss

	31.12.2023 LL'000	31.12.2022 LL'000
Lebanese sovereign and Central Bank of Lebanon:		
Certificates of deposit	(185,576,603)	(77)
Eurobonds	(31,076,379)	(53,012,089)
	(216,652,982)	**(53,012,166)**
Private sector and other securities:		
Equity securities	(23,244,005)	1,847,218
Mutual funds	(15,234,677)	-
	(38,478,682)	**1,847,218**
	(255,131,664)	**(51,164,948)**

8. OTHER OPERATING INCOME

	31.12.2023 LL'000	31.12.2022 LL'000
Provision for risks and charges written back (Note 29)	505,325,402	30,000,000
Write off of liabilities resulted from settlement agreement with European Investment Bank	190,363,373	-
Other income	13,577,233	2,581,331
	709,266,008	**32,581,331**

9. NET IMPAIRMENT GAIN ON FINANCIAL ASSETS

	31.12.2023 LL'000	31.12.2022 LL'000
Balances with central banks	(15,277,230)	444,415,778
Due from banks and financial institutions	539,091	(4,520,721)
Loans to banks	222,370	222,228
Loans and advances to customers at amortised cost	372,032,392	(1,374,481)
Loans and advances to related parties at amortised cost	(10,498,142)	(405)
Financial assets at amortised cost	(337,971,522)	210,355,792
Financial guarantees and other commitments	1,984,455	2,393,853
	11,031,414	**651,492,044**

10. PERSONNEL EXPENSES

	31.12.2023 LL'000	31.12.2022 LL'000
Salaries and related benefits	109,313,763	30,806,302
Attendance and representation fees	15,552,019	30,454,135
Social security contributions	6,790,558	3,744,876
Transportation	30,070,414	11,647,779
Schooling	5,909,684	2,662,765
End of service benefits (Note 29)	51,327,857	13,081,936
Medical expenses	52,665,136	13,037,630
Termination benefits	20,942,954	-
Others	3,927,918	1,572,148
	296,500,303	**107,007,571**

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11. OTHER OPERATING EXPENSES

	31.12.2023 LL'000	31.12.2022 LL'000
Professional fees	154,706,229	61,833,615
Subscriptions fees	15,198,569	4,713,794
Post and telephone	19,200,756	8,190,136
Insurance	24,692,190	11,658,579
Water and electricity	38,745,498	17,484,397
Repairs and maintenance	42,493,951	16,074,334
Printing and stationery	7,227,072	2,795,263
Advertising	7,907,871	4,929,874
Provision for risks (Note 29)	1,394,869,797	755,296,925
Administrative expenses	8,596,602	4,609,885
Contribution to deposits' guarantee fund	2,218,833	2,469,833
Travel and transportation	14,927,831	5,424,601
Miscellaneous expenses	82,125,066	9,280,534
	1,812,910,265	**904,761,770**

12. INCOME TAX

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

	31.12.2023 LL'000	31.12.2022 LL'000
Current tax:		
Current income tax	107,812,861	17,438,000
Built property tax	-	2,120,000
	107,812,861	**19,558,000**

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:

	31.12.2023 LL'000	31.12.2022 LL'000
Operating profit before tax	182,800,706	24,340,060
Increase resulting from:		
Non-deductible provisions	1,213,558,138	99,218,258
Unrealized losses on financial instruments	224,162,791	-
Non-deductible expenses	121,499,707	10,385,684
	1,742,021,342	**133,944,002**
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	(505,325,402)	(30,000,000)
Difference on exchange	(600,134,475)	-
Carried forward losses	(1,168,165)	-
	(1,107,828,042)	**(31,200,000)**
Income subject to tax	**634,193,300**	**102,744,002**
Income tax	**107,812,861**	**17,438,000**

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

	31.12.2023 LL'000	31.12.2022 LL'000
Balance at 1 January	17,438,000	20,634,410
Add/- Charge for the year	107,812,861	17,438,000
Less/- Tax paid on prior year tax liabilities	(17,410,760)	(20,634,410)
Balance at 31 December	**107,840,101**	**17,438,000**

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13. CASH AND BALANCES WITH CENTRAL BANK

	31.12.2023 LL'000	31.12.2022 LL'000
Cash on hand	84,017,994	125,017,482
Current accounts	18,010,516,782	1,095,768,852
Term accounts	14,873,336,380	2,878,740,351
Accrued interest receivable	160,109,542	80,174,897
	33,043,962,704	**4,054,684,100**
	33,127,980,698	**4,179,701,582**
Expected credit losses	(552,532,649)	(55,529,532)
	32,575,448,049	**4,124,172,050**

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 2023, time deposits with the Central Bank of Lebanon amounting to LL 1,987 billion (2022: LL 1,986 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 2023, financial assets and financial liabilities that were settled on a net basis amounted to LL'000 964,826 (2022: LL'000 838,541).

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% 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 117 billion and LL 4,492 billion respectively as at 31 December 2023 (2022: LL 101 billion and LL 476 billion respectively).

14. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	31.12.2023 LL'000	31.12.2022 LL'000
Checks for collection	3,030,000	3,456,836
Current accounts	628,552,304	68,771,056
Short term deposits	649,389,932	264,596,838
Term accounts	1,463,045	356,755
	1,282,435,281	**337,181,485**
Expected credit losses	(4,472,342)	(4,595,531)
	1,277,962,939	**332,585,954**

Short term deposits are detailed as follows:

Bank	Contract date	Maturity date	Interest rate	Currency	Amount	31.12.2023 LL'000
Saradar Bank s.a.l.	28-12-23	02-01-24	60	LL'000	60,000,000	60,000,000
Banque Bemo s.a.l.	28-12-23	02-01-24	60	LL'000	10,000,000	10,000,000
Banque Bemo s.a.l.	28-12-23	02-01-24	60	LL'000	20,000,000	20,000,000
Cedrus bank s.a.l.	28-12-23	02-01-24	60	LL'000	35,000,000	35,000,000
						125,000,000
Banque Cantonale de Geneve	27-12-23	04-01-24	5.3	USD'000	5,000	75,000,000
Banque Cantonale de Geneve	28-12-23	05-01-24	5.3	USD'000	4,500	67,500,000
Banque Cantonale de Geneve	29-12-23	08-01-24	5.3	USD'000	4,000	60,000,000
Banque Cantonale de Geneve	14-12-23	16-01-24	5.48	USD'000	5,000	75,000,000
Intesa Sanpaolo spa	04-12-23	08-01-24	5.45	USD'000	5,000	75,000,000
Intesa Sanpaolo spa	27-12-23	31-01-24	5.32	USD'000	5,000	75,000,000
Banque Cantonale de Geneve	28-12-23	04-01-24	1.65	EUR'000	5,400	96,889,932
						524,389,932
						649,389,932

15. LOANS TO BANKS

	31.12.2023 LL'000	31.12.2022 LL'000
Loans	1,500,000	5,500,000
Accrued interest	28,804	75,942
	1,528,804	**5,575,942**
Expected credit losses	(84,000)	(306,370)
	1,444,804	**5,269,572**

Contractual maturities of loans to banks are as follows:

	31.12.2023 Principal LL'000	31.12.2023 Rate %	31.12.2022 Principal LL'000	31.12.2022 Rate %
From 3 months to 1 year	-	-	4,000,000	2.35 – 4.30
1-3 years	1,500,000	4.30	1,500,000	4.30
	1,500,000		**5,500,000**	

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16. LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	31.12.2023 Gross amount net of unrealized interest LL'000	31.12.2023 Expected credit losses LL'000	31.12.2023 Carrying amount LL'000	31.12.2022 Gross amount net of unrealized interest LL'000	31.12.2022 Expected credit losses LL'000	31.12.2022 Carrying amount LL'000
Performing Loans – Stage 1 and 2						
Overdraft accounts	69,148,246	(13,848,214)	55,300,032	53,542,839	(17,018,313)	36,524,526
Term loans	2,287,737,922	(7,664,375)	2,280,073,547	380,116,062	(61,938,708)	318,177,354
Non–Performing Loans – Stage 3						
Substandard loans	167,107,229	(167,107,229)	–	27,776,111	(22,297,556)	5,478,555
Doubtful and bad loans	566,520,845	(566,520,845)	–	25,710,842	(24,234,160)	1,476,682
Accrued interest	669,876,456	–	669,876,456	33,623,415	–	33,623,415
	3,760,390,698	**(755,140,663)**	**3,005,250,035**	**520,769,269**	**(125,488,737)**	**395,280,532**

Performing term loans, outstanding at year end 2023 and 2022, include an amount of LL 2,175 billion (LL 219 billion in 2022) related to a non-resident customer which is covered by LL 2,325 billion (LL 234 billion in 2022) cash collateral. Related interest income and expense amounted to LL 310.7 billion (LL 33.8 billion in 2022) and LL 256.2 billion (LL 27.9 billion in 2022) respectively.

17. LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	31.12.2023 Gross amount net of unrealized interest LL'000	31.12.2023 Expected credit losses LL'000	31.12.2023 Carrying amount LL'000	31.12.2022 Gross amount net of unrealized interest LL'000	31.12.2022 Expected credit losses LL'000	31.12.2022 Carrying amount LL'000
Performing Loans – Stage 1 and 2						
Overdraft accounts	7,358,156	(662,986)	6,695,170	7,085,492	(1,806,355)	5,279,137
Term loans	745,875	(6,478)	739,397	1,576,273	(216,237)	1,360,036
Accrued interest	–	–	–	997	–	997
	8,104,031	**(669,464)**	**7,434,567**	**8,662,762**	**(2,022,592)**	**6,640,170**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2023 LL'000	31.12.2022 LL'000
Lebanese sovereign and Central Bank of Lebanon		
Certificates of deposit	125,363,559	310,941,339
Eurobonds	674,092,918	70,691,830
Accrued interest	5,674,057	5,560,498
	805,130,534	**387,193,667**
Private sector and other securities		
Unquoted equity securities	179,222	2,440,450
Quoted equity securities	58,606,200	5,793,832
Mutual funds	432,065	1,575,154
	59,217,487	**9,809,436**
	864,348,021	**397,003,103**

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 15,667 million as at 31 December 2023 (2022: LL 1,575 million).

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19. FINANCIAL ASSETS AT AMORTIZED COST

	31.12.2023			
	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	3,509,007,148	(1,941,444,661)	31,532,450	1,599,094,937
Lebanese treasury bills	65,626,205	–	3,083,641	68,709,846
Private sector				
Corporate bonds	15,000,000	(824,175)	–	14,175,825
	3,589,633,353	**(1,942,268,836)**	**34,616,091**	**1,681,980,608**

	31.12.2022			
	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	972,377,840	(140,822,901)	10,888,421	842,443,360
Lebanese treasury bills	95,492,111	(72,845,795)	6,278,786	28,925,102
Private sector				
Corporate bonds	1,507,500	(82,830)	–	1,424,670
	1,069,377,451	**(213,751,526)**	**17,167,207**	**872,793,132**

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 2023	55,984,302	7,354,162	10,288,501	699,733	2,132,118	30,062,032	4,703,870	111,224,718
Additions	–	–	1,439,735	–	–	–	(441,115)	998,620
Disposals	–	(246,077)	(216,436)	–	–	(1,221,479)	–	(1,683,992)
Modificaion of lease contracts	–	–	–	–	(443,590)	–	–	(443,590)
At 31 December 2023	**55,984,302**	**7,108,085**	**11,511,800**	**699,733**	**1,688,528**	**28,840,553**	**4,262,755**	**110,095,756**
Depreciation:								
At 1 January 2023	4,384,058	6,237,081	6,525,273	699,535	1,021,314	25,347,764	–	44,215,025
Depreciation during the year	510,347	390,280	1,191,280	198	321,768	1,738,308	–	4,152,181
Disposals	–	(231,914)	(215,011)	–	–	(1,221,479)	–	(1,668,404)
Modificaion of lease contracts	–	–	–	–	(429,873)	–	–	(429,873)
At 31 December 2023	4,894,405	6,395,447	7,501,542	699,733	913,209	25,864,593	–	46,268,929
Net book value:								
At 31 December 2023	51,089,897	712,638	4,010,258	–	775,319	2,975,960	4,262,755	63,826,827
Net book value:								
At 31 December 2022	51,600,244	1,117,081	3,763,228	198	1,110,804	4,714,268	4,703,870	67,009,693

21. INTANGIBLE ASSETS

Software

	2023 LL'000	2022 LL'000
COST		
Balance at 1 January	5,048,792	4,985,159
Additions	755,761	63,633
Disposals	(196,554)	-
Balance at 31 December	**5,607,999**	**5,048,792**
AMORTIZATION		
Balance at 1 January	4,647,225	4,458,725
Amortization during the year	147,929	196,430
Movements related to discontinued operations, net	–	(7,930)
Disposals	(196,054)	–
Balance at 31 December	**4,599,100**	**4,647,225**
NET BOOK VALUE		
At 31 December	**1,008,899**	**401,567**

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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.

	2023 LL'000	2022 LL'000
COST		
At 1 January	53,545,754	53,545,754
Disposals	(539,079)	–
Balance at 31 December	**53,006,675**	**53,545,754**
IMPAIRMENT		
Impairment	**(231,165)**	**(231,165)**
NET BOOK VALUE		
At 31 December	**52,775,510**	**53,314,589**

23. OTHER ASSETS

	31.12.2023 LL'000	31.12.2022 LL'000
Electronic cards and regularization accounts	–	310,868
Receivable from central bank of Lebanon (*)	301,337	143,773,182
Regulatory blocked funds	4,500,000	4,500,000
Refundable taxes (**)	3,247,077	3,247,077
Prepaid expenses	32,584,402	12,489,331
Legal case deposit	–	4,844,686
Sundry accounts receivables	6,991,979	1,812,022
Prepaid interest on subordinated bonds issued in 2021 (Note 30)	–	2,512,500
	47,624,795	**173,489,666**

(*) Receivable from Central Bank of Lebanon represents the foreign exchange position as at 31 December 2023 resulted mainly from the application of Basic Circulars No. 151, 158, 161 and Intermediary Circular No. 535.

(**) 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.

24. DUE TO CENTRAL BANK

	31.12.2023 LL'000	31.12.2022 LL'000
Central Bank of Lebanon		
Subsidised loans	58,843,367	61,694,953
Other borrowings	799,860	110,542
	59,643,227	**61,805,495**

Subsidised Loans

As at 31 December 2023, 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 (2022: the same).

25. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31.12.2023 LL'000	31.12.2022 LL'000
Current accounts	26,098,766	2,445,238
Short term borrowings	–	23,252,033
Accrued interest	–	272,800
	26,098,766	**25,970,071**

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

	31.12.2023 LL'000	31.12.2022 LL'000
Resident	7,030,798	981,964
Non–resident	19,067,968	24,988,107
	26,098,766	**25,970,071**

26. CUSTOMERS' DEPOSITS AT AMORTIZED COST

	31.12.2023 LL'000	31.12.2022 LL'000
Sight deposits	12,989,054,215	1,697,135,834
Time deposits and saving accounts	17,385,657,544	2,442,181,246
Cash collateral and margins	2,431,822,184	259,820,167
Other deposits	35,760,911	23,625,034
	32,842,294,854	**4,422,762,281**
Accrued interest payable	557,519,522	29,666,044
	33,399,814,376	**4,452,428,325**

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27. DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	31.12.2023 LL'000	31.12.2022 LL'000
Sight deposits	225,868,439	27,563,762
Time deposits and saving accounts	478,111,299	57,617,333
Cash collateral and margins	51,509	6,307
Accrued interest payable	224	179
	704,031,471	**85,187,581**

28. OTHER LIABILITIES

	31.12.2023 LL'000	31.12.2022 LL'000
Accrued expenses	96,191,300	65,725,794
Operational taxes	6,355,839	583,484
Social Security dues	1,418,227	685,159
Property building tax	2,531,711	2,531,711
Current tax liabilities (Note 12)	107,840,101	17,438,000
Lease liabilities	9,049,967	1,241,994
Payable to the National Institute for the Guarantee of Deposits	11,720,652	8,983,500
Miscellaneous suppliers and other payables	38,464,741	8,688,981
	273,572,538	**105,878,623**

Lease liabilities

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

	2023 LL'000	2022 LL'000
Balance at 1 January	1,241,994	1,834,134
Interest expense (Note 5)	781,815	104,820
Termination	–	(296,512)
Paid during the year	(3,146,466)	(400,448)
Difference on exchange	10,172,624	–
Balance at 31 December	**9,049,967**	**1,241,994**

29. PROVISIONS FOR RISKS AND CHARGES

	31.12.2023 LL'000	31.12.2022 LL'000
Provision for risks and charges (a)	2,087,920,781	832,697,991
Provision for foreign currency fluctuations (b)	24,265,002	12,459,001
Employees' end of service benefits (c)	101,439,218	24,516,723
Provision for expected credit losses on off–balance commitments (Note 40)	28,759,044	2,941,509
	2,242,384,045	**872,615,224**

(a) Provision for risks and charges

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

	2023 LL'000	2022 LL'000
Balance at 1 January	832,697,991	77,401,066
Add/ –		
– Allowance for the year	1,383,063,796	755,296,925
– Difference on exchange	377,484,396	–
	2,593,246,183	**832,697,991**
Less/– Provision no more required	(505,325,402)	–
Balance at 31 December	**2,087,920,781**	**832,697,991**

(b) Provision for foreign currency fluctuations

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

	2023 LL'000	2022 LL'000
Balance at 1 January	12,459,001	42,459,001
Add/ – Allowance for the year	11,806,001	–
Less/ - Provision written back	–	(30,000,000)
Balance at 31 December	**24,265,002**	**12,459,001**

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(c) Employees' end of service benefits

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

	2023 LL'000	2022 LL'000
Balance at 1 January	24,516,723	12,042,397
Add/–		
Allowance for the year	51,327,857	13,081,936
Difference on exchange	28,565,822	
	104,410,402	**25,124,333**
Less/–		
– Payments during the year	(2,971,184)	(607,610)
Balance at 31 December	**101,439,218**	**24,516,723**

30. SUBORDINATED BONDS

	31.12.2023 LL'000	31.12.2022 LL'000
USD 40,000,000 due 10 December 2025	600,000,000	60,300,000
USD 100,000,000 due 15 January 2028	1,500,000,000	150,750,000
Accrued interest	101,250,000	13,944,375
	2,201,250,000	**224,994,375**

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

The Extraordinary General Assembly of shareholders held on 24 August 2015, authorized 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, authorized 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 2023 amounted to LL 74.14 billion (2022: LL 12.06 billion) and are 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:

	31.12.2023			31.12.2022		
	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, 616 and 676, no dividends were distributed from 2019 till 2022 profits.

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32. NON–DISTRIBUTABLE RESERVES

	31.12.2023 LL'000	31.12.2022 LL'000
Legal reserve (a)	96,259,667	94,825,211
Non–distributable reserves (b)	81,196,900	80,657,822
Other reserves	5,763,000	5,763,000
	183,219,567	**181,246,033**

(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.

	31.12.2023 LL'000	31.12.2022 LL'000
Balance at 1 January	94,825,211	94,507,382
Add/-		
- Appropriation of 2021 results	1,182,456	317,829
- Appropriation of 2022 results	252,000	–
	96,259,667	**94,825,211**

(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.

	31.12.2023 LL'000	31.12.2022 LL'000
Balance at 1 January	80,657,822	80,657,822
Add/- Transfer from reserve for foreclosed assets	539,078	–
Balance at 31 December	**81,196,900**	**80,657,822**

33. OTHER COMPONENTS OF EQUITY

	31.12.2023 LL'000	31.12.2022 LL'000
Real estate revaluation reserve	2,752,680	2,752,680
Reserve for foreclosed assets	22,986,257	23,525,335
	25,738,937	**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.

	31.12.2023 LL'000	31.12.2022 LL'000
Balance at 1 January	23,525,335	23,525,335
Less/- Transfer to non-distributable reserves	(539,078)	–
Balance at 31 December	22,986,257	23,525,335

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

Liquidation of banking operations in Cyprus and Iraq.

The Bank represents the statement of financial position as follows:

	31.12.2023 Iraq LL'000	31.12.2022 Iraq LL'000
Assets		
Cash and balances with Central Bank	–	1,428,836
Liabilities		
Other liabilities	–	1,428,836

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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 2023 and 31 December 2022:

	31.12.2023 LL'000	31.12.2022 LL'000
Cash and balances with Central Bank	21,671,454,776	2,100,653,743
Due from banks and financial institutions	1,283,450,371	336,824,730
Due to banks and financial institutions	(26,098,766)	–
	22,928,806,381	**2,437,478,473**

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 2023 and 2022 are as follows:

	31.12.2023 LL'000	31.12.2022 LL'000
Loans and advances	7,434,567	6,640,170
Deposits	704,031,471	85,187,581
Interest income	1,022,347	529,509
Interest expense	2,864	937,781
Attendance fees	15,552,019	30,454,135

The executive management remuneration amounted to LL 25.4 billion in 2023 (2022: 7.3 billion).

One board member was granted an amount of LL 719 million in 2023 (2022: LL 123 million).

Professional fees include an amount of LL 5,304 million paid to related parties in 2023 (2022: LL 2,801 million).

Indirect facilities

	31.12.2023 LL'000	31.12.2022 LL'000
Letters of guarantee	25,000	46,105

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.

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37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurement hierarchy of the Group'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:

	2023			
	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	–	–	131,038	131,038
Eurobonds	674,093	–	–	674,093
Private sector and other securities:				
Equity instruments	58,606	–	179	58,785
Mutual funds	–	–	432	432

	2022			
	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	–	–	316,502	316,502
Eurobonds	70,692	–	–	70,692
Private sector and other securities:				
Equity instruments	5,794	–	2,440	8,234
Mutual funds	–	–	1,575	1,575

There were no transfers between levels during 2023 (2022: 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).

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.

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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.

	31.12.2023 LL'000	31.12.2022 LL'000
Guarantees and contingent liabilities	204,869,975	28,748,782

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.

	31.12.2023 LL'000	31.12.2022 LL'000
Forward foreign exchange contracts	236,833,301	–

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 3 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.

On 14 January 2022, IBL filed an annulment action in the Lebanese courts to annul, or set aside the arbitral award from the Arbitration. On 1 June 2023, an unanimous three-judge panel of the Civil Court of Appeal in Beirut granted IBL's annulment petition and invalidated the award from the Arbitration, rendering that award null and void in its entirely (the "Annulment Decision"). The Civil Court of Appeal ruled on June 1st, 2023 that the arbitral tribunal violated "a rule of international public order" by improperly admitting into evidence and relying on banking records obtained from third parties, which Lebanese banking secrecy laws prevented IBL from addressing, and in so doing, stripped IBL of its right to defend itself in the Arbitration.

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

The current status of the Second Arbitration is more particularly described below.

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 14 April 2022, the BEB expanded the scope of the conservatory attachment on additional properties, financial assets and shareholdings of the Bank.

The Bank filed various recourses against the decisions of 10 March and 14 April 2022 and obtained on 26 September 2023 a decision lifting the conservatory attachment decisions.

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 million approximately. Following appellate proceedings, on 8 May 2023, the Court of Appeals issued its mandate affirming the Judgment. IBL effected payment to the non-resident company in full satisfaction of the Judgment on 18 May 2023.

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. After further proceedings, the district court issued an Order on 9 January 2023, attaching a total of USD 17.36 million in IBL's correspondent accounts and stating that IBL's correspondent accounts were otherwise free of any attachment or other restraint.

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

On 1 August 2023, the non-resident company filed with Lebanon's highest court, the Court of Cassation, a request that the Court of Cassation (1) stay the execution of the Annulment Decision, and (2) reverse the Annulment Decision on the merits. IBL filed a response to the first prong of the non-resident company's request on 8 August 2023, and filed a response to the second prong on 1 September 2023.

In light of the Annulment Decision and the proceedings before the Court of Cassation, the tribunal in the Second Arbitration issued an order on 11 August 2023, staying proceedings in the arbitration for at least six months.

On 18 October 2023, the Court of Cassation ordered a stay of the Annulment Decision pending the outcome of the legal proceedings as to the merits.

On 20 October 2023, the non-resident company informed the arbitral tribunal in the Second Arbitration that the Court of Cassation ordered a stay of the Annulment Decision

In light of the stay of the Annulment Decision, the non-resident company is seeking to resume the Second Arbitration proceedings before the arbitral tribunal.

On 1 February 2024, the arbitral tribunal issued procedural decision No. /10/ ordering that the stay of the Arbitration be maintained for twelve months from the date of the present order or until the decision of the Lebanese Cour de cassation on Claimant's pourvoi, whichever occurs first .

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

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 2023 and the review of the National Social Security Fund (NSSF) since inception till 2023. 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.

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.

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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.

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.

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.

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- 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	$0 \leq PD \leq 4.29$ AAA < Rating < B	1	Excellent	Less Than 30 days	1–Current
	$4.30 \leq PD \leq 8.48$ Rating = B–	2	Strong		
	$8.49 \leq PD \leq 12.79$ Rating = CCC	3	Good	Between 31 and 60 days	2–Watch List
	$12.80 \leq PD \leq 15.71$ Rating = CCC	4	Satisfactory		
	$15.72 \leq PD \leq 23.71$ Rating = CCC	5	Adequate		
Stage 2	$23.72 \leq PD \leq 29.12$ Rating = CCC	6	Marginal	Between 61 and 90 days	3–Watch and Regularization
	$29.13 \leq PD \leq 46.25$ Rating = CCC	7	Vulnerable		
Stage 3	$46.26 \leq PD \leq 53.96$ 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
	$PD \geq 53.97$ 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.

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

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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 2023 and 2022. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure				Impairment allowance				
	Stage 1 LL Million	Stage 2 LL Million	Stage 3 LL Million	Total LL Million	Stage 1 LL Million	Stage 2 LL Million	Stage 3 LL Million	Total LL Million	Net exposure LLMillion
31 December 2023									
Balances with Central Bank	–	33,043,963	–	33,043,963	–	552,533	–	552,533	32,491,430
Due from banks and financial institutions	1,142,815	139,620	–	1,282,435	1,725	2,747	–	4,472	1,277,963
Loans to banks	1,529	–	–	1,529	84	–	–	84	1,445
Loans and advances to customers at amortized cost	177,623	2,849,140	733,628	3,760,391	19,521	1,992	733,628	755,141	3,005,250
Loans and advances to related parties at amortized cost	8,105	–	–	8,105	670	–	–	670	7,435
Financial assets at amortized cost	68,710	3,555,540	–	3,624,250	–	1,942,269	–	1,942,269	1,681,981
Total	1,398,782	39,588,263	733,628	41,720,673	22,000	2,499,541	733,628	3,255,169	38,465,504

	Gross exposure				Impairment allowance				
	Stage 1 LL Million	Stage 2 LL Million	Stage 3 LL Million	Total LL Million	Stage 1 LL Million	Stage 2 LL Million	Stage 3 LL Million	Total LL Million	Net exposure LLMillion
31 December 2022									
Balances with Central Bank	–	4,054,684	–	4,054,684	–	55,530	–	55,530	3,999,154
Due from banks and financial institutions	337,181	–	–	337,181	4,595	–	–	4,595	332,586
Loans to banks	5,576	–	–	5,576	306	–	–	306	5,270
Loans and advances to customers at amortized cost	436,606	30,676	53,487	520,769	70,656	8,301	46,532	125,489	395,280
Loans and advances to related parties at amortized cost	8,663	–	–	8,663	2,023	–	–	2,023	6,640
Financial assets at amortized cost	103,278	983,267	–	1,086,545	72,929	140,823	–	213,752	872,793
Total	**891,304**	**5,068,627**	**53,487**	**6,013,418**	**150,509**	**204,654**	**46,532**	**401,695**	**5,611,723**

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

	2023			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	–	55,529,532	–	55,529,532
Net re–measurement and reallocations	–	15,277,230	–	15,277,230
Difference of exchange	–	481,725,887	–	481,725,887
Balance at 31 December	**–**	**552,532,649**	**–**	**552,532,649**

	2022			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	–	499,851,583	–	499,851,583
Net re-measurement and reallocations	–	(444,415,778)	–	(444,415,778)
Transfers	–	93,727	–	93,727
Balance at 31 December	**–**	**55,529,532**	**–**	**55,529,532**

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:

	2023			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	4,595,531	–	–	4,595,531
Net re–measurements and reallocations	(539,091)	–	–	(539,091)
Transfers	(2,746,513)	2,746,513	–	–
	415,902	–	–	415,902
Balance at 31 December	**1,725,829**	**2,746,513**	**–**	**4,472,342**

	2022			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	74,688	–	–	74,688
Net re–measurements and reallocations	4,520,721	–	–	4,520,721
Transfers	122			122
Balance at 31 December	**4,595,531**	**–**	**–**	**4,595,531**

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

	2023			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	306,370	–	–	306,370
Net re–measurements and reallocations	(222,370)	–	–	(222,370)
Balance at 31 December	**84,000**	**–**	**–**	**84,000**

	2022			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	528,598	–	–	528,598
Net re–measurements and reallocations	(222,228)	–	–	(222,228)
Balance at 31 December	**306,370**	**–**	**–**	**306,370**

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:

	2023			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	72,679,141	8,300,559	46,531,629	127,511,329
Net re–measurements and reallocations	(578,519,660)	(53,087,660)	270,073,070	(361,534,250)
Transfers	(856,680)	(1,914,392)	(2,244,569)	(5,015,641)
Write-off	–	–	(248,598)	(248,598)
Difference of exchange	526,887,815	48,692,930	419,516,542	995,097,287
Balance at 31 December	**20,190,616**	**1,991,437**	**733,628,074**	**755,810,127**

	2022			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	67,076,892	8,538,614	60,096,240	135,711,746
Net re–measurements and reallocations	6,444,103	(1,094,454)	(3,974,763)	1,374,886
Transfers	(841,854)	856,399	–	14,545
Write-off	–	–	(9,589,848)	(9,589,848)
Balance at 31 December	**72,679,141**	**8,300,559**	**46,531,629**	**127,511,329**

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:

	2023			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	72,928,625	140,822,901	–	213,751,526
Net remeasurements and reallocations	(72,845,795)	410,817,317	–	337,971,522
Transfers	(824,175)	824,175	–	–
Difference of exchange	741,345	1,389,804,443	–	1,390,545,788
Balance at 31 December	**–**	**1,942,268,836**	**–**	**1,942,268,836**

	2022			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	78,099,330	436,978,615	–	515,077,945
Net remeasurements and reallocations	(5,170,705)	(205,185,087)	–	(210,355,792)
Difference of exchange	–	(90,970,627)	–	(90,970,627)
Balance at 31 December	**72,928,625**	**140,822,901**	**–**	**213,751,526**

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

	2023			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	2,120,781	9,061	811,667	2,941,509
Net remeasurements and reallocations	(1,503,437)	1,377	(482,395)	(1,984,455)
Transfers	–	–	6,750,000	6,750,000
Difference on exchange	13,791,040	112	7,260,838	21,051,990
Balance at 31 December	**14,408,384**	**10,550**	**14,340,110**	**28,759,044**

	2022			
	Stage 1 LL'000	Stage 2 LL'000	Stage 3 LL'000	Total LL'000
At 1 January	4,449,874	13,904	871,584	5,335,362
Net remeasurements and reallocations	(2,329,093)	(4,843)	(59,917)	(2,393,853)
Balance at 31 December	**2,120,781**	**9,061**	**811,667**	**2,941,509**

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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:

	2023					
	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	32,491,430	–	–	–	–	32,491,430
Due from banks and financial institutions	123,110	26,781	312,975	814,089	1,008	1,277,963
Loans to banks	1,445	–	–	–	–	1,445
Loans and advances to customers at amortized cost	189,018	2,785,818	–	25,942	4,472	3,005,250
Loans and advances to related parties at amortized cost	7,435	–	–	–	–	7,435
Financial assets at fair value through profit or loss	864,348	–	–	–	–	864,348
Financial assets at amortized cost	1,681,981	–	–	–	–	1,681,981
	35,358,767	**2,812,599**	**312,975**	**840,031**	**5,480**	**39,329,852**
LIABILITIES						
Due to Central Bank	59,643	–	–	–	–	59,643
Due to banks and financial institutions	7,076	12,105		6,918	–	26,099
Customers' deposits at amortised cost	24,294,190	5,078,367	2,392,322	1,339,930	295,005	33,399,814
Deposits from related parties at amortised cost	704,031	–	–	–	–	704,031
Subordinated bonds	2,201,250	–	–	–	–	2,201,250
	27,266,190	**5,090,472**	**2,392,322**	**1,346,848**	**295,005**	**36,390,837**

	2022					
	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	3,999,154	–	–	–	–	3,999,154
Due from banks and financial institutions	240,341	323	46,294	32,966	12,662	332,586
Loans to banks	5,270	–	–	–	–	5,270
Loans and advances to customers at amortized cost	174,873	218,415	–	1,673	319	395,280
Loans and advances to related parties at amortized cost	6,640	–	–	–	–	6,640
Financial assets at fair value through profit or loss	397,003	–	–	–	–	397,003
Financial assets at amortized cost	872,793	–	–	–	–	872,793
	5,696,074	**218,738**	**46,294**	**34,639**	**12,981**	**6,008,726**
LIABILITIES						
Due to Central Bank	61,806	–	–	–	–	61,806
Due to banks and financial institutions	980	1,465	–	23,525	–	25,970
Customers' deposits at amortised cost	3,453,186	756,224	77,072	139,462	26,484	4,452,428
Deposits from related parties at amortised cost	85,188	–	–	–	–	85,188
Subordinated bonds	224,994	–	–	–	–	224,994
	3,826,154	**757,689**	**77,072**	**162,987**	**26,484**	**4,850,386**

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:

	31.12.2023											
	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	–	–	–	32,491,430	32,491,430	–	–	–	–	–	–	32,491,430
Due from banks and financial institutions	–	–	–	–	–	856,856	287,696	–	1,191	132,220	1,277,963	1,277,963
Loans to banks	–	–	–	–	–	–	–	–	–	1,445	1,445	1,445
Financial assets at fair value through profit or loss	–	–	–	864,348	864,348	–	–	–	–	–	–	864,348
Financial assets at amortized cost	–	–	68,710	1,599,095	1,667,805	–	–	–	–	14,176	14,176	1,681,981
	–	**–**	**68,710**	**34,954,873**	**35,023,583**	**856,856**	**287,696**	**–**	**1,191**	**147,841**	**1,293,584**	**36,317,167**

	31.12.2022											
	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	–	–	–	3,999,154	3,999,154	–	–	–	–	–	–	3,999,154
Due from banks and financial institutions	–	–	–	–	–	53,164	37,897	198	–	241,327	332,586	332,586
Loans to banks	–	–	–	–	–	–	–	–	–	5,270	5,270	5,270
Financial assets at fair value through profit or loss	–	–	–	397,003	397,003	–	–	–	–	–	–	397,003
Financial assets at amortized cost	–	–	28,925	842,443	871,368	–	–	–	–	1,425	1,425	872,793
	–	**–**	**28,925**	**5,238,600**	**5,267,525**	**53,164**	**37,897**	**198**	**–**	**248,022**	**339,281**	**5,606,806**

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.

	31.12.2023					
	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	32,491,430	–	–	–	–	32,491,430
Due from banks and financial institutions	1,277,963	–	–	–	–	1,277,963
Loans to banks	1,445	–	–	–	–	1,445
Loans and advances to customers at amortised cost	3,005,250	2,400,470	–	173,340	–	431,440
Loans and advances to related parties at amortized cost	7,435	–	–	173,340	–	7,435
Financial assets at fair value through profit or loss	864,348	–	–	–	–	864,348
Financial assets at amortised cost	1,681,981	–	–	–	–	1,681,981
Contingent liabilities						
Financial guarantee given to customers	204,870	–	–	–	–	204,870
Total	**39,534,722**	**2,400,470**	**–**	**173,340**	**–**	**36,960,912**
Guarantees received from banks, financial institutions and customers		2,419,710	–	206,842	–	
Utilized collateral		2,400,470	–	173,340	–	
Surplus of collateral before undrawn credit lines		19,240	–	33,502	–	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 52,742 million as at 31 December 2023.

	31.12.2022					
	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	3,999,154	–	–	–	–	3,999,154
Due from banks and financial institutions	332,586	–	–	–	–	332,586
Loans to banks	5,270	–	–	–	–	5,270
Loans and advances to customers at amortised cost	395,280	257,182	5	116,500	10	21,583
Loans and advances to related parties at amortized cost	6,640	–	–	2,569	–	4,071
Financial assets at fair value through profit or loss	397,003	–	–	–	–	397,003
Financial assets at amortised cost	872,793	–	–	–	–	872,793
Contingent liabilities						
Financial guarantee given to customers	28,749	–	–	–	–	28,749
Total	**6,037,475**	**257,182**	**5**	**119,069**	**10**	**5,661,209**
Guarantees received from banks, financial institutions and customers		257,182	5	303,440	10	
Utilized collateral		257,182	5	119,069	10	
Surplus of collateral before undrawn credit lines		–	–	184,371	–	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 184,371 million as at 31 December 2022.

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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.*
- *o 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 Bank's assets and liabilities in foreign currencies are valued at the official published exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency markets, this does not always represent a reasonable estimate of expected cash flows in Lebanese 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 financial statements. In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LL 1,507.5 to LL 15,000 to the US Dollar. Sayrafa Rates and parallel market rates remained highly volatile and divergent from the new official published exchange

rate official (LL 42,000 and LL 58,200 respectively at 1 February 2023). In January 2024, the Central Bank of Lebanon changed the official published exchange rate from LL 15,000 to LL 89,500 the US Dollars. The financial statements as at and for the year ended 31 December 2023 do not include adjustments from the change in this rate from LL 15,000 to LL 89,500 to the US Dollar. The Bank will use the new rate of LL 89,500 in its subsequent financial information reporting, with the first period being the quarterly reporting as of 31 March 2024.

The gap between the several exchange rates and the subjectivity and complexities surrounding exchange rates remained even after the change in the official published exchange rate and Management believes that the future unification of the exchange rate of the LL to the US Dollar will further have a significant impact on its financial position and regulatory ratios from the translation of assets and liabilities in foreign currencies at a different rate. Management is unable to determine what would be a reasonable possible movement in order to provide a useful quantitative sensitivity analysis.

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.

	2023				
	LBP LL Million	US$ LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets					
Cash and balances with Central Bank	1,149,337	29,182,178	2,159,142	84,791	32,575,448
Due from banks and financial institutions	124,065	757,649	147,226	249,023	1,277,963
Loans to banks	1,445	–	–	–	1,445
Loans and advances to customers at amortized cost	81,630	2,862,425	61,160	35	3,005,250
Loans and advances to related parties at amortized cost	2,206	5,222	7	–	7,435
Financial assets at fair value through profit or loss	131,217	733,131	–	–	864,348
Financial assets at amortized cost	399,430	1,282,551	–	–	1,681,981
Total financial assets	**1,889,330**	**34,823,156**	**2,367,535**	**333,849**	**39,413,870**
Financial liabilities					
Due to Central Bank	53,585	6,058	–	–	59,643
Due to banks and financial institutions	1,218	19,658	4,780	443	26,099
Customers' deposits at amortised cost	1,121,960	29,741,965	2,312,947	222,942	33,399,814
Deposits from related parties at amortised cost	9,830	655,054	38,640	507	704,031
Subordinated bonds	–	2,201,250	–	–	2,201,250
Total financial liabilities	**1,186,593**	**32,623,985**	**2,356,367**	**223,892**	**36,390,837**

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	2022				
	LBP LL Million	US$ LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets					
Cash and balances with Central Bank	1,242,060	2,651,782	221,724	8,606	4,124,172
Due from banks and financial institutions	239,305	81,167	7,265	4,849	332,586
Loans to banks	5,270	–	–	–	5,270
Loans and advances to customers at amortized cost	135,219	254,050	6,000	11	395,280
Loans and advances to related parties at amortized cost	1,605	5,034	1	–	6,640
Financial assets at fair value through profit or loss	316,836	80,167	–	–	397,003
Financial assets at amortized cost	348,448	524,345	–	–	872,793
Total financial assets	**2,288,743**	**3,596,545**	**234,990**	**13,466**	**6,133,744**
Financial liabilities					
Due to Central Bank	60,954	852	–	–	61,806
Due to banks and financial institutions	543	22,228	3,157	42	25,970
Customers' deposits at amortised cost	1,106,252	3,102,912	221,784	21,480	4,452,428
Deposits from related parties at amortised cost	2,923	78,070	4,154	41	85,188
Subordinated bonds	–	224,994	–	–	224,994
Total financial liabilities	**1,170,672**	**3,429,056**	**229,095**	**21,563**	**4,850,386**

Assets and liabilities in foreign currencies presented in the tables above include onshore assets and liabilities in foreign currencies that are subject to de-facto 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:

	2023			
	USD LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets				
Balances with Central Bank	29,147,099	2,156,993	84,791	31,388,883
Due from banks and financial institutions	8,513	63	70	8,646
Loans and advances to customers at amortized cost	16,908	61,160	32	78,100
Loans and advances to related parties at amortized cost	5,219	7	–	5,226
Financial assets at fair value through profit or loss	733,131	–	–	733,131
Financial assets at amortized cost	1,282,551	–	–	1,282,551
Total financial assets	**31,193,421**	**2,218,223**	**84,893**	**33,496,537**
Financial liabilities				
Due to Central Bank	6,058	–	–	6,058
Due to banks and financial institutions	590	4,780	443	5,813
Customers' deposits at amortised cost	29,586,769	2,163,847	221,884	31,972,500
Deposits from related parties at amortised cost	651,187	38,596	96	689,879
Subordinated bonds	2,201,250	–	–	2,201,250
Total financial liabilities	**32,445,854**	**2,207,223**	**222,423**	**34,875,500**

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	2022			
	USD LL Million	EUR LL Million	Other LL Million	Total LL Million
Financial assets				
Balances with Central Bank	2,637,389	219,062	8,606	2,865,057
Due from banks and financial institutions	5,725	10	183	5,918
Loans and advances to customers at amortized cost	34,884	6,000	11	40,895
Loans and advances to related parties at amortized cost	5,179	1	–	5,180
Financial assets at fair value through profit or loss	80,167	–	–	- 80,167
Financial assets at amortized cost	524,474	–	–	524,474
Total financial assets	**3,287,818**	**225,073**	**8,800**	**3,521,691**
Financial liabilities				
Due to Central Bank	852	–	–	852
Due to banks and financial institutions	20,493	3,157	42	23,692
Customers' deposits at amortised cost	3,088,715	215,071	21,198	3,324,984
Deposits from related parties at amortised cost	77,893	4,153	9	82,055
Subordinated bonds	224,994	–	–	224,994
Total financial liabilities	**3,412,947**	**222,381**	**21,249**	**3,656,577**

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 2024. 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 past three years. 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 negligible.

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.

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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.

The Central Bank of Lebanon, through its Basic Circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the Bank's total foreign currency deposits as at 30 September 2022.

Sources of Funding

Customers' deposits were the main funding source of the Group as at 31 December 2022 and 2021. 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.

	31.12.2023					
	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	–	3,239	6,595	23,049	26,760	59,643
Due to banks and financial institutions	26,092	–	7	–	–	26,099
Customers' deposits at amortised cost	13,249,552	18,731,228	1,373,321	45,691	22	33,399,814
Deposits from related parties at amortised cost	–	704,031	–	–	–	704,031
Subordinated bonds	101,250	–	–	600,000	1,500,000	2,201,250
Total financial liabilities	**13,376,894**	**19,438,498**	**1,379,923**	**668,740**	**1,526,782**	**36,390,837**

	31.12.2022					
	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	–	3,120	5,178	21,800	31,708	61,806
Due to banks and financial institutions	2,897	273	12,670	10,130	–	25,970
Customers' deposits at amortised cost	1,721,649	2,447,384	215,063	68,237	95	4,452,428
Deposits from related parties at amortised cost	–	84,770	418	–	–	85,188
Subordinated bonds	13,944	–	–	60,300	150,750	224,994
Total financial liabilities	**1,738,490**	**2,535,547**	**233,329**	**160,467**	**182,553**	**4,850,386**

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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 2023** 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	23,105,953	9,385,477	32,491,430
Due from banks and financial institutions	1,277,963	–	1,277,963
Loans to banks	1,445	–	1,445
Loans and advances to customers at amortized cost	2,940,127	65,123	3,005,250
Loans and advances to related parties at amortized cost	7,435	–	7,435
Financial assets at fair value through profit or loss	85,496	778,852	864,348
Financial assets at amortized cost	–	1,681,981	1,681,981
Total financial assets	**27,418,419**	**11,911,433**	**39,329,852**
Financial liabilities			
Due to Central Bank	9,834	49,809	59,643
Due to banks and financial institutions	26,099	–	26,099
Customers' deposits at amortised cost	33,354,101	45,713	33,399,814
Deposits from related parties at amortised cost	704,031	–	704,031
Subordinated bonds	101,250	2,100,000	2,201,250
Total financial liabilities	**34,195,315**	**2,195,522**	**36,390,837**

The maturity profile of the financial assets and financial liabilities at **31 December 2022** 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	1,999,578	1,999,576	3,999,154
Due from banks and financial institutions	332,586	–	332,586
Loans to banks	3,770	1,500	5,270
Loans and advances to customers at amortized cost	285,163	110,117	395,280
Loans and advances to related parties at amortized cost	6,640	–	6,640
Financial assets at fair value through profit or loss	11,574	385,429	397,003
Financial assets at amortized cost	265,390	607,403	872,793
Total financial assets	**2,904,701**	**3,104,025**	**6,008,726**
Financial liabilities			
Due to Central Bank	8,298	53,508	61,806
Due to banks and financial institutions	15,840	10,130	25,970
Customers' deposits at amortised cost	4,384,096	68,332	4,452,428
Deposits from related parties at amortised cost	85,188	–	85,188
Subordinated bonds	13,944	211,050	224,994
Total financial liabilities	**4,507,366**	**343,020**	**4,850,386**

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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. 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.

45. SUBSEQUENT EVENTS

Effective 31 January 2024, the official published exchange rate was changed from LL 15,000 to the US Dollars to LL 89,500 to the US Dollars. As a result, with all other variables held constant, the Group determined that this change resulted in a positive effect on its income statement from the financial assets and financial liabilities of entities operating in Lebanon, that have the Lebanese Lira as a functional currency.