

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2023



Building a better
working world

Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
P.O. Box: 11-1639, Riad El Solh
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61



SEMAAN, GHOLAM & Co.

BDO, Semaan, Gholam & Co.
Gholam Building - Sioufi Street
Beirut

P.O.Box: 11-0558, Riad El Solh
Beirut - 1107 2050, Lebanon

Tel: (01) 323676
Fax: (01) 204142
sيمان@inco.com.lb
C.R. 570

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Adverse Opinion

We have audited the consolidated financial statements of Byblos 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 material accounting policies information.

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 consolidated financial statements from and for the years from which the Republic of Lebanon has been designated as a hyperinflationary economy, including the current year ended 31 December 2023, nor did the Group consider its effects on forecasts and discount rates used in accounting estimates. In addition, as disclosed in Note 25, during 2022, the Group determined the carrying amount of lands and real estate in Lebanon based on a valuation performed by an accredited external independent valuer in US Dollars and then translated it to Lebanese Liras at the Sayrafa rate of LL 89,500 for the US Dollars as at 31 December 2023 (2022: LL 38,000 for the US Dollars) as required by the Central Bank of Lebanon Intermediate Circular 659. The gain from revaluation amounting to LL 6,747,292 million was recognized in other comprehensive income for the year ended 31 December 2023 (2022: LL 3,867,157 million). In accordance with IAS 29, the historical cost should be restated from the date of acquisition by applying the general price index, and then compared to the appraised amount with the difference treated as required by IAS 16 – Property, Plant and Equipment (“IAS 16”) and subsequently, the appraised carrying amount should be restated from the date of the appraisal by applying the general price index. In addition, due to the lack of information and visibility on the impact of the current macroeconomic crisis in Lebanon, we were unable to conclude on the adequacy of the appraised amount. Had the Group applied the requirements of IAS 29, and considered its effects on accounting estimates, many elements, and disclosures in the consolidated financial statements, including comparative financial information, would have been materially different. The effects on the consolidated financial statements from this departure have not been determined. Our opinion on the prior year financial statements were also modified for same reasons.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL (continued)**

Basis for Adverse Opinion (continued)

2. Except for the exchange rate used for the translation of the appraised amount of land and real estate in Lebanon as described in paragraph 1 above, the Group translated its assets and liabilities denominated in foreign currencies and the assets and liabilities of its foreign operations 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 LL 174,212 million (2022: LL 1,235,264 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 140,010,292 million (31 December 2022: LL 13,963,204 million), a portfolio of Lebanese government treasury securities and Certificate of deposits (under financial assets at amortized cost) totalling LL 1,648,373 million (31 December 2022: LL 3,233,485 million), a portfolio of loans amounting to LL 2,868,411 million (31 December 2022: LL 1,526,390 million) and other balances with banks and other assets amounting to LL 702,806 million (31 December 2022: LL 252,197 million), concentrated in Lebanon which represent 79% of the Group's total assets as at 31 December 2023 (31 December 2022: 71%).

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

Furthermore, the Group has engaged in several transactions involving modification of contractual cash flows, renegotiations, exchanges and extinguishment of financial assets and financial liabilities. The Group has not applied the requirements of IFRS 9 and assessed whether these transactions should be accounted for as modifications resulting in derecognition or no derecognition, nor is the Group calculating and accounting for the impact of such modifications, which constitutes a departure from the requirements of IFRS 9. The effects of this departure on the carrying amount of these financial instruments and related income statement accounts have not been determined. Our opinion for the year ended 31 December 2022 was modified for same reasons.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL (continued)**

Basis for Adverse Opinion (continued)

Also, as disclosed in Note 46, management did not produce the 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 same reasons explained above.

4. As at 31 December 2023, the Group holds equity instruments in entities operating in Lebanon or measured at fair value based on expected proceeds in Lebanon amounting to LL 735,691 million held at fair value through other comprehensive income and at fair value through profit and loss (2022: LL 67,451 million). 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. As disclosed in Note 2.5 to the consolidated financial statements, the Group did not apply the requirements of IFRS 17 – Insurance Contracts (“IFRS 17”) which is effective from 1 January 2023. The consolidated financial statements continue to be prepared under IFRS 4 – Insurance Contracts (“IFRS 4”). Had the Group applied the requirements of IFRS 17, many elements and disclosures in the accompanying consolidated financial statements, including the comparative financial information as at 31 December 2022, would have been materially different. The effects on the consolidated financial statements from this departure have not been determined.
6. As at 31 December 2023, the Group carries provisions for risks and charges amounting to LL 5,730,741 million for which we requested but did not receive the basis for estimation and recognition. Accordingly, we were unable to determine whether this provision meets the recognition criteria of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Consequently, we were unable to determine whether adjustments to the carrying amount of this provision as at 31 December 2023 and related income statement accounts for the year ended 31 December 2023 were necessary.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL (continued)**

Basis for Adverse Opinion (continued)

7. 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 and the impacts of the subsequent change of the official exchange rate described in Note 52 to the consolidated financial statements 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, claims and investigations raised against the Group and the negative impact that they may have on the Group's liquidity as disclosed in Notes 1 and 49. 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 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 2023. Except for the matters described in the "*Basis for Adverse Opinion*" section of our report, we have determined that there are no other key audit matters to communicate in our report.

Other Information Included in the Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2023 Annual Report is expected to be made available to us after the date of this auditors' report.

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

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

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL (continued)**

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.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL (continued)**

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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


Ernst & Young

14 August 2024
Beirut, Lebanon


BDO, Semaan, Gholam & Co.

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>LL million</i>	2022 <i>LL million</i>
CONTINUING OPERATIONS			
Interest and similar income	6	4,450,344	1,252,079
Interest and similar expense	7	(995,834)	(315,008)
NET INTEREST INCOME		3,454,510	937,071
Fee and commission income	8	1,065,442	156,098
Fee and commission expense	8	(210,112)	(673,055)
NET FEE AND COMMISSION INCOME (EXPENSE)		855,330	(516,957)
Net trading gain (loss)	9	3,639,456	(1,314,181)
Net loss from derecognition of financial assets at amortised cost	10	-	(38,240)
Non-interest revenues from financial assets at fair value through other comprehensive income		36,351	3,181
Other operating income	11	344,421	18,862
TOTAL OPERATING INCOME (LOSS)		8,330,068	(910,264)
Net (impairment loss) recovery on financial assets	12	(1,175,786)	25,066
NET OPERATING INCOME (LOSS)		7,154,282	(885,198)
Personnel expenses	13	(1,046,411)	(211,607)
Other operating expenses	14	(5,746,151)	(415,331)
Depreciation of property, equipment and right-of-use assets	25	(151,423)	(19,012)
Amortisation of intangible assets	26	(7,134)	(4,817)
TOTAL OPERATING EXPENSES		(6,951,119)	(650,767)
OPERATING PROFIT (LOSS)		203,163	(1,535,965)
Net gain from disposal of property, equipment and right-of-use assets		2,354	-
PROFIT (LOSS) BEFORE TAX		205,517	(1,535,965)
Income tax expense	15	(199,316)	(5,490)
PROFIT (LOSS) FOR THE YEAR		6,201	(1,541,455)
Attributable to:			
Equity holders of the parent		72,769	(1,541,747)
<i>Profit (loss) for the year</i>		72,769	(1,541,747)
Non-controlling interests		(66,568)	292
<i>(Loss) profit for the year</i>		(66,568)	292
		6,201	(1,541,455)
		<i>LL</i>	<i>LL</i>
Basic and diluted profit (loss) per share	16	130	(2,744)

The attached notes 1 to 52 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>LL million</i>	2022 <i>LL million</i>
PROFIT (LOSS) FOR THE YEAR		6,201	(1,541,455)
OTHER COMPREHENSIVE INCOME			
<i>Items that will be reclassified to the income statement in subsequent periods:</i>			
Net unrealized profit (loss) from debt instruments at fair value through other comprehensive income		782	(3,036)
Income tax effect		(139)	547
		643	(2,489)
Exchange differences on translation of foreign operations		3,060,699	14,204
Net other comprehensive income that will be reclassified to the income statement in subsequent periods		3,061,342	11,715
<i>Items that will not be reclassified to the income statement in subsequent periods:</i>			
Revaluation reserve	25	6,747,292	3,867,157
Income tax effect		(389,849)	(193,358)
		6,357,443	3,673,799
Net unrealized gain from equity instruments at fair value through other comprehensive income		943,070	4,435
Income tax effect		(143,258)	(755)
		799,812	3,680
Re-measurement losses on defined benefit plans	33 (a)	(626,771)	(157,579)
Net other comprehensive income that will not be reclassified to the income statement in subsequent periods		6,530,484	3,519,900
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		9,591,826	3,531,615
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		9,598,027	1,990,160
Attributable to:			
Equity holders of the parent		9,323,589	1,989,987
Non-controlling interests		274,438	173
		9,598,027	1,990,160

The attached notes 1 to 52 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
ASSETS			
Cash and balances with central banks	17	143,992,890	14,702,890
Due from banks and financial institutions	18	9,614,947	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	19	3,595,689	361,119
Derivative financial instruments	20	5,452	800
Financial assets at fair value through profit or loss	21	1,323,033	135,832
Net loans and advances to customers at amortised cost	22	8,869,278	2,073,563
Net loans and advances to related parties at amortised cost	43	25,148	5,523
Debtors by acceptances		208,728	25,753
Financial assets at amortised cost	23	2,112,247	3,265,310
Financial assets at fair value through other comprehensive income	24	2,190,316	166,491
Property, equipment and right-of-use assets	25	11,399,339	4,173,191
Intangible assets	26	96,508	16,821
Assets obtained in settlement of debt	27	63,666	59,748
Other assets	28	955,204	605,948
TOTAL ASSETS		184,452,445	26,844,255
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	29	680,255	1,043,520
Due to banks and financial institutions	30	7,309,131	1,376,688
Derivative financial instruments	20	14,411	1,250
Customers' deposits at amortised cost	31	150,506,358	18,607,063
Deposits from related parties at amortised cost	43	981,272	111,838
Engagements by acceptances		209,022	26,037
Other liabilities	32	1,693,451	260,256
Provisions for risks and charges	33	7,284,090	601,911
Subordinated debt	34	1,514,544	155,856
TOTAL LIABILITIES		170,192,534	22,184,419
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	35	684,273	684,273
Share capital – preferred shares	35	4,840	4,840
Share premium – common shares	35	229,014	229,014
Share premium – preferred shares	35	591,083	591,083
Cash contribution to capital	36	407,025	407,025
Non-distributable reserves	37	1,004,857	1,007,749
Distributable reserves	38	91,147	90,661
Treasury shares	39	(8,524)	(8,524)
Accumulated losses		(2,595,663)	(431,599)
Revaluation reserve of real estate	40	9,696,351	3,679,488
Change in fair value of financial assets at fair value through other comprehensive income	41	785,566	(14,888)
Net results of the financial period		72,769	(1,541,747)
Foreign currency translation reserve		3,008,914	(51,360)
NON-CONTROLLING INTERESTS		288,259	13,821
TOTAL EQUITY		14,259,911	4,659,836
TOTAL LIABILITIES AND EQUITY		184,452,445	26,844,255

The attached notes 1 to 52 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	<i>Attributable to equity holders of the parent</i>										<i>Change in fair value of financial assets at fair value through other comprehensive income</i>		<i>Net results of the financial period</i>	<i>Foreign currency translation reserve</i>	<i>Non-controlling interests</i>		<i>Total</i>
	<i>Common shares</i>	<i>Preferred shares</i>	<i>Share premium - common shares</i>	<i>Share premium - preferred shares</i>	<i>Cash contribution to capital</i>	<i>Non-distributable reserves</i>	<i>Distributable reserves</i>	<i>Treasury shares</i>	<i>Accumulated losses</i>	<i>Revaluation reserve of real estate</i>	<i>LL million</i>	<i>LL million</i>			<i>LL million</i>	<i>LL million</i>	
Balance at 1 January 2023	684,273	4,840	229,014	591,083	407,025	1,007,749	90,661	(8,524)	(431,599)	3,679,488	(14,888)	(1,541,747)	(51,360)	4,646,015	13,821	4,659,836	
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	72,769	-	72,769	(66,568)	6,201	
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(626,771)	6,016,863	800,454	-	3,060,274	9,250,820	341,006	9,591,826	
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	(626,771)	6,016,863	800,454	72,769	3,060,274	9,323,589	274,438	9,598,027	
Transfer between reserves	-	-	-	-	-	(2,892)	486	-	2,406	-	-	-	-	-	-	-	
Transfer to accumulated losses	-	-	-	-	-	-	-	-	(1,541,747)	-	-	1,541,747	-	-	-	-	
Translation difference	-	-	-	-	-	-	-	-	2,048	-	-	-	-	2,048	-	2,048	
Balance at 31 December 2023	684,273	4,840	229,014	591,083	407,025	1,004,857	91,147	(8,524)	(2,595,663)	9,696,351	785,566	72,769	3,008,914	13,971,652	288,259	14,259,911	

	<i>Attributable to equity holders of the parent</i>										<i>Change in fair value of financial assets at fair value through other comprehensive income</i>		<i>Net results of the financial period</i>	<i>Foreign currency translation reserve</i>	<i>Non-controlling interests</i>		<i>Total</i>
	<i>Common shares</i>	<i>Preferred shares</i>	<i>Share premium - common shares</i>	<i>Share premium - preferred shares</i>	<i>Cash contribution to capital</i>	<i>Non-distributable reserves</i>	<i>Distributable reserves</i>	<i>Treasury shares</i>	<i>Accumulated losses</i>	<i>Revaluation reserve of real estate</i>	<i>LL million</i>	<i>LL million</i>			<i>LL million</i>	<i>LL million</i>	
Balance at 1 January 2022	684,273	4,840	229,014	591,083	407,025	1,025,725	96,722	(8,524)	(278,081)	5,689	(16,079)	(23,538)	(65,683)	2,652,466	13,648	2,666,114	
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	(1,541,747)	-	(1,541,747)	292	(1,541,455)	
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	(157,579)	3,673,799	1,191	-	14,323	3,531,734	(119)	3,531,615	
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	(157,579)	3,673,799	1,191	(1,541,747)	14,323	1,989,987	173	1,990,160	
Transfer between reserves	-	-	-	-	-	(18,137)	(6,061)	-	24,198	-	-	-	-	-	-	-	
Transfer to accumulated losses	-	-	-	-	-	-	-	-	(23,538)	-	-	23,538	-	-	-	-	
Translation difference	-	-	-	-	-	161	-	-	3,401	-	-	-	-	3,562	-	3,562	
Balance at 31 December 2022	684,273	4,840	229,014	591,083	407,025	1,007,749	90,661	(8,524)	(431,599)	3,679,488	(14,888)	(1,541,747)	(51,360)	4,646,015	13,821	4,659,836	

The attached notes 1 to 52 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
OPERATING ACTIVITIES			
Profit (loss) before tax		205,517	(1,535,965)
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	25 & 26	158,557	23,829
Amortisation of receivables from Central Bank of Lebanon		41,578	45,916
Net impairment loss on financial assets	12	1,175,786	(25,066)
Gain on disposal of property, equipment and right-of-use assets		(2,354)	(468)
Loss on disposal of assets obtained in settlement of debt	11	(7,211)	355
Provisions for risks and charges, net		4,969,569	87,957
Unrealized fair value losses on financial instruments at fair value through profit or loss		52,317	89,436
Realized gains from financial assets		(4,386)	(7,664)
Derivative financial instruments		8,509	(116)
Operating profit (loss) before working capital changes		6,597,882	(1,321,786)
Changes in operating assets and liabilities			
Due from central banks		(124,215,923)	1,815,050
Due to central banks		(270,503)	(680,087)
Due from banks and financial institutions		(6,232,684)	(41,363)
Financial assets at fair value through profit or loss		(1,235,132)	26,509
Due to banks and financial institutions		5,305,119	42,515
Net loans and advances to customers and related parties		(7,080,141)	792,430
Assets obtained in settlement of debt		(8,801)	(482)
Proceeds from sale of assets obtained in settlement of debt		12,094	14,429
Other assets		(390,271)	(205,043)
Customers' and related parties' deposits		132,768,729	(1,172,323)
Other liabilities		533,860	12,301
Cash (used in) from operations		5,784,229	(717,850)
Provisions for risks and charges paid	33	(6,538)	(1,239)
Taxation paid	15	(33,057)	(182,287)
Net cash from (used in) operating activities		5,744,634	(901,376)
INVESTING ACTIVITIES			
Financial assets at amortised cost		925,010	1,493,510
Financial assets at fair value through other comprehensive income		(1,223,371)	(5,003)
Loans to banks and financial institutions and reverse repurchase agreements		(1,669,619)	7,321
Purchase of property, equipment and right-of-use assets	25	(319,989)	(30,208)
Purchase of intangible assets	26	(43,714)	(5,015)
Proceeds from sale of property, equipment and right-of-use assets		4,198	5,710
Net cash (used in) from investing activities		(2,327,485)	1,466,315
FINANCING ACTIVITIES			
Subordinated debt		1,358,688	(3,213)
Lease liability payments		2,647	(317)
Net cash from (used in) financing activities		1,361,335	(3,530)
INCREASE IN CASH AND CASH EQUIVALENTS			
		4,778,484	561,409
Net foreign exchange difference in respect of cash and cash equivalents		72,617,048	16,601
Cash and cash equivalents at 1 January		7,789,098	7,211,088
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	42	85,184,630	7,789,098
Operational cash flows from interest and dividends			
Interest paid		(868,639)	(323,808)
Interest received		4,118,418	1,325,857
Dividend received		36,351	3,181

The attached notes 1 to 52 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Central Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange. Effective 30 July 2020, the delisting of the Bank’s GDR from the London SEAQ became effective.

The Bank, together with its subsidiaries (collectively the “Group”), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and its presence in Europe, Middle East and Africa.

The consolidated financial statements were authorised for issue in accordance with the Board of Directors’ resolution on 31 July 2024.

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 Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed de-facto 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 downsized, closed, or bankrupted and unemployment and poverty rose 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 1,507.5 LL/US\$. 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 LL/US\$ (the official exchange rate). During 2021, this subsidy was lifted.
- (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.

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

In mid-2021, BDL Basic Circular 158 was issued defining the mechanism for the gradual settlement of foreign currency deposits up to an amount of US\$ 50,000 based on several eligibility criteria. Eligible funds will be transferred to a subaccount and paid on a monthly basis of US\$ 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 US\$ 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 Dollars 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 de-facto 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 for 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 US\$ 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.

1. CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

International Monetary Fund (IMF) (continued)

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

- 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.
- Parliament approval of an appropriate emergency bank resolution legislation which is needed to implement the bank restructuring strategy.
- Initiation of an externally assisted bank-by-bank evaluation for the 14 largest banks.
- Parliament approval of a reformed bank secrecy law to bring it in line with international standards.
- Completion of the special purpose audit of the BDL's foreign asset position.
- Cabinet approval of a medium-term fiscal and debt restructuring strategy.
- Parliament approval of the 2022 budget, to start regaining fiscal accountability.
- 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 2022. 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. 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.

1. CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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 authorization of issue of these 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 a specific 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.

1 CORPORATE INFORMATION (continued)**1.2 Regulatory environment (continued)**

- 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 23 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.
 - 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.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than US\$ 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 accounts 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 Dollars 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 US\$ 800,000 while the aggregate amount of retail loans should not exceed US\$ 100,000 per client.
 - 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 US\$ 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met.

1 CORPORATE INFORMATION (continued)**1.2 Regulatory environment (continued)**

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 Intermediate 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 that 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 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 US\$/LL up to a maximum limit of US\$ 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 US\$ 3,000 per month to US\$ 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 Dollars 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 (years 2022 and 2023 were added through Intermediate Circular 659 and 676 respectively).

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- 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 US\$ or its equivalent in LL 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 Certificates 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 Dollars until 31 January 2023 and LL 15,000 to the US Dollars 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\$ 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.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Intermediate Circular 683 issued on 17 November 2023 amending the provisions BDL Basic Circular 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 FCY and de-facto replacing Basic Circular 151, which authorized limited withdrawals in LL from foreign currencies 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.

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 rates as follows:

1 CORPORATE INFORMATION (continued)**1.3 Particular situation of the Group (continued)***Exchange Rates (continued)*

	2023		2022	
	<i>Year-end Rate</i> <i>LL</i>	<i>Average Rate</i> <i>LL</i>	<i>Year-end Rate</i> <i>LL</i>	<i>Average Rate</i> <i>LL</i>
US Dollars	15,000.00	13,875.63	1,507.5	1,507.5
Euro	16,695.00	15,049.23	1,603.83	1,585.40
Armenian Dram	37.21	35.48	3.86	3.53
Syrian Pound	1.19	1.90	0.50	0.54
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: the 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:

	<i>Rate as at</i> <i>31 December</i> <i>2023</i> <i>LL</i>	<i>Average Rate for</i> <i>the year ended</i> <i>31 December</i> <i>2023</i> <i>LL</i>	<i>Rate as at</i> <i>31 December</i> <i>2022</i> <i>LL</i>	<i>Average Rate</i> <i>for the year</i> <i>ended 31</i> <i>December 2022</i> <i>LL</i>
US Dollars	89,500	78,116	38,000	26,146

The platform rate is not available for the purchase and sale of and "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 Group uses the official published exchange rate 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 Liras 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.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

Exchange Rates (continued)

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 Group 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. The carrying amounts of total assets, liabilities and shareholders' equity as at 31 March 2024 were reported at LL 1,026,014,525 billion, LL 952,596,040 billion and LL 73,418,485 billion, respectively.

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 in addition to an amount of LL 700 billion. 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 47.2 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 Group's portfolio of private loans and the recognized loss allowances, as well as their staging are detailed in Note 47.2 to these consolidated financial statements.

The consolidated financial position of the Group, as reported in these consolidated financial statements, does not reflect the adjustments that would be required by IFRS as a result of the future government reform program, the deep recession, the currency crisis and the hyperinflation. Due to the high levels of uncertainties, the lack of observable indicators, the 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 Group's consolidated financial position and its consolidated equity.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

Litigations and Claims

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. De-facto 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 liquidity of the Group (refer to Note 47). 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 Bank

Meanwhile, the Bank 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 16 December 2020. 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 has so far implemented a series of measures in relation to its key strategic objectives including:

- In accordance with Central Bank of Lebanon Intermediary Circular 567, banks are required to increase their own funds (equity) by an amount equal to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments. In this context, the Extraordinary General Assembly of Shareholders held on 21 April 2021 verified and approved cash contributions to capital amounting to US\$ 270,000,000 and convertible to common shares. The final approval of the regulators was obtained on 15 July 2021.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Group (continued)

Measures by the Bank (continued)

- The Bank submitted to the regulators monthly calculation for meeting the regulatory requirement of 3% liquidity ratio with foreign banks in accordance with Central Bank of Lebanon Basic Circular 154.
- Deleveraging the loan portfolio and increasing provisioning coverage.
- Creating the “fresh funds/account” allowing individuals and companies to make unrestricted daily foreign currency transactions using fresh funds deposited in cash or received by transfer from abroad.
- The Bank is reducing its cost structure through the closure of branches and reducing the work force, thus generating annual savings.

All of these measures have helped strengthen the Group’s financial position, including international liquidity and solvency metrics. However, as at 31 December 2023, consolidated capital adequacy ratios stood at 5.93 %, 6.46 % and 7.75 % for CET1, Tier 1 and Total CAR respectively, (minimum regulatory levels of 4.5%, 6.0% and 8.0% applicable in 2023 (since banks are allowed to draw down on the 2.5% capital conservation buffer during 2023 and 2024)). Negative impact is anticipated from the application of the new official exchange rate of LL 89,500 to the US Dollars effective 31 January 2024, upon translation of FCY-denominated risk-weighted assets. Foreign currency mismatch is detailed in Note 47 to the consolidated financial statements.

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 be able to assess its impact on the consolidated financial statements of the Group.

The Bank is also uncertain whether the measures set out in its roadmap above would be sufficient to cover all its commitments as they become due and restore the activities of the Bank to normal pre-crisis levels. Such sufficiency and a reasonable and credible plan can only be achieved once the uncertainties from the prevailing crisis, the multitude of exchange rates, 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 Dollars, resulted into several practices and transactions that would not qualify as normal course of business in a non-crisis environment, and for which there are no directly observable prices or a governing legal/regulatory framework. Such practices and transactions expose the Bank to increased litigation and regulatory risks and negatively impact the financial position of the Bank, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on the Group’s financial position, future cash flows, results of operations, regulatory ratios and covenants. The Group’s realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

2 MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) revaluation of land and buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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 million, except when otherwise indicated.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

As of 31 December 2023 and 2022, all conditions have been met for the Group's consolidated financial statements to incorporate the inflation adjustment provided under IAS 29 "Financial Reporting in Hyperinflationary Economies". IFRS requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy be restated into the current purchasing power at the end of the reporting period. Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyperinflationary economy to apply the standard at the same date. In order to achieve uniformity as to the identification of an economic environment of this kind, IAS 29 provides certain guidelines: a cumulative three-year inflation rate exceeding 100% is a strong indicator of hyperinflation, but also qualitative factors, such as analysing the 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% 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 Lira, should restate their financial statements to reflect the effects of inflation in conformity with IAS 29. Such restatement shall be made as if the Lebanese economy has always been hyperinflationary; using a general price index that reflects the changes in the currency's purchasing power.

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- 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 Group in the accompanying consolidated financial statements including its consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated 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 (IFRSs) as issued by the International Accounting Standards Board (IASB) and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are offset and the net amount is reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis – or to realise the assets and settle the liability simultaneously – in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Group and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group. The effect of netting arrangements is disclosed in Notes 17 and 29.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and its subsidiaries as at 31 December 2023. Details of the principal subsidiaries are given in Note 3.

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

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

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

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

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

Non-controlling interests

Non-controlling interest 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Non-controlling interests (continued)

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 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 New and Amended Standards and Interpretations (continued)

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

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 Group is not in scope of the Pillar Two model rules as its revenue is less than EUR 750 million/year.

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 recognise 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 be 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:

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

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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

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 recognised 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 recognised 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 New standards, interpretation and amendment effective for the year ended 31 December 2023 but were not adopted by the Group

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.5 New standards, interpretation and amendment effective for the year ended 31 December 2023 but were not adopted by the Group (continued)

IFRS 17 Insurance Contracts (continued)

IFRS 17 is based on a general model, supplemented by:

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

IFRS 17 is applicable for annual reporting periods commencing on 1 January 2023. The Group did not adopt this standard in its books for the year ended 31 December 2023 as the Insurance Control Commission has postponed the official application of the said standard to 1 January 2024. The Group is currently working on the following areas to ensure successful implementation of IFRS 17 and compliance with the regulatory requirements:

- Finalization of the policies and procedures
- Initiate the IFRS 17 run as at 31 December 2022 in order to calculate the transition impact following the implementation of IFRS 17
- Preparing IFRS 17 disclosures and presentation in line with IFRS 17
- Continuation of the knowledge transfer and trainings of key stakeholders in the business; and
- Implementation of future financial and data governance processes and accountabilities.

The Group expects to first apply IFRS 17 on 1 January 2024. The amendments might have a material impact on the Group's financial statements.

2.6 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 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Business combinations and goodwill (continued)

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 currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The Group uses the step-by-step method of consolidation.

(i) Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction (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 gain (loss)" in the consolidated income statement, except for monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions 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 profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

(ii) Group companies

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

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 marketplace.

(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 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Financial assets – classification and measurement (continued)

Business model (continued)

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

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

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

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

The SPPI test

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

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

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

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit and loss.

Financial assets at amortised cost

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and reverse repurchase agreements, loans and advances to customers and related parties at amortised cost, and financial assets at amortised 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) recovery 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Financial assets – classification and measurement (continued)

Financial assets at fair value through other comprehensive income

Debt Instruments at Fair Value through Other Comprehensive Income

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 fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Group can elect to classify irrevocably some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognised under “Non-interest revenues from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’s right to receive payment of dividend is established in accordance with IFRS 15: “Revenue from contracts with customers”, unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

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 or 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 gain (loss)” 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 gain (loss)” 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 gain (loss)” 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 gain (loss)” in the consolidated income statement.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

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.

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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

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

Due to central banks, banks and financial institutions and customers' and related parties' deposits

After initial measurement, due to central banks, banks and financial institutions, bonds under repurchase agreements, 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. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognised in "Net gain on financial assets at fair value through profit or 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 causes 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 separate 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 separate 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Financial guarantees, letters of credit and undrawn loan commitments (continued)

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
- 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

(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;
- 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”.

2 MATERIAL ACCOUNTING POLICIES (continued)**2.6 Summary of material accounting policies (continued)****Derecognition of financial assets and financial liabilities (continued)*****Financial liabilities (continued)***

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 substance 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 gain on financial instruments at fair value through profit or loss" in the consolidated income statement.

Impairment of financial assets**(i) Overview of the ECL principles**

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

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

(ii) Measurement of ECLs

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Impairment of financial assets (continued)

(ii) Measurement of ECLs (continued)

They key inputs into the measurements of ECL are:

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

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

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

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

(iii) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department.

Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 12-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- At least a 12-month probation period has passed,
- Three consecutive payments under the new repayment schedule have been made,
- The borrower has no past dues under any obligation to the Group,
- All the terms and conditions agreed to as part of the restructuring have been met.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Impairment of financial assets (continued)

(iii) Forborne and modified loans (continued)

If modifications are substantial, the loan is derecognised, as explained above.

(iv) 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.

(v) 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”.

(vi) Debt instruments at fair value through other comprehensive income

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the assets.

(vii) 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 derivatives, and non-financial assets, namely land and building and building improvements, 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (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 the 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Hedge accounting (continued)

Setting the risk management strategy and objectives (continued)

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 gain on financial assets at fair value through profit or loss".

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 separate 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 separate 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 separate 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Hedge accounting (continued)

Qualifying hedging relationships (continued)

- (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 separate 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 gain on financial assets at fair value through profit or loss".

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 separate 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Hedge accounting (continued)

(ii) *Cash flow hedges (continued)*

- 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 presented within “Depreciation of property, equipment and right-of-use assets” on 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Leases (continued)

Group as a Lessee (continued)

(ii) Lease liabilities (continued)

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 expense" cost in 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) presented within other operating expenses.

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 same 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

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.

2 MATERIAL ACCOUNTING POLICIES (continued)**2.6 Summary of material accounting policies (continued)****Revenue recognition (continued)****(i) Interest and similar income and expense (continued)***Interest income and interest expense (continued)*

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; and
- interest on debt instruments measured at fair value through other comprehensive income.

Interest expense presented in the consolidated income statement includes financial liabilities measured at amortised cost. Interest income and expense on financial instruments measured at fair value through profit or loss are presented under “Net gain on financial assets at fair value through profit or loss” in the consolidated income statement.

(ii) Fee and commission income

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

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

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 from 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 gain from financial instruments at fair value through profit or loss

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.

2 MATERIAL ACCOUNTING POLICIES (continued)**2.6 Summary of material accounting policies (continued)****Revenue recognition (continued)****(v) Insurance revenue**

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

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 banks, deposits with banks and financial institutions, deposits due to banks and financial institutions, and repurchase and reverse repurchased agreements.

Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, 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.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

Buildings	50 years
Furniture and equipment	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Motor vehicles	4 years

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 and right-of-use assets” 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

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. The Group's intangible assets include the value of software development and key money.

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 or indefinite. Intangible assets with finite lives are amortised 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 amortised, 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 statement of profit or loss when the asset is derecognized.

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:

- Software development 5 years
- Key money 10-15 years

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

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated 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 separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 consolidated 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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Provisions for risks and charges (continued)

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 consolidated 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.

Pensions and other post-employment benefits

The Group provides retirement benefits obligation to its employees under defined benefit plans, which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates and future salary increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under “Personnel expenses” in consolidated statement of income:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

Taxes

Taxes are provided for in accordance with regulations and laws that are effective in the countries 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 in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

Taxes (continued)

(ii) Deferred Tax (continued)

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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

Dividends on common shares

Dividends on common shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (Treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

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 consolidated statement of financial position for the same amount.

2.7 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.

Judgements

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.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.7 Significant accounting judgements and estimates (continued)

Judgements (continued)

Determining the lease term of contracts with renewal and termination options

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

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

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

The renewal options for leases of motor vehicles (or other assets) were not included as part of the lease term because the Group has a policy of leasing motor vehicles (or other assets) for not more than five years and, hence, not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

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

2 MATERIAL ACCOUNTING POLICIES (continued)**2.7 Significant accounting judgements and estimates (continued)****Estimates and assumptions (continued)***Impairment losses on financial assets (continued)*

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

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.

Revaluation of Property and Equipment

The Group carries its land and buildings and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. These are valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The Group engaged an independent valuation specialist to assess fair values for property and equipment. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 25.

Pensions obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

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).

3 GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

<u>Subsidiary</u>	<u>Percentage of ownership</u>		<u>Principal activity</u>	<u>Country of incorporation</u>
	2023	2022		
	%	%		
Byblos Bank Europe SA	99.95	99.95	Commercial Banking	Belgium

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3 GROUP INFORMATION (continued)

<i>Subsidiary</i>	<i>Percentage of ownership</i>		<i>Principal activity</i>	<i>Country of incorporation</i>
	<i>2023</i>	<i>2022</i>		
	<i>%</i>	<i>%</i>		
Adonis Insurance and Reinsurance Co. (ADIR) SAL	63.95	63.95	Insurance	Lebanon
Adonis Brokerage House SAL	100.00	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	99.99	99.99	Investment banking	Lebanon
Byblos Bank Armenia CJSC	100.00	100.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	76.00	Insurance	Syria

4 MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of the subsidiary that has material non-controlling interests are provided below:

Proportion of equity interests held by non-controlling interests:

Name	2023	2022
	%	%
Adonis Insurance and Reinsurance Co. (ADIR) SAL	36.05	36.05

The summarized financial information of this subsidiary are provided below. This information is based on amounts before inter-company eliminations:

Summarized income statement for the year ended 31 December:

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Net interest income	(20,799)	4,518
Net fee and commission income	(970)	4,132
Net trading loss	316,618	11,712
Other operating income	23,356	12,185
Net impairment loss on financial assets	(228,053)	(11,723)
Total operating expenses	(224,854)	(19,338)
Income tax expense	(57,476)	(916)
(Loss) profit for the year	(192,178)	570
Attributable to non-controlling interests	(69,280)	205

4 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**Summarized statement of financial position as at 31 December:**

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Cash and balances with central banks	26,567	4,156
Due from banks and financial institutions	86,524	31,355
Balances with Parent and Group entities	451,909	125,723
Financial assets at fair value through profit or loss	51,283	11,219
Net loans and advances at amortised cost	7,456	1,656
Financial assets at amortised cost	63,383	49,007
Financial assets at fair value through other comprehensive income	3,183	311
Property, equipment and right-of-use assets	1,071,934	21,486
Other assets	304,742	91,457
Deposits at amortised cost	(512,882)	(146,156)
Other liabilities	(258,874)	(29,899)
Provisions for risks and charges	(506,333)	(123,966)
Total equity	788,892	36,349
Attributable to non-controlling interests	284,396	13,104

Summarized cash flow information for the year ended 31 December:

	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i>	
	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Operating	988,321	(16,225)
Investing	(1,723,120)	21,852
Financing	33,205	(4,423)
Net (decrease) increase in cash and cash equivalents	(701,594)	1,204

5 SEGMENT INFORMATION

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on information relating to net operating income and financial position. Income taxes and operating expenses are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since Management monitors net interest income as a performance measure and not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of Management's measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

5 SEGMENT INFORMATION (continued)**A) Business Segments**

The Group operates in four main business segments which are Corporate and Commercial Banking, Retail and Personal Banking, Treasury and Capital Markets, and Group Functions and Head Office.

Corporate and Commercial Banking Provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, as well as all regular corporate and commercial banking activities.

Retail and Personal Banking Provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular retail and private banking activities.

Treasury and Capital Markets Provides Treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity, foreign currency and market risks. This segment also offers investment banking and brokerage services, and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

Group Functions and Head Office Consists of capital and strategic investments, exceptional profits and losses, as well as operating results of subsidiaries which offer non-banking services.

The following tables present net operating income information and financial position information in respect of the Group's reportable segments.

i) Net operating income information

	2023				
	<i>Corporate and Commercial Banking</i> LL million	<i>Retail and Personal Banking</i> LL million	<i>Treasury and Capital Markets</i> LL million	<i>Group Functions and Head Office</i> LL million	<i>Total</i> LL million
Net interest income	527,231	211,225	2,737,490	(21,436)	3,454,510
Net fee and commission income	397,381	802,515	(357,212)	12,646	855,330
Net trading gain	-	-	3,128,191	322,193	3,450,384
Net loss from financial assets at fair value through other comprehensive income	-	-	36,351	-	36,351
Other operating income	-	12,626	-	334,149	346,775
Net impairment loss on financial assets	(233,941)	(30,855)	(700,744)	(210,246)	(1,175,786)
Net operating income	690,671	995,511	4,844,076	437,306	6,967,564
	2022				
	<i>Corporate and Commercial Banking</i> LL million	<i>Retail and Personal Banking</i> LL million	<i>Treasury and Capital Markets</i> LL million	<i>Group Functions and Head Office</i> LL million	<i>Total</i> LL million
Net interest income	63,241	75,573	799,521	(1,264)	937,071
Net fee and commission income	53,442	114,180	(688,349)	3,770	(516,957)
Net trading loss	-	-	(1,325,984)	11,803	(1,314,181)
Net loss from derecognition of financial assets at amortised cost	-	-	(38,240)	-	(38,240)
Net loss from financial assets at fair value through other comprehensive income	-	-	3,181	-	3,181
Other operating income	-	690	-	18,172	18,862
Net recovery on financial assets	44,681	1,767	(10,030)	(11,352)	25,066
Net operating income	161,364	192,210	(1,259,901)	21,129	(885,198)

5 SEGMENT INFORMATION (continued)**A) Business Segments (continued)****ii) Financial position information**

	2023				Total LL million
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	
Total assets	7,236,587	1,866,567	162,876,574	12,472,717	184,452,445
Total liabilities	2,715,607	148,772,024	9,518,340	9,186,563	170,192,534

	2022				Total LL million
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	
Total assets	1,412,841	691,997	19,883,709	4,855,708	26,844,255
Total liabilities	864,590	17,854,308	2,577,315	888,206	22,184,419

Interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign amounted to LL 2,916,413 million (2022: LL 1,060,262 million) arising from time deposits with the Central Bank of Lebanon and financial instruments held by the Group. The breakdown of interest and similar income from exposure to the Central Bank of Lebanon and Lebanese sovereign is as follows:

	2023 LL million	2022 LL million
Interest and similar income		
Central Bank of Lebanon	2,755,114	944,688
Lebanese sovereign	161,299	115,574
	2,916,413	1,060,262

B) Geographical segments

The Group operates in three geographical segments, Lebanon, Europe and other countries and as such, is subject to different risks and returns. The following tables show the distribution of the Groups' net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

	2023			Total LL million
	Lebanon LL million	Europe LL million	Other LL million	
Total operating income	7,280,767	398,225	464,358	8,143,350
Net impairment loss on financial assets	(1,263,723)	5,387	82,550	(1,175,786)
Net operating income¹	6,017,044	403,612	546,908	6,967,564
Non-current assets²	10,870,298	235,917	453,298	11,559,513

5 SEGMENT INFORMATION (continued)**B) Geographical segments(continued)**

	2022			
	<i>Lebanon</i> LL million	<i>Europe</i> LL million	<i>Other</i> LL million	<i>Total</i> LL million
Total operating loss	(983,335)	32,763	40,308	(910,264)
Net impairment loss on financial assets	29,110	542	(4,586)	25,066
Net operating income ¹	(954,225)	33,305	35,722	(885,198)
Non-current assets ²	4,186,990	20,042	42,728	4,249,760

¹ Net operating income is attributed to the geographical segment on the basis of the location of the branch / subsidiary responsible for reporting the results or advancing the funds.

² Non-current assets consist of property, equipment and right-of-use assets, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered in more than twelve months after the reporting date.

6 INTEREST AND SIMILAR INCOME

	2023 LL million	2022 LL million
<i>Interest and similar income</i>		
Balances with central banks	2,714,087	882,595
Due from banks and financial institutions	421,120	13,319
Loans to banks and financial institutions and reverse repurchase agreements	398,111	13,484
Loans and advances to customers at amortised cost	709,309	157,714
Loans and advances to related parties at amortised cost (Note 43)	1,649	275
Financial assets at amortised cost	337,780	309,644
Debt instruments at fair value through other comprehensive income	83,359	7,140
	4,665,415	1,384,171
<i>Tax on interest</i>		
Balances with central banks	(192,801)	(99,697)
Financial assets at amortized cost	(22,270)	(32,395)
	(215,071)	(132,092)
Interest and similar income, net of tax	4,450,344	1,252,079

Amortization of other assets

Interest income from balances with central banks is presented net of the amortization of the present value of expected future cash flows from leverage arrangements initially recognized as receivable from Central Bank of Lebanon under leverage arrangements (Note 28). The amortization amounted to LL 41,578 million for the year ended 31 December 2023 (2022: LL 45,916 million).

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7 INTEREST AND SIMILAR EXPENSE

	2023 <i>LL million</i>	2022 <i>LL million</i>
Due to central banks	99,351	118,314
Due to banks and financial institutions	264,154	27,978
Customers' deposits at amortised cost	601,802	156,392
Deposits from related parties at amortised cost (Note 43)	6,665	1,343
Subordinated debt	22,486	10,648
Lease liabilities (Note 32)	1,376	333
	<u>995,834</u>	<u>315,008</u>

8 NET FEE AND COMMISSION INCOME (EXPENSE)

	2023 <i>LL million</i>	2022 <i>LL million</i>
Fee and commission income		
Loans and advances	32,772	4,596
Letters of guarantee	54,738	7,364
Acceptances	12,883	3,633
Letters of credit	57,024	7,582
Credit cards	61,642	23,946
Domiciled bills	21,266	3,538
Checks for collection	13,480	4,208
Maintenance of accounts	244,573	36,528
Transfers	126,988	12,092
Safe rental	14,622	3,361
Portfolio commission	8,369	794
Commission on insurance related activities	20,268	9,188
Refund of banking services	63,877	10,181
Commission on foreign exchange transactions	106,103	4,773
Commission on cash withdrawal	119,167	15,002
Commission on banknotes deposits	89,776	5,589
Other commissions	17,894	3,723
	<u>1,065,442</u>	<u>156,098</u>
Fee and commission expense	<u>(210,112)</u>	<u>(673,055)</u>
Net fee and commission income (expense)	<u>855,330</u>	<u>(516,957)</u>

In order to service customers' and Bank's needs in LL denominated banknotes during period of shortage, during 2023, the Bank paid a premium for the supply of LL denominated banknotes amounting LL 123,017 million recorded under fee and commission expense (2022: LL 662,997 million).

9 NET TRADING GAIN (LOSS)

	2023 <i>LL million</i>	2022 <i>LL million</i>
<i>Interest and similar income from debt instruments</i>		
- Lebanese treasury bills and bonds	57	89
<i>Gain (loss) from sale of debt instruments</i>		
- Lebanese treasury bills and bonds	123	(30)
- Debt securities issued by banks and financial institutions	-	2
	123	(28)
<i>Unrealized loss from revaluation of debt instruments</i>		
- Lebanese treasury bills and bonds	(52,896)	(84,743)
Net loss from debt instruments	(52,716)	(84,682)
<i>Equity instruments</i>		
- Gain from sale	4,263	7,692
- Unrealized gain (loss) from revaluation	579	(4,693)
- Dividend income	-	15
Net gain from equity instruments	4,842	3,014
Foreign exchange	-	2,751
Loss resulting from exchange on foreign currencies*	(174,212)	(1,235,264)
Gain from devaluation of official exchange rates**	3,861,542	-
	3,639,456	(1,314,181)

Foreign exchange includes gains and losses from spot and forward contracts and other currency derivatives, as well as the result of the revaluation of the daily open foreign currency positions.

* During 2023 and 2022, and in order to manage its US\$/LL FX position, the Group engaged in the following transactions:

- On 11 November 2021, the Bank obtained the approval of the Central Bank of Lebanon to discontinue selling the latter the local foreign currencies purchased through the application of Basic Circular 151. During 2023, these transactions resulted in a loss of LL 161,030 million recorded in the consolidated statement of comprehensive income (loss)(2022: LL 675,652 million).
- During 2023, the Bank purchased from its customers local foreign currencies at rates different from the rate specified in Basic Circular 151, which resulted in a gain of LL 68,125 million recorded in the consolidated statement of comprehensive income (loss) (2022: loss of LL 86,158).
- During 2022, the Bank bought from the Central Bank of Lebanon US\$ 69 million in local Dollars at a rate of LL 8,000 which resulted in a loss of LL 447,982 million recorded in the income statement.
- During 2023, the Bank bought fresh dollars from customers at Sayrafa average rates. These transactions resulted in a loss of LL 81,307 million recorded in the consolidated income statement (2022: nil).
- During 2022, certain subsidiaries also engaged into exchanges of foreign currencies subject to de-facto controls at rates different from the official published exchange rate, which resulted in a loss of LL 25,472 million recorded in the income statement.

** 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 which resulted in a gain of LL 3,861,542 million recorded in the consolidated income statement.

10 NET LOSS FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST

The Group derecognises some debt instruments classified at amortised cost for the purpose of currency risk and/or liquidity risk management.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

	2022		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Net</i> <i>LL million</i>
Certificates of deposits	-	(38,233)	(38,233)
Time deposits with the Central Bank of Lebanon	-	(7)	(7)
	-	(38,240)	(38,240)

11 OTHER OPERATING INCOME

	2023 <i>LL million</i>	2022 <i>LL million</i>
Write back of provisions for risks and charges	13,035	-
Write back of provision for prior year income tax assessment	-	-
Income from insurance related activities	91,161	12,819
Rental income from assets obtained in settlement of debt	1,958	527
Net gain from sale of assets obtained in settlement of debt	7,211	-
Waived interests (Note 30)	217,494	-
Others	13,562	5,516
	344,421	18,862

12 NET (IMPAIRMENT LOSS) RECOVERY ON FINANCIAL ASSETS

	2023 <i>LL million</i>	2022 <i>LL million</i>
<i>Remeasurements:</i>		
Financial assets at amortised cost	228,053	18,496
Loans and advances to customers at amortised cost	466,576	96,487
Loans and advances to related parties at amortised cost	-	4,210
Balances with central banks	701,820	48
Due from banks and financial institutions	325	74
Financial guarantees and other commitments (Note 33 (b))	797	1,874
Debtors by acceptances	3	7
	1,397,574	121,196
<i>Recoveries:</i>		
Loans and advances to customers at amortised cost	(201,775)	(144,761)
Due from banks and financial institutions	(1,276)	(1,055)
Balances with central banks	(126)	(20)
Debtors by acceptance	(7)	(7)
Other assets	(563)	-
Financial guarantees and other commitments (Note 33(b))	(18,041)	(419)
	(221,788)	(146,262)
	1,175,786	(25,066)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

13 PERSONNEL EXPENSES

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Salaries and other related benefits	890,996	181,660
Social security contributions	95,880	20,898
Bonuses	9,062	558
Provision for employees' end of service benefits (Note 33 (a))	50,473	8,491
	1,046,411	211,607

14 OTHER OPERATING EXPENSES

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Taxes on interest	260	650
Taxes and duties	189,630	4,232
Contribution to deposits guarantee fund	18,506	10,522
Rent and related charges under operating leases	16,499	4,200
Professional fees	145,831	35,664
Telecommunications and postage expenses	86,843	12,458
Board of Directors' attendance fees	28,383	2,933
Maintenance and repairs	247,920	126,870
Electricity and fuel	142,004	77,958
Travel and entertainment	13,502	2,224
Publicity and advertising	16,980	3,264
Subscriptions	25,266	3,789
Legal expenses	21,241	3,691
Insurance	29,880	1,188
Guarding fees	59,019	9,727
Printings and stationery	14,477	5,220
Donations	910	5,440
Provisions for risks and charges (Note 33 (b))	4,565,098	91,760
Others	123,902	13,541
	5,746,151	415,331

15 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2023 and 2022 are as follows:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Current income tax expense	179,983	5,490
Adjustment in respect of other taxes of prior years	19,333	-
	199,316	5,490

15 INCOME TAX EXPENSE (continued)

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

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Profit (loss) before income tax	205,517	(1,535,965)
Less: Results of differently taxed subsidiaries	(209,151)	(4,023)
Accounting loss before tax	(3,636)	(1,539,988)
Add:		
Non-tax deductible provisions	5,323,214	112,996
Other non-tax deductible charges	70,606	329,777
	5,390,185	(1,097,215)
Less:		
Release of provisions previously subject to income tax	(27)	(89,841)
Other non-taxable income	(3,695,567)	(3,640)
Carried forward losses	(1,190,696)	-
Taxable profit (loss)	503,896	(1,190,696)
Income tax expense at 17%	85,667	-
Income tax expense of differently taxed subsidiaries	94,316	5,490
Income tax expense recorded in the consolidated income statement	179,983	5,490

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense, and are based on the current understanding of the existing tax laws and regulations and tax practices.

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

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Balance at 1 January	46,310	68,930
Add: Charge for the year	199,316	5,490
Less: Paid during the year	(33,057)	(28,110)
Other movements	(8,547)	-
Foreign exchange difference	63,969	-
Balance at 31 December (Note 32 (a))	267,991	46,310

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

	<i>Deferred tax assets</i>		<i>Deferred tax liabilities</i>	
	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Fair value of financial instruments	-	177	141,590	3,114

16 BASIC AND DILUTED PROFIT (LOSS) PER SHARE

Basic loss per share is calculated by dividing the loss for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted profit (loss) per share is calculated by dividing the loss attributable to ordinary equity holders of the Bank (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential shares into ordinary shares.

The following table shows the loss and share data used in the basic loss per share calculation:

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Loss attributable to equity holders of the Bank from:	72,768	(1,541,747)
Weighted average number of shares outstanding	561,805,416	561,805,416
	2023	2022
	<i>LL</i>	<i>LL</i>
Basic and diluted profit (loss) per share	130	(2,744)

(*) The weighted average number of ordinary shares adopted for the computation of basic loss per share takes into account the weighted average number of treasury shares.

Subordinated debts and cash contribution to capital were not considered in the calculation of diluted loss per share. However, these instruments could potentially dilute basic earnings / losses per share in the future.

17 CASH AND BALANCES WITH CENTRAL BANKS

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Cash on hand	1,576,504	504,822
Balances with the Central Bank of Lebanon:		
- Current accounts	52,974,146	4,260,121
- Time deposits	89,639,700	9,831,788
	142,613,846	14,091,909
Balances with Central Banks in other countries:		
- Current accounts	2,349,152	229,676
- Time deposits	56,942	5,239
	2,406,094	234,915
Accrued interest receivable	549,185	158,053
	147,145,629	14,989,699
Less: Allowance for expected credit losses (Note 47.2)	(3,152,739)	(286,809)
	143,992,890	14,702,890

17 CASH AND BALANCES WITH CENTRAL BANKS (continued)

During 2019, the Group and the Central Bank of Lebanon signed a netting agreement for specified financial assets and liabilities that qualify for netting under the requirements of IAS 32. Accordingly, as at 31 December 2023, time deposits with the Central Bank of Lebanon amounting to LL 3,855,462 million (2022: LL 3,881,843 million) and term borrowings from the Central Bank of Lebanon (Note 29) are reported on a net basis on the consolidated statement of financial position.

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 exempted 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 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 19,361,430 million and LL 22,481,500 million respectively as at 31 December 2023 (2022: LL 2,440,511 million and LL 2,623,346 million respectively).
- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2023, obligatory reserve requirements for banks operating in foreign countries and the related current accounts amounted to LL 579,962 million and LL 579,962 million respectively (2022: LL 57,336 million and LL 57,336 million respectively).

18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Current accounts	5,938,547	860,939
Time deposits	3,300,587	371,853
Pledged accounts	384,815	22,996
Accrued interest receivable	16,529	1,016
	9,640,478	1,256,804
Less: Allowance for expected credit losses (Note 47.2)	(25,531)	(5,538)
	9,614,947	1,251,266

Doubtful balances with banks and financial institutions and the related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross amount of these balances amounted to LL 29,653 million as of 31 December 2023 (2022: LL 3,576 million). In addition, restricted balances amounted to LL 45,316 million (2022: LL 4,201 million).

19 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Loans to banks and financial institutions	1,441,537	92,260
Accrued interest receivable	7,999	899
	1,449,536	93,159
Discounted acceptances	1,980,816	246,163
Interest received in advance	(36,329)	(3,095)
	1,944,487	243,068
Reverse repurchase agreements	202,271	24,944
Accrued interest receivable	194	16
	202,465	24,960
	3,596,488	361,187
Less: Allowance for expected credit losses (Note 47.2)	(799)	(68)
	3,595,689	361,119

As at 31 December 2023 the amounts receivable under reverse repurchase agreements were collateralized by government securities of the Republic of Armenia with the fair values of LL 218,665 million (31 December 2022: LL 26,660 million).

20 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivatives for trading and for risk management purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. 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 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 customised 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.

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**Swaps**

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, commodity index or equity index. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

	2023			2022		
	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Notional</i> <i>amount</i> <i>LL million</i>	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Notional</i> <i>amount</i> <i>LL million</i>
<i>Held for trading</i>						
Currency swaps	1,627	10,772	782,243	7	474	57,429
Forward foreign exchange contracts	3,825	3,639	-	793	776	400
	<u>5,452</u>	<u>14,411</u>	<u>782,243</u>	<u>800</u>	<u>1,250</u>	<u>57,829</u>

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 <i>LL million</i>	2022 <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Treasury bills	732	732
Eurobonds	1,024,079	100,747
	<u>1,024,811</u>	<u>101,479</u>
<i>Private sector and other securities</i>		
Equity securities and funds	298,222	34,353
	<u>1,323,033</u>	<u>135,832</u>

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

	2023 <i>LL million</i>	2022 <i>LL million</i>
Commercial loans	10,840,794	1,815,119
Consumer loans	2,709,518	827,130
	<u>13,550,312</u>	<u>2,642,249</u>
Less: Allowance for expected credit losses (Note 47.2)	(4,681,034)	(568,686)
	<u>8,869,278</u>	<u>2,073,563</u>

Bad loans and related provisions and unrealized interest which fulfil certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 2,365,739 million as of 31 December 2023 (2022: LL 271,674 million).

23 FINANCIAL ASSETS AT AMORTISED COST

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Certificates of deposits	1,057,144	1,937,226
Treasury bills*	775,292	1,272,877
Eurobonds	1,226,701	128,034
	3,059,137	3,338,137
<i>Other sovereign</i>		
Foreign governmental debt securities	190,573	19,795
<i>Private sector and other securities</i>		
Debt securities issued by banks and financial institutions	273,301	12,030
	273,301	12,030
	3,523,011	3,369,962
Less: Allowance for expected credit losses (Note 47.2)	(1,410,764)	(104,652)
	2,112,247	3,265,310

*As at 31 December 2023, Lebanese treasury bills amounting to LL 513,110 million were pledged against subsidized loans and term borrowings granted by the Central Bank of Lebanon (2022: LL 866,107 million) (Note 29).

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
<i>Lebanese sovereign and Central Bank of Lebanon</i>		
Eurobonds	3,183	311
<i>Other sovereign</i>		
Foreign governmental debt securities	1,122,682	67,572
<i>Private sector and other securities</i>		
Debt securities issued by banks and financial institutions	52,885	3,496
Equity securities	1,011,566	95,112
	1,064,451	98,608
	2,190,316	166,491

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Equity instruments at fair value through other comprehensive income:

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons. The tables below list those equity instruments, dividends received, and the changes in fair value net of applicable taxes:

	2023			2022		
	<i>Carrying amount</i>	<i>Cumulative fair value changes</i>	<i>Dividend income</i>	<i>Carrying amount</i>	<i>Cumulative fair value changes</i>	<i>Dividend income</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Unquoted shares:						
Banque de l'Habitat SAL	22,856	17,667	-	22,856	17,667	-
Intra Investment Company SAL	17,591	4,567	-	17,591	4,567	-
Interbank Payment Network (IPN) SAL	3,340	456	-	3,340	456	-
Arab Trade Financing Program	21,079	626	304	2,118	626	15
Byblos Bank Syria	462,461	462,461	-	-	-	-
Others	13,280	271	1,304	1,910	271	57
Quoted shares:						
Jordan Ahli Bank	470,959	447,427	34,743	47,297	(33,182)	3,109
	1,011,566	933,475	36,351	95,112	(9,595)	3,181

Dividend income amounted to LL 36,351 million for the year ended 31 December 2023 (2022: LL 3,181 million) and resulted from equity instruments held at year end.

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	<i>Buildings</i>	<i>Motor vehicles</i>	<i>Furniture and equipment</i>	<i>Right of use assets</i>	<i>Deposits</i>	<i>Advance payments</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Cost:							
At 1 January 2023	4,120,551	2,574	257,285	10,040	768	8,565	4,399,783
Additions	253,683	-	61,245	24	168	4,869	319,989
Revaluation	6,747,292	-	-	-	-	-	6,747,292
Revaluation adjustments	(182,842)	-	-	-	-	-	(182,842)
Disposals	-	-	(9,932)	-	-	-	(9,932)
Transfers	-	-	4,782	-	-	(4,782)	-
Foreign exchange difference	226,928	6,372	236,558	97,641	1,326	9,338	578,163
At 31 December 2023	11,165,612	8,946	549,938	107,705	2,262	17,990	11,852,453
Depreciation:							
At 1 January 2023	6,919	2,033	214,220	3,420	-	-	226,592
Depreciation during the year	112,138	252	29,600	9433	-	-	151,423
Revaluation adjustments	(182,842)	-	-	-	-	-	(182,842)
Related to disposals	-	-	(8,088)	-	-	-	(8,088)
Foreign exchange difference	55,181	4,969	171,754	34,125	-	-	266,029
At 31 December 2023	(8,604)	7,254	407,486	46,978	-	-	453,114
Net carrying value:							
At 31 December 2023	11,174,216	1,692	142,452	60,727	2,262	17,990	11,399,339

25 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

	<i>Buildings</i> <i>LL million</i>	<i>Motor</i> <i>vehicles</i> <i>LL million</i>	<i>Furniture</i> <i>and</i> <i>equipment</i> <i>LL million</i>	<i>Right</i> <i>of</i> <i>use assets</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance</i> <i>payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:							
At 1 January 2022	328,278	2,592	248,132	19,653	764	4,994	604,413
Additions	7,389	-	19,237	-	11	3,571	30,208
Revaluation	3,867,157	-	-	-	-	-	3,867,157
..Revaluation adjustments	(81,071)	-	-	-	-	-	(81,071)
Transfers	-	-	-	-	-	-	-
Disposals	(1,737)	(49)	(10,508)	(10,064)	-	-	(22,358)
Write-offs	-	-	-	-	-	-	-
Foreign exchange difference	535	31	424	451	(7)	-	1,434
At 31 December 2022	4,120,551	2,574	257,285	10,040	768	8,565	4,399,783
Depreciation:							
At 1 January 2022	82,989	2,012	213,370	6,921	-	-	305,292
Depreciation during the year	5,214	50	12,820	928	-	-	19,012
Revaluation adjustments	(81,071)	-	-	-	-	-	(81,071)
Related to disposals	(385)	(49)	(12,133)	(4,549)	-	-	(17,116)
Related to write-offs	-	-	-	-	-	-	-
Foreign exchange difference	172	20	163	120	-	-	475
At 31 December 2022	6,919	2,033	214,220	3,420	-	-	226,592
Net carrying value:							
At 31 December 2022	4,113,632	541	43,065	6,620	768	8,565	4,173,191

Buildings with a carrying amount of LL 9,879,721 million are subject to seizure and restriction on disposal (Note 49).

Revaluation differences on property and equipment reflected net of tax as revaluation reserve of real estate in equity amounted to LL 9,696,351 million as at 31 December 2023 (2022: LL 3,679,488 million) (Note 40).

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. The valuations have been performed by the valuer and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated. Gain from level 3 revaluation of LL 6,747,292 million in 2023 was recognised in other comprehensive income (2022: LL 3,867,157 million).

26 INTANGIBLE ASSETS

	<i>Key money</i> <i>LL million</i>	<i>Software</i> <i>development</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost			
At 1 January 2023	2,303	66,273	68,576
Additions	-	43,714	43,714
Foreign exchange difference	-	66,929	66,929
At 31 December 2023	2,303	176,916	179,219

31 December 2023

26 INTANGIBLE ASSETS (continued)

	<i>Key money</i> <i>LL million</i>	<i>Software</i> <i>development</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Amortization			
At 1 January 2023	2,299	49,456	51,755
Charge for the year	2	7,132	7,134
Foreign exchange difference	-	23,822	23,822
At 31 December 2023	<u>2,301</u>	<u>80,410</u>	<u>82,711</u>
Net carrying value			
At 31 December 2023	<u>2</u>	<u>96,506</u>	<u>96,508</u>
	<i>Key money</i> <i>LL million</i>	<i>Software</i> <i>development</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost			
At 1 January 2022	2,303	61,226	63,529
Additions	-	5,015	5,015
Disposals	-	(4)	(4)
Foreign exchange difference	-	36	36
At 31 December 2022	<u>2,303</u>	<u>66,273</u>	<u>68,576</u>
Amortization			
At 1 January 2022	2,297	44,651	46,948
Charge for the year	2	4,815	4,817
Foreign exchange difference	-	(10)	(10)
At 31 December 2022	<u>2,299</u>	<u>49,456</u>	<u>51,755</u>
Net carrying value			
At 31 December 2022	<u>4</u>	<u>16,817</u>	<u>16,821</u>

27 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 which are, as such, included in assets obtained in settlement of debt. Gains or losses on disposal are recognised in the consolidated income statement for the year.

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Cost:		
At 1 January	67,936	82,112
Additions	5,142	461
Disposals	(4,910)	(14,873)
Foreign exchange difference	8,690	236
At 31 December	<u>76,858</u>	<u>67,936</u>

27 ASSETS OBTAINED IN SETTLEMENT OF DEBT (continued)

	2023 <i>LL million</i>	2022 <i>LL million</i>
Impairment:		
At 1 January	8,188	8,062
Impairment for the year	48	122
Related to disposals	(27)	(89)
Foreign exchange difference	4,983	93
At 31 December	<u>13,192</u>	<u>8,188</u>
Net carrying value:		
At 31 December	<u><u>63,666</u></u>	<u><u>59,748</u></u>

The carrying value of assets obtained in settlement of debts as at 31 December 2023 is based on historical costs at the official exchange rate of LL 1,507.5 to the US Dollars (2022: same). These assets are subject to seizure and restriction on disposal (Note 49).

28 OTHER ASSETS

	2023 <i>LL million</i>	2022 <i>LL million</i>
Receivables from Central Bank of Lebanon under leverage arrangements (a)	177,718	219,296
Obligatory deposits (b)	2,250	2,250
Prepaid expenses	12,707	2,662
Prepaid insurance	21,258	8,774
Prepaid maintenance	19,568	2,028
Printings and stationery	40,966	14,950
Electronic cards and regularization accounts	46,239	14,331
Insurance premiums receivable	43,467	4,479
Deferred tax assets (Note 15)	-	177
Reinsurers' share of technical reserves of subsidiary insurance companies	237,897	75,400
Hospitalization and medical care under collection	48,004	25,249
Foreign exchange position	166,246	222,847
Other debit balances	159,289	33,910
	<u>975,609</u>	<u>626,353</u>
Less: Allowance for expected credit losses	(20,405)	(20,405)
	<u><u>955,204</u></u>	<u><u>605,948</u></u>

a) *Receivables from Central Bank of Lebanon under leverage arrangements:*

During 2020, the Bank recognized a gain under "Other operating income" representing the present value of expected future cash flows from leverage arrangements with the Central Bank of Lebanon entered into during 2019. The gain was recorded against a receivable from the Central Bank of Lebanon under "Other assets". This accounting treatment was adopted by the Bank as it is permissible by Central Bank of Lebanon Intermediate Circular number 519. Remaining unamortized balance at 31 December 2023 amounted to LL 177,718 million (2022: LL 219,296 million).

b) Obligatory deposits consist of deposits as a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

29 DUE TO CENTRAL BANKS

	2023 <i>LL million</i>	2022 <i>LL million</i>
<i>Central Bank of Lebanon</i>		
Subsidized loans	262,169	381,222
Term borrowings under leverage arrangements	391,892	638,942
Accrued interest payable	21,425	22,698
	675,486	1,042,862
<i>Other central banks</i>		
Current accounts	1,140	110
Term loans	3,540	371
Accrued interest payable	89	177
	4,769	658
	680,255	1,043,520

Subsidised Loans from the Central Bank of Lebanon

- The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LL 51,265 million as of 31 December 2023 (2022: LL 177,580 million).
- The Group obtained 3 loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha SAL. These loans were originally granted in the amount of LL 227,000 million netted by a discount of LL 16,096 million as at 31 December 2023 (2022: LL 227,000 million netted by a discount of LL 12,358 million) and are secured by the pledge of Lebanese treasury bills amounting to LL 121,000 million included under financial assets at amortised cost as of 31 December 2023 (2022: LL 227,000 million) (Note 23).

Term borrowings under leverage arrangements

Leverage arrangements with the Central Bank of Lebanon represent term borrowings denominated in LL, bearing an interest rate 2% per annum and having maturities ranging between 2023 and 2035, fully invested in Lebanese Treasury bills, certificates of deposit with the Central Bank of Lebanon in LL, and blocked term placements with the Central Bank of Lebanon in LL earning coupon rates ranging between 6.5% per annum and 10.5%. Simultaneously, the Bank has either deposited term placements with the Central Bank of Lebanon in foreign currencies at 6.5% per annum and in LL at 10.5% per annum (originated from the sale of foreign currencies to the Central Bank of Lebanon) carrying the same maturities; or purchased Lebanese government Eurobonds from the Central Bank of Lebanon. During 2019, the Bank and the Central Bank of Lebanon signed a netting agreement covering only leverage arrangements that were invested in blocked term placement and pledged certificates of deposit with the Central Bank of Lebanon in LL. This agreement qualifies for netting under the requirements of IAS 32.

Following Intermediate Circular 648 issued on 1 November 2022, interest rate on term placements in local foreign currency decreased from 6.5 % to 3.25%.

The below table summarises the leverage arrangements and related financial assets subject to offsetting, and enforceable similar agreements, and whether offset is achieved in the consolidated statement of financial position. The table identifies the amounts that have been offset in the consolidated statement of financial position and also those amounts that are covered by enforceable netting arrangements (financial collateral) but do not qualify for netting under the requirements of IAS 32 described in the accounting policies:

29 DUE TO CENTRAL BANKS (continued)

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Leverage arrangements		
Gross amounts	4,247,354	4,520,785
Amounts offset against ⁽¹⁾		
Placements with the Central Bank of Lebanon (Note 17)	(3,855,462)	(3,881,843)
Net amounts reported on the consolidated statement of financial position	391,892	638,942
<i>Financial collateral</i>		
Lebanese treasury bills (Note 23)	391,892	638,942

⁽¹⁾ Represents amounts that can be offset under IAS 32. Placements with the Central Bank of Lebanon have also been reported in the consolidated statement of financial position net of the amounts above.

During 2023, financial assets and financial liabilities that were settled on a net basis amounted to LL 273,431 million (2022: LL 716,179 million).

30 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Current accounts	1,287,788	68,941
Term loans	3,533,215	441,028
Time deposits	2,329,901	828,100
Cash margins	147,096	20,703
Accrued interest payable	11,131	17,916
	7,309,131	1,376,688

During 2023, in light of the social, economic and banking sector conditions in Lebanon and the impending government reform program, certain lenders have agreed on a voluntary basis and at the request of the Bank, to amend certain terms of their loan agreements, amongst others, the repayment schedule and the maturity date. Remaining balance of these loans amounted to LL 3,533,215 million as at 31 December 2023 (31 December 2022: LL 441,028 million).

31 CUSTOMERS' DEPOSITS AT AMORTISED COST

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Current accounts	117,199,763	13,830,556
Term deposits	30,668,631	4,422,019
Cash margins	2,380,130	343,807
Bankers' drafts	143,575	-
Accrued interest payable	114,259	10,681
	150,506,358	18,607,063

32 OTHER LIABILITIES

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Lease liabilities	48,718	4,759
Accrued expenses	105,428	41,403
Fixed assets suppliers	862	86
Unearned commission and interest	8,410	3,399
Cash margins related to companies under establishment	11,123	3,210
Insurance premiums received in advance	4,619	1,724
Payables to the National Social Security Fund	13,517	3,406
Advance payments linked to assets obtained in settlement of debt	905	207
Current tax liability (a)	792,161	100,045
Deferred tax liability (Note 15)	141,590	3,114
Deferred provision for Banque Pharaon & Chiha SAL loans portfolio	15,354	5,632
Other creditors	550,764	93,271
	1,693,451	260,256

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2023 and 2022:

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	4,759	10,426
Interest expense (Note 7)	1,376	333
Written-off	-	(5,962)
Paid during the year	(2,647)	(317)
Foreign exchange difference	45,230	279
Balance at 31 December	48,718	4,759

(a) Current tax liability

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Income tax due (Note 15)	267,991	46,310
Withholding tax on salaries	21,305	5,122
Withholding tax on interest earned by customers	65,907	4,158
Value added tax	4,623	360
Other taxes	432,335	44,095
	792,161	100,045

33 PROVISIONS FOR RISKS AND CHARGES

	2023 <i>LL million</i>	2022 <i>LL million</i>
Technical reserves of insurance subsidiaries	475,768	121,770
Employees' end of service benefits (a)	981,135	274,805
Other provisions (b)	5,827,187	205,336
	<u>7,284,090</u>	<u>601,911</u>

(a) Employees' end of service benefits

The Group has two defined benefit plans covering substantially all of its employees. The first requires contributions to be made to the National Social Security Fund. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries, contributions paid to the National Social Security Fund and other requirements outlined in the Lebanese Labor Law. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

Movement in the provision for employees' end of service benefits during the year was as follows:

	2023 <i>LL million</i>	2022 <i>LL million</i>
Balance at 1 January	274,806	110,064
<i>Costs charged to the income statement (Note 13):</i>		
Service costs	33,425	1,793
Net interest	17,048	6,698
	<u>50,473</u>	<u>8,491</u>
<i>Re-measurement losses in other comprehensive income:</i>		
Experience adjustments	68,682	(44,099)
Economic assumptions	558,089	201,678
	<u>626,771</u>	<u>157,579</u>
End of service benefits paid during the year	(6,538)	(1,239)
Foreign exchange	35,623	(89)
Balance at 31 December	<u>981,135</u>	<u>274,806</u>

Defined benefit plans in Lebanon constitute more than 95% of the Group's retirement obligation. The principal assumptions used in determining the end of service benefit obligations of these plans are shown below:

	2023	2022
Economic assumptions		
Discount rate	14.0%	6.5%
Salary increase		
Year 2023	N/A	60%
Year 2024	3%	60%
Year 2025	3%	40%
Year 2026	3%	3%
Thereafter	3%	3%
Expected annual rate of return on NSSF contributions	3%	3%
Treatment of bonus	None	None

33 PROVISIONS FOR RISKS AND CHARGES (continued)*(a) Employees' end of service benefits (continued)*

	2023	2022
Demographic assumptions		
Retirement age	Earliest of 64 or completion of 20 contribution years	Earliest of 64 or completion of 20 contribution years
Pre-termination mortality rate	None	None
Pre-termination turnover rates (age related with average of)	3.5% for NSSF and 7.5% for WCA	3.5% for NSSF and 7.5% for WCA

A quantitative sensitivity analysis for the significant assumptions is shown below:

	<u>Discount rate</u>		<u>Future salary increase</u>		<u>Cost of living adjustments</u>	
	<i>increase LL million</i>	<i>decrease LL million</i>	<i>increase LL million</i>	<i>decrease LL million</i>	<i>25% Increase LL million</i>	<i>50% Increase LL million</i>
Impact on net defined benefit obligations						
2023	(7,695)	7,838	9,304	(9,162)	-	-
2022	(4,545)	4,679	4,822	(4,713)	133,920	333,074

Except for the cost of living adjustments, the sensitivity analysis above was determined based on a method that extrapolates the impact on the defined benefit obligation as a result of 25 basis point changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

(b) Other provisions

	2023	2022
	LL million	LL million
Provisions for contingencies	85,678	77,987
Provisions for ECL on financial guarantees and commitments	10,768	7,387
Other	5,730,741	119,962
	5,827,187	205,336

Movement in other provisions during the year was as follows:

	2023	2022
	LL million	LL million
At 1 January	205,336	112,196
Charge for the year (Notes 12 and 14)	4,565,895	93,634
(Write-back) provisions for ECL on financial guarantees and commitments (Note 12)	(18,041)	(419)
Foreign exchange	1,073,997	(75)
At 31 December	5,827,187	205,336

34 SUBORDINATED DEBT

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
<i>Issue 2012*(Due but unpaid)</i>		
Nominal value	957,437	105,192
Accrued interest payable	251,352	19,935
<i>Issue 2021</i>		
Nominal value	305,700	30,723
Accrued interest payable	55	6
	1,514,544	155,856

*During 2022, legal proceedings were initiated against the Bank to enforce the payment of the outstanding US dollar amount of its New York-law governed subordinated loan, which had a maturity of 21 December 2022. The Bank is contesting the proceedings, which are on-going, although the outcome cannot be determined presently. The ultimate outcome cannot be determined presently.

On 21 December 2012, the Group signed a US\$ 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US\$ 300 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	30,000
Note's issue price:	US\$ 10,000
Note's nominal value:	US\$ 10,000
Date of issue:	21 December 2012
Maturity:	21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US\$ 2.5 per share or US\$ 125 per GDR
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's at a conversion price of US\$ 2.5 per share or US\$ 125 per GDR.

On 17 June 2020, in light of the developments in the Lebanese Republic, the Group announced that it will not make the interest payments on the subordinated debt which is due on 30 June 2020.

The Extraordinary General Assembly of the Shareholders held on 21 April 2021 resolved the following:

- The exchange of convertible subordinated debt with a nominal value of US\$ 20,380,000 with new bonds with similar terms however maturing in 2031 and payable locally; and
- The repurchase of convertible subordinated debt with a nominal value of US\$ 200,520,000 and their cancellation.

As at 31 December 2023, the Bank had repurchased/exchanged additional convertible subordinated debt with a nominal value amounting to US\$ 15,270,000 (2022: US\$ 9,320,000).

35 SHARE CAPITAL

	2023			2022		
	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>
Common shares	565,515,040	684,273	229,014	565,515,040	684,273	229,014
<i>Preferred shares</i>						
- Series 2008	2,000,000	2,420	295,154	2,000,000	2,420	295,154
- Series 2009	2,000,000	2,420	295,929	2,000,000	2,420	295,929
	4,000,000	4,840	591,083	4,000,000	4,840	591,083

The capital of the Bank is divided into 565,515,040 shares of LL 1,210 each fully paid (2022: the same).

Preferred shares*i) Series 2008 Preferred Shares*

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium:	US\$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US\$ as the difference between the total issue of US\$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US\$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 96
Share's nominal value:	LL 1,210
Issue premium:	US\$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US\$ as the difference between the total issue of US\$ (000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US\$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US\$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

35 SHARE CAPITAL (continued)*Listing of shares*

As of 31 December 2023 and 2022, the Bank's shares were listed as follows:

	2023	2022	2023	2022
	<i>Stock exchange</i>	<i>Stock exchange</i>	<i>No of shares</i>	<i>No of shares</i>
Ordinary shares	Beirut	Beirut	502,490,590	502,454,990
Global depository receipts (*)	Beirut	Beirut	1,260,489	1,261,201
Preferred shares	Beirut	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

The Bank's Board of Directors meeting dated 17 June 2020 approved the delisting of its GDR from the London SEAQ. The delisting became effective on 30 July 2020.

36 CASH CONTRIBUTION TO CAPITAL

The Extraordinary General Assembly of Shareholders held on 21 April 2021 verified and approved Cash Contribution to Capital (CCC) amounting to LL 407,025 million (equivalent to US\$ 270 million) in order to complete the 20% increase of the Common Equity Tier 1 capital in compliance with Central bank of Lebanon Intermediate Circular 567. On 15 July 2021 the Bank obtained the final approval of the Central Bank of Lebanon.

The terms of the Cash Contribution to Capital are as follows:

- Perpetual, subject to the conversion right, as further described below;
- Subject to the approval of the Banking Control Commission, the approval of the shareholders of the Bank at the annual Ordinary General Meeting of shareholders of the Bank, and availability of Free Income for the immediately preceding year, the Bank may, but is not required to, pay a return annually (in respect of the immediately preceding year only) on each return payment date, at a rate of 5% per annum until 31 December 2026, following which, the return rate is applicable for each subsequent year will be determined by the Bank;
- The right of CCC participants to return shall not be cumulative;
- CCC participants shall have the right to convert all or a portion of their participation in the CCC, together with any interest declared to be due and accrued, but unpaid, into shares at the Conversion Price;
- The "Conversion Price" in respect of any conversion by a Shareholder of all or any portion of the nominal amount of its Cash Contribution to Capital (including Return which is due and payable), translated from US\$ into LL at the Relevant Rate, shall be fixed at LL 1,210 per share (and shall be subject to adjustment only in the limited circumstances). The Relevant Rate means rate of exchange for US\$ into Lebanese Lira, as of 11 am Beirut time on the date which is two business days prior to the applicable conversion date, which is (i) published by the Central Bank of Lebanon on its electronic platform established and operated pursuant to Decision 13236; or (ii) if such rate is not then available, the standard base rate for such exchange published by the Central Bank of Lebanon; or (iii) if both of the forgoing rates are unavailable, the prevailing rate for such exchange as determined by the Bank;
- Conversion of the Cash Contribution to Capital must occur prior to 31 December 2026.

37 NON-DISTRIBUTABLE RESERVES

	<i>Legal reserve</i>	<i>General Reserve</i>	<i>Reserves for capital increase</i>	<i>Equity component of convertible subordinated debt</i>	<i>Other reserves</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balance at 1 January 2023	357,018	334,390	127,665	31,618	157,058	1,007,749
Transfer between reserves	2,973	-	-	-	(5,865)	(2,892)
Balance at 31 December 2023	359,991	334,390	127,665	31,618	151,193	1,004,857

37 NON-DISTRIBUTABLE RESERVES (continued)

	<i>Legal reserve</i>	<i>General Reserve</i>	<i>Reserves for capital increase</i>	<i>Equity component of convertible subordinated debt</i>	<i>Other reserves</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balance at 1 January 2022	356,758	334,390	127,665	31,618	175,294	1,025,725
Appropriations from retained earnings	260	-	-	-	(18,397)	(18,137)
Translation difference	-	-	-	-	161	161
Balance at 31 December 2022	<u>357,018</u>	<u>334,390</u>	<u>127,665</u>	<u>31,618</u>	<u>157,058</u>	<u>1,007,749</u>

Legal reserve

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve is not available for dividend distribution.

During 2023, the Bank and different subsidiaries transferred to legal reserve an amount of LL 2,973 million (2022: LL 260 million) as required by the laws applicable in the countries in which they operate.

General reserve

According to the Central Bank of Lebanon Main Circular 143, Banks in Lebanon are required to transfer to General Reserves, the balance of Reserves for General Banking Risks and General Reserves for Loans and Advances previously appropriated in line with the requirements of decision 7129 and decision 7776 respectively. This reserve is part of the Group's equity and is not available for distribution.

Other reserves

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinated debt.
- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate.
- As of 31 December 2023, "Other reserves" include reserves of LL 86,547 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2022: LL 92,412 million). During 2023, the Group transferred an amount of LL 5,865 million from other reserve to retained earnings (2022: LL 18,397 million).

38 DISTRIBUTABLE RESERVES

	2023	2022
	LL million	LL million
General reserves	90,121	89,635
Other capital reserves	1,026	1,026
	<u>91,147</u>	<u>90,661</u>

31 December 2023

39 TREASURY SHARES

Movement of treasury shares recognised in the consolidated statement of financial position for the years 2023 and 2022 was as follows:

Year ended 31 December 2023

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount US\$ (000)</i>	<i>No. of shares</i>	<i>Amount US\$ (000)</i>
At 1 January 2023	3,146,774	4,744	11,257	911
Total treasury shares in LL million				8,524

Year ended 31 December 2022

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount US\$ (000)</i>	<i>No. of shares</i>	<i>Amount US\$ (000)</i>
At 1 January 2022	3,146,774	4,744	11,257	911
Total treasury shares in LL million				8,524

40 REVALUATION RESERVE OF REAL ESTATE

	2023	2022
	LL million	LL million
Revaluation reserve	9,696,351	3,679,488

41 CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

	2023	2022
	LL million	LL million
At 1 January	(14,888)	(16,079)
Net changes in fair values during the year	943,852	1,399
Net changes in deferred taxes	(143,398)	(208)
Balance at 31 December	785,566	(14,888)

42 CASH AND CASH EQUIVALENTS

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Cash and balances with central banks	78,179,820	7,570,973
Due from banks and financial institutions	9,121,428	1,209,147
Loans to banks and financial institutions and reverse repurchase agreements	1,821,334	256,383
	89,122,582	9,036,503
Less: Due to central banks	(225,266)	(300,786)
Less: Due to banks and financial institutions	(3,712,686)	(946,619)
Cash and cash equivalents at 31 December	85,184,630	7,789,098

Cash and balances with central banks include amounts of LL 23,061,463 million as at 31 December 2023 (2022: LL 2,680,683 million) representing mandatory reserve deposits and balances.

Cash and cash equivalents include balances in foreign currencies that are subject to defacto capital controls and restricted transfers outside Lebanon. Accordingly, these balances are not considered readily convertible to known amounts of cash in the denomination currency without a risk of changes in value. However, the Group maintains their classification as cash and cash equivalents as they are freely transferrable within the Lebanese territory. These balances were as follows as at 31 December 2023 and 31 December 2022:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Balances with central banks	74,223,232	6,833,843
Due from banks and financial institutions	527,601	35,113
	74,750,833	6,868,956

43 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 operation decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group's principal subsidiaries is shown in Note 3. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

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.

43 RELATED PARTY TRANSACTIONS (continued)

Related party balances included in the Group's consolidated statement of financial position are as follows as of 31 December:

	31 December 2023			31 December 2022		
	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Due from banks and financial institutions	-	52,594	52,594	-	5,663	5,663
Loans and advances	17,692	7,456	25,148	3,867	1,656	5,523
Due to banks and financial institutions	-	1,147,255	1,147,255	-	120,292	120,292
Deposits	878,741	102,531	981,272	108,793	3,045	111,838
Subordinated debt	180	-	180	302	-	302
Guarantees received	78,780	-	78,780	11,016	-	11,016
Guarantees given	31,292	-	31,292	2	3,287	3,289
Commitments (including acceptances)	32,475	-	32,475	397	3,314	3,711

Related party transactions included in the Group's consolidated income statement are as follows for the year ended 31 December:

	31 December 2023			31 December 2022		
	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Interest income on loans and advances	1,627	22	1,649	218	57	275
Interest expense on deposits	6,665	-	6,665	1,076	267	1,343
Interest income on due from banks and financial institutions	-	825	825	-	-	-
Interest expense on due to banks and financial institutions	-	783	783	-	-	-
Fee and commission income	-	-	-	73	5	78
Fee and commission expense	-	-	-	99	-	99

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC), a shareholder, whereby the latter makes available a non-committed trade finance guarantee facility to the Group up to US\$ 50 million. During 2020, this limit was cancelled, and the facilities issued by IFC are being granted on a case by case basis. As at 31 December 2023 and 2022 guarantees issued by IFC were nil.

Compensation of the Key Management Personnel of the Group

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Short-term benefits ¹	53,243	9,956

¹ Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**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 consolidated 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.

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit-related commitments and contingent liabilities (continued)

	2023		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	141,934	141,934
Other guarantees	189,391	3,015,858	3,205,249
	<u>189,391</u>	<u>3,157,792</u>	<u>3,347,183</u>
	2023		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Commitments			
Documentary credits	179,765	1,439,617	1,619,382
Loan commitments	-	3,631,262	3,631,262
	<u>179,765</u>	<u>5,070,879</u>	<u>5,250,644</u>
	2022		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	13,750	13,750
Other guarantees	11,604	360,903	372,507
	<u>11,604</u>	<u>374,653</u>	<u>386,257</u>
Commitments			
Documentary credits	20,731	87,750	108,481
Loan commitments	-	415,610	415,610
	<u>20,731</u>	<u>503,360</u>	<u>524,091</u>

Guarantees (including standby letters of credit)

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 mainly include performance guarantees, advance payment guarantees and tender guarantees.

Documentary credits

Documentary credits commit the Group to make payments to third parties, on production of documents which are usually reimbursed immediately by customers.

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Loan commitments (continued)

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

Investment commitments

The Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996 of the Central Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such claims, many of which are beyond its control. At year-end, the Group had several unresolved legal claims in Lebanon and abroad, mainly those relating to the restrictive measures in place with respect to the withdrawal of funds and transfers abroad and a civil action filed in US federal courts in the US District Court in the Eastern District of New York (EDNY) against eleven Lebanese banks including Byblos Bank SAL asserting primary and secondary liability claims under the Anti-Terrorism Act (“ATA”).

The extent of the impact of these matters cannot always be predicted but may materially impact the Group’s operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Group, except as provided for in Note 33, however, they may have an impact on the liquidity of the Group (Note 47).

Other commitments and contingencies

Certain areas of the Lebanese tax legislation and the tax legislations where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank’s books in Lebanon for the years 2016 to 2017 (inclusive) are currently under review by the tax authorities. The outcome of this review cannot be determined yet. The Bank’s books in Lebanon remain subject to the review of the tax authorities for the years 2018 to 2023 and the review of the National Social Security Fund (NSSF) for the period from 1 November 2015 to 31 December 2023. In addition, the subsidiaries’ books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

Commitments resulting from credit facilities received

The Group has several commitments and covenants resulting from credit facilities, term loans and subordinated debts with non-resident financial institutions. The Group is in breach with some of the financial covenants which were calculated based on the recorded figures and does not take into consideration the adjustments that may result from the resolution of the uncertainties in Note 1. Due to the high level of uncertainties and the lack of observable reliable indicators and the high gap in currency rates, the Group is unable to estimate in a reasonable manner the impact of these matters on its covenant calculation.

45 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Assets held in custody and under administration	12,288,563	1,546,627

45 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION (continued)**Assets held in custody and under administration**

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support functions and activities including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

46 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 realise 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 Group 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 Liras 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 Liras that would have to be generated from the realization of such assets or the payment of such liabilities at the date of the consolidated 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.

46.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE**Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value:**

	2023			Total LL million
	Valuation techniques			
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets:				
Derivative financial instruments:				
Currency swaps	-	1,627	-	1,627

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**46.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (continued)**

Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value (continued):

	2023			
	<i>Valuation techniques</i>			<i>Total LL million</i>
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Forward foreign exchange contracts	-	3,825	-	
Financial assets at fair value through profit or loss:				
Lebanese treasury bills and bonds	1,024,079	-	732	1,024,811
Equity securities and funds	102,838	-	195,384	298,222
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills and bonds	3,183	-	-	3,183
Foreign governmental debt securities	-	1,122,682	-	1,122,682
Debt securities issued by banks and financial institutions	-	52,885	-	52,885
Equity securities	471,259	-	540,307	1,011,566
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	10,772	-	10,772
Forward foreign exchange contracts	-	3,639	-	3,639
	2022			
	<i>Valuation techniques</i>			<i>Total LL million</i>
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets:				
Derivative financial instruments:				
Currency swaps	-	7	-	7
Forward foreign exchange contracts	-	793	-	793
Financial assets at fair value through profit or loss:				
Lebanese treasury bills and bonds	100,747	-	732	101,479
Equity securities and funds	14,717	-	19,636	34,353
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills and bonds	311	-	-	311
Foreign governmental debt securities	-	67,572	-	67,572
Debt securities issued by banks and financial institutions	-	3,496	-	3,496
Equity securities	47,297	-	47,815	95,112
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	474	-	474
Forward foreign exchange contracts	-	776	-	776

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

Assets and liabilities carried at fair value using a valuation technique categorized within Level 2 or 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).

46 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**46.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (continued)**

Assets and liabilities carried at fair value using a valuation technique categorized within Level 2 or Level 3 (continued)

Funds and Equity Shares of Non-listed Entities (continued)

Equity shares of non-listed entities comprise mainly the Group's strategic investments are generally classified at fair value 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 whether 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).

Government bonds and other debt instruments

The Group values these unquoted debt securities using discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads.

Reconciliation of fair value measurement of financial assets in unquoted equity shares:

	2023 <i>LL million</i>	2022 <i>LL million</i>
Balance at 1 January	47,815	45,897
Re-measurement recognised in other comprehensive income	492,492	1,918
	540,307	47,815

46.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE**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 and liabilities consist of balances with the Central Bank of Lebanon and Lebanese Banks, Lebanese government securities, loans and advances to customers and related parties, customers and related parties deposits, and debt issued and other borrowed funds. These are illiquid in nature and the measurement of their fair value is usually determined through discounted cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads. Due to the situation described in Note 1 and the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector, is experiencing, management is unable to produce faithful estimation of the fair value of these financial assets and liabilities.

Financial assets and liabilities not concentrated in Lebanon

The management assessed that the fair values of financial assets and liabilities not concentrated in Lebanon approximate their carrying amounts largely due to the short-term maturity of these instruments.

47 RISK MANAGEMENT**47.1 INTRODUCTION**

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

- Credit risk: the risk of default or deterioration in the ability of a borrower to repay a loan.

47 RISK MANAGEMENT (continued)

47.1 INTRODUCTION (continued)

- 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 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, legal and litigation risk, political risk and business/strategic risk.

Group risk management structure

The Board of Directors is primarily responsible for establishing / approving the Group's strategic direction and approving the nature and levels of risk the Group is willing to take. The Board has established four committees to assist in carrying out its responsibilities:

Risk Committee: It is primarily responsible to formulate the risk appetite statement for the Group through establishing a comprehensive set of internal risk limits and other qualitative risk statements that clearly define the amount of risks the Board is willing to take and those risks the Board wishes to avoid, and monitors compliance with the risk appetite statement. It provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity, interest rate and operational risks of the Group. It also oversees the process and outcome of the ICAAP (Internal Capital Adequacy Assessment Process), IFRS 9 and Recovery Plan. It discusses and approves risk policies.

Anti-Money Laundering and Compliance Committee: It has been established according to BDL basic circular number 83 dated 18/05/2001. The mission of the committee is to ensure the Group's compliance with anti-money laundering laws (namely Law Number 318 dated 20 April 2001 and BDL circular number 83 dated 18 May 2001) and all amendments thereto. The committee has an oversight responsibility over the Group's compliance program (set of policies, procedures, resources and systems) for detecting and preventing all forms of money laundering as well as preventing any of the Group's entities from being misused by individuals or organizations to circumvent or violate local and international sanctions, laws, and regulations.

Audit Committee: monitors the Group's accounting practices and external reporting and reviews the audit reports covering the Group's operations and takes appropriate actions / decisions.

Remuneration, Nomination and Corporate Governance Committee: ensures that the Group has coherent remuneration policies and practices, and that proper succession plans for board members and senior managers are in place. It is also responsible to make sure that corporate governance principles and the code of conduct are well established at the Group to warrant the confidence of shareholders, investors and stakeholders.

The above Board Committees are composed of mostly independent / non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to Senior Management, through the following diverse committees that have been established:

Executive Committee: acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman/General Manager, the Head of Group Consumer Banking Division, the Head of Group Financial Markets and Financial Institutions Division, the Head of Group Commercial Banking Division, the Head of Group Risk Management Division and the Head of Foreign Banking Unit.

Central Credit Committee (CCC): is the highest credit authority in the Group after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of capital, which requires the joint approval of the Chairman and the CCC. Credit proposals exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower amount credit proposals to various sub-committees.

47 RISK MANAGEMENT (continued)

47.1 INTRODUCTION (continued)

Group risk management structure (continued)

Assets and Liabilities Committee (ALCO): whose mission is to manage the consolidated statement of financial position in compliance with the main objectives of the Group, in terms of growth, liquidity and interest income. Its role encompasses the review, approval and implementation of the Group's strategies regarding liquidity and interest rate, foreign exchange and trading activities through decisions on size and duration of mismatched positions and on pricing.

Risk Committee (Management): whose task is to formulate and enforce guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by the Group Risk Management and issues related to the implementation of Basel III projects. The committee discusses and approves risk policies, risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the preparation of risk reports and the framework and results relating to processes (such as ICAAP, IFRS 9 Impairment, Recovery Planning) before submission to the Board.

The Group also established three other committees concerned with risk management and compliance, being: *The Operational Risk Management Committee*, *the Information Security Committee*, and *the Compliance and Anti-Money Laundering Committee*. The Operational Risk Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. This committee's mission was extended to include the oversight of operational resilience and the business continuity management that was previously part of the information security department. On the other hand, the Bank has established in 2023 a dedicated Information Security Committee to be responsible for the oversight of the information security program including all policies, procedures, activities and projects in relation to securing the Group against cyber and data risks. The IS committee's membership mix between ICT, IS experts, risk management, HR, and business ensures a holistic assessment and grasp of the IS issues faced by the Bank. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Group's KYC and sanction policies.

Group Internal Audit Division

The Group Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic disciplined and risk based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained and where weaknesses are identified, they are reported to Senior Management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems and reports its recommendations accordingly.

The GIA also ensures that the Group is in compliance with the rules and regulations in different jurisdictions where the Group is operating, the Central Banks and Banking Control Commission requirements, Board of Directors and management directives and implemented policies and procedures.

Risk management

The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision and Basel Capital Accord texts (Basel III) to measure and assess the risks identified under the pillars I and II, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration. Business continuity management has become part of the risk management function since the 4th quarter of 2021.

Risk management framework

The risk management framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are being reviewed annually or upon need in order to be aligned with the changes related to the internal and external environment of the Group. The set of basic principles that governs the risk management framework of the Group are developed based on the following:

47 RISK MANAGEMENT (continued)

47.1 INTRODUCTION (continued)

Group risk management structure (continued)

Risk management framework (continued)

Business Line Accountability: Business lines are accountable for managing the risks associated with their activities and establish tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

Strategic Level Risk Management, encompasses the risk management functions performed by senior management and the Board. It includes defining the Group's risk appetite, formulating strategy and policies for managing risk and establishing adequate systems and controls to ensure that the Group's aggregate risk profile is within acceptable tolerance levels.

Analytical Level Risk Management, encompasses the risk management, within the authority delegated by the Strategic Level to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

Tactical Level Risk Management, encompasses risk management activities performed by individuals who take risk on the Group's behalf such as the front office and loan origination functions.

The Risk Charter is complemented by risk specific policies and procedures enabling the unification of the risk culture and practice. Risk management is applied through the implementation of these risk policies / limits approved by the Board and that are put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear and documented decision making process.

47.2 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations, including the full and timely payment of principal and interest. Credit risk arises from various balance sheet and off-balance sheet exposures including interbank, loans and advances, credit commitments, financial guarantees, letters of credit, acceptances, investments in debt securities (including sovereign) and derivative financial instruments. Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department of the Group's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting. The credit quality review process allows the Group early detections of changes in assets quality, estimate the potential loss and take early corrective action.

The Group has established various credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions of credit files, including ratings and collateral quality. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)**

Since October 2019, the 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. In order to address the challenging operating conditions, the Group has implemented a series of remedial actions that included: i) risk deleveraging by reducing its assets size and strengthening the collateral and guarantees of existing loans, ii) increasing collection capacity across various business lines, iii) increasing provisions for expected credit losses on different portfolios, and iv) setting-up an independent, centralised and specialised remedial function to proactively manage borrowers showing weak or deteriorating credit profiles and not yet classified as Stage 3.

47.2.1 Expected credit losses**47.2.1.1 Governance and oversight of expected credit losses**

The Group's IFRS 9 Impairment Committee, which is a committee composed of Executive Committee members, oversees the ECL estimation framework by: i) approving the IFRS 9 impairment policy, ii) reviewing key assumptions and estimations that are part of the ECL calculations; 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.

Impairment policy requirements are set and reviewed regularly, at a minimum annually, to maintain adherence to accounting standards and evolving business models. Key judgements inherent in policy, including the estimated life of revolving credit facilities and the quantitative criteria for assessing the Significant Increase in Credit Risk (SICR), are assessed through a combination of expert judgment and data-driven methodologies.

ECL is estimated using a model that takes into account borrowers' exposure, internal obligor risk rating, facility characteristic, macroeconomy, 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 statistically validated by a qualified independent party to the model development unit, before first use and at a minimum annually thereafter.

Each model 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 actual and future economic scenarios, which are set by economists within the Group's Research Department using independent models and expert judgment. Economic scenarios are prepared on a frequent basis, at a minimum semi-annually, to come up with actual Point-in-Time PD. In the context of the dramatic crisis the country is still experiencing and the high uncertainties regarding the future developments, as presented in length in Note 1 above, the Group maintained a conservative stance in applying forward looking macroeconomic scenarios to drive Point – in – Time PD during 2021-2022, and this by keeping as constant the forecast of annual GDP decrease at 25%.

47.2.1.2 Definition of default and cure

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

As a part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in classifying the exposures in Stage 3 for ECL calculations or whether Stage 2 is appropriate.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.1 Expected credit losses (continued)****47.2.1.2 Definition of default and cure (continued)**

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 and after obtaining the approval of the Credit Committee. 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 initial recognition 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 have been met.

47.2.1.3 The Group's internal rating and PD estimation process

The Group's independent Credit Risk Department oversees its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated in 1 to 7 performing bands using internal grades with "+" and "-" modifiers. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. The Corporate rating model was reviewed in a validation and calibration consultancy that led to the creation in early 2018 of a new rating and PD scale. The analysis was based on the Group's historical default history, whereby the central default tendency was adjusted with conservatism to account for a low default and data portfolio. The final through-the-cycle (TTC) PD scale was mapped to Moody's Corporate default scale. TTC PDs are then adjusted for IFRS 9 ECL calculations to incorporate point-in-time (PIT) and forward-looking information, and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate, on at least semi-annual basis.

Treasury, trading and interbank relationships

The Group's treasury, trading and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risk department analyses publicly available information such as financial information and other external data, e.g., available external ratings published by international rating agencies such as Moody's, Standard and Poor's and Fitch, and assigns the external rating. With respect to exposures to the Central Bank of Lebanon and Lebanese sovereign. As per BDL Intermediate Circular 649 issued on 24 November 2022, provision coverages on exposures to Lebanese sovereign bonds and Central Bank of Lebanon in foreign currency should reach 75% by December 2026 (up from 45% as per Intermediate Circular 567 dated issued on 26 August 2020) and 1.89% respectively. Regulatory ECLs on exposure to Lebanese sovereign bonds in local currency and exposure to Central Bank of Lebanon in local currency are set to 0%.

Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Lebanese government's reform plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Group was unable to estimate in a reasonable manner ECL on these exposures and accordingly, as applicable, the loss rate mentioned in BDL Intermediate Circular 649 was adopted, except for the foreign currency exposure to Lebanon sovereign bonds. For the latter and during 2023, the Group wrote down their carrying amount to their underlying market values, hence exceeding the minimum regulatory provision coverage level of 75% required by 2026. ECL on exposures to the Central Bank of Lebanon in foreign currency stood 1.89% at 31 December 2023 in addition to an amount of 700 billion.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit rating model that takes into account various historical, current and forward-looking information such as:

47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.1 Expected credit losses (continued)

47.2.1.3 The Group's internal rating and PD estimation process (continued)

Corporate and small business lending (continued)

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, leverage ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Account behaviour, payment holidays provided, repayment history and other non-financial information such as management quality, company standing and industry risk.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Internal ratings are initially assigned by the credit origination functions (i.e. business lines) and are approved and validated by the Credit Risk function, which are independent from business lines. Credit Risk functions are responsible for ensuring that ratings assigned to obligors are accurate and updated at all times.

Consumer lending and retail mortgages

Consumer lending comprises unsecured and secured personal loans, secured auto loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are scored by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.

The Group also relies on account behaviour to predict the probability of default within a specific timeframe. This is primarily based on the repayment history of consumer borrowers.

Retail and housing loan expected credit losses are calculated based on PD and LGD measurements. PD are estimates based on default rates. LGD is a mix of observed and estimated credit loss by product.

47.2.1.4 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 and arising from amortisation. 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, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.1 Expected credit losses (continued)

47.2.1.5 Loss given default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated using information on the counterparty, the collateral type and coverage, recovery costs of any collateral that is integral to the financial asset and other criteria. For portfolios in respect of which the Group has limited historical data, credit external opinion benchmark against related regulators is used to supplement the internally available data.

47.2.1.6 Significant increase in credit risk

The Group continuously monitors all its credit risk exposures. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition using reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information. The Group considers an exposure to have significantly increased in credit risk by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For determining whether there has been a significant increase in credit risk, the Group uses a quantitative test based on movement in the internal credit rating of the counterparty (which reflects the movement of the PD).

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Group may also consider that events explained in "Definition of default and cure" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in "Grouping financial assets measured on a collective basis"), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

47.2.1.7 Expected life

With the exception of credit cards and other revolving facilities the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities. This includes overdraft facilities falling under Stage 2 whereby we assign a maturity of 3 years even though the contractual maturity is one year.

47.2.1.8 Forward looking information

The Group incorporates forward-looking information at the level of Probability of Default.

On the PD level, the Group formulates three economic scenarios: a base case, which is the median scenario assigned with a certain probability of occurring, and two other scenarios, one upside and one downside, each assigned a specific chance of occurring, then, a weighted average PD is generated and used for the calculation of the ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, organizations such as World Bank and the International Monetary Fund, IIF and selected private-sector and academic forecasters. A team of specialists within the Group's Credit Risk Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios of the PD. It is the Economic and Research department of the Bank who provides and regularly updates, at least annually, the economic scenarios and GDP forecasts.

47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.1 Expected credit losses (continued)****47.2.1.8 Forward looking information (continued)**

The Group has identified the real GDP growth among other, as the key driver of expected credit losses for several countries where it operates. Using an analysis of historical data, the Group has estimated relationships between this macro-economic variable and credit losses. The expected credit losses' estimates have been assessed for sensitivity to changes to forecasts of the macro-variable and also together with changes to the weights assigned to the scenarios. With respect to countries other than Lebanon, the impact on expected credit losses is not material. With respect to Lebanon, the environment is subject to rapid change due to the effects of the economic crisis, and uncertainties disclosed in Note 1. Future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts (depending on the longevity of the crisis). Forecasts and scenarios are based on the best available information at the reporting date, combined with expert judgment.

47.2.2 Overview of modified and forborne loans

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the *Summary of material accounting policies* above.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time) unless loan classification or internal rating necessitates a different staging.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

From a risk management point of view, once an asset is forborne or modified, the Group's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the year, with the related modification loss suffered by the Group.

	2023	2022
	LL million	LL million
Amortised costs of financial assets modified during the year	105,410	35,368

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.3 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.

	<i>Gross exposure</i>				<i>Impairment allowance</i>				<i>Net exposure LL million</i>
	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	<i>Total LL million</i>	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	<i>Total LL million</i>	
31 December 2023									
Balances with central banks	145,569,125	-	-	145,569,125	(3,152,739)	-	-	(3,152,739)	142,416,386
Due from banks and financial institutions	9,207,787	415,340	17,351	9,640,478	(7,003)	(596)	(17,932)	(25,531)	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	3,596,488	-	-	3,596,488	(799)	-	-	(799)	3,595,689
Net loans and advances to customers at amortised cost	6,769,783	1,387,212	5,393,317	13,550,312	(929,564)	(559,605)	(3,191,865)	(4,681,034)	8,869,278
Net loans and advances to related parties at amortised cost	67,509	-	-	67,509	(42,361)	-	-	(42,361)	25,148
Financial assets at amortised cost	1,521,019	-	2,001,992	3,523,011	(252,355)	-	(1,158,409)	(1,410,764)	2,112,247
Financial guarantees and other commitments	7,551,504	1,046,323	-	8,597,827	(6,671)	(4,097)	-	(10,768)	8,587,059
Total	174,283,215	2,848,875	7,412,660	184,544,750	(4,391,492)	(564,298)	(4,368,206)	(9,323,996)	175,220,754
	<i>Gross exposure</i>				<i>Impairment allowance</i>				<i>Net exposure LL million</i>
	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	<i>Total LL million</i>	<i>Stage 1 LL million</i>	<i>Stage 2 LL million</i>	<i>Stage 3 LL million</i>	<i>Total LL million</i>	
31 December 2022									
Balances with central banks	14,484,877	-	-	14,484,877	(286,809)	-	-	(286,809)	14,198,068
Due from banks and financial institutions	1,222,623	32,456	1,725	1,256,804	(3,550)	(263)	(1,725)	(5,538)	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	361,187	-	-	361,187	(68)	-	-	(68)	361,119
Net loans and advances to customers at amortised cost	1,311,093	651,669	679,487	2,642,249	(133,098)	(63,241)	(372,347)	(568,686)	2,073,563
Net loans and advances to related parties at amortised cost	10,205	-	-	10,205	(4,682)	-	-	(4,682)	5,523
Financial assets at amortised cost	1,969,051	-	1,400,911	3,369,962	(25,362)	-	(79,290)	(104,652)	3,265,310
Financial guarantees and other commitments	817,054	93,294	-	910,348	(6,131)	(1,256)	-	(7,387)	902,961
Total	20,176,090	777,419	2,082,123	23,035,632	(459,700)	(64,760)	(453,362)	(977,822)	22,057,810

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47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.3 Financial assets and ECLs by stage (continued)**

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

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2023	133,098	63,241	372,347	568,686
Remeasurements for the year (Note 12)	125,859	6,340	334,377	466,576
Other movements	-	-	(177,878)	(177,878)
Recoveries (Note 12)	(120,570)	-	(81,205)	(201,775)
Foreign exchange difference	791,177	490,024	2,744,224	4,025,425
Balance at 31 December 2023	929,564	559,605	3,191,865	4,681,034
	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2022	199,330	63,498	336,983	599,811
Remeasurements for the year (Note 12)	32,076	-	64,411	96,487
Write-offs	-	-	(7,644)	(7,644)
Other movements	-	-	52,248	52,248
Recoveries (Note 12)	(94,925)	-	(49,836)	(144,761)
Transfer to off-financial position	-	-	(23,870)	(23,870)
Foreign exchange difference	(3,383)	(257)	55	(3,585)
Balance at 31 December 2022	133,098	63,241	372,347	568,686

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 balances with central banks:

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2023	286,809	-	-	286,809
Charge for the year (Note 12)	701,820	-	-	701,820
Recoveries (Note 12)	(126)	-	-	(126)
Foreign exchange difference	2,164,236	-	-	2,164,236
Balance at 31 December 2023	3,152,739	-	-	3,152,739

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47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.3 Financial assets and ECLs by stage (continued)**

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2022	286,785	-	-	286,785
Charge for the year (Note 12)	48	-	-	48
Recoveries (Note 12)	(20)	-	-	(20)
Foreign exchange difference	(4)	-	-	(4)
Balance at 31 December 2022	<u>286,809</u>	<u>-</u>	<u>-</u>	<u>286,809</u>

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

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2023	25,362	-	79,290	104,652
Charge for the year (Note 12)	-	-	228,053	228,053
Foreign exchange difference	226,993	-	851,066	1,078,059
Balance at 31 December 2023	<u>252,355</u>	<u>-</u>	<u>1,158,409</u>	<u>1,410,764</u>

	<i>Stage 1</i> <i>LL million</i>	<i>Stage 2</i> <i>LL million</i>	<i>Stage 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2022	25,362	-	61,315	86,677
Charge for the year (Note 12)	-	-	18,496	18,496
Foreign exchange difference	-	-	(521)	(521)
Balance at 31 December 2022	<u>25,362</u>	<u>-</u>	<u>79,290</u>	<u>104,652</u>

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47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.4 Analysis of risk concentrations***Geographical location analysis*

The Group controls credit risk by maintaining close monitoring credit of its assets' exposures by geographic location. The distribution of financial assets by geographic region as of 31 December is as follows:

	2023				2022			
	<i>Lebanon LL million</i>	<i>Europe LL million</i>	<i>Others LL million</i>	<i>Total LL million</i>	<i>Lebanon LL million</i>	<i>Europe LL million</i>	<i>Others LL million</i>	<i>Total LL million</i>
Balances with central banks	140,010,292	1,543,256	862,838	142,416,386	13,963,204	158,946	75,918	14,198,068
Due from banks and financial institutions	525,158	4,373,273	4,716,516	9,614,947	35,861	510,642	704,763	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	-	1,705,900	1,889,789	3,595,689	-	40,293	320,826	361,119
Derivative financial instruments	1,627	3,825	-	5,452	7	793	-	800
Financial assets at fair value through profit or loss:								
<i>Lebanese treasury bills and bonds</i>	1,024,811	-	-	1,024,811	101,479	-	-	101,479
Net loans and advances to customers at amortised cost								
<i>Commercial</i>	2,998,143	1,747,457	2,287,178	7,032,778	889,949	178,693	214,543	1,283,185
<i>Consumer</i>	752,512	1,083,988	-	1,836,500	700,020	90,358	-	790,378
Net loans and advances to related parties at amortised cost	12,145	12,619	384	25,148	4,392	1,131	-	5,523
Debtors by acceptances	58,042	8,672	142,014	208,728	280	8,033	17,440	25,753
Financial assets at amortised cost								
<i>Lebanese treasury bills and bonds</i>	843,584	-	-	843,584	1,400,911	-	-	1,400,911
<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	804,789	-	-	804,789	1,832,574	-	-	1,832,574
<i>Foreign governmental debt securities</i>	-	155,682	34,891	190,573	-	14,569	5,226	19,795
<i>Debt securities issued by banks and financial institutions</i>	-	273,301	-	273,301	-	12,030	-	12,030
Financial assets at fair value through other comprehensive income:								
<i>Lebanese bonds</i>	3,183	-	-	3,183	311	-	-	311
<i>Foreign governmental debt securities</i>	-	1,122,682	-	1,122,682	-	67,572	-	67,572
<i>Debt securities issued by banks and financial institutions</i>	-	52,885	-	52,885	-	3,496	-	3,496
	147,034,286	12,083,540	9,933,610	169,051,436	18,928,988	1,086,556	1,338,716	21,354,260

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47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.4 Analysis of risk concentrations (continued)***Industrial analysis*

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

	2023									
	<i>Financial services and brokerage</i>	<i>Government</i>	<i>Consumers</i>	<i>Retail and wholesale</i>	<i>Construction and materials</i>	<i>Manufacturing</i>	<i>Energy and Petroleum</i>	<i>Services and utilities</i>	<i>Agriculture</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with central banks										
<i>Central Bank of Lebanon</i>	-	140,010,292	-	-	-	-	-	-	-	140,010,292
<i>Other Central Banks</i>	-	2,406,094	-	-	-	-	-	-	-	2,406,094
Due from banks and financial institutions	9,614,947	-	-	-	-	-	-	-	-	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	3,595,689	-	-	-	-	-	-	-	-	3,595,689
Derivative financial instruments	5,452	-	-	-	-	-	-	-	-	5,452
Financial assets at fair value through profit or loss	-	1,024,811	-	-	-	-	-	-	-	1,024,811
Net loans and advances to customers at amortised cost										
<i>Commercial</i>	-	4,610	154	2,884,014	948,490	1,025,998	-	1,850,212	319,300	7,032,778
<i>Consumer</i>	-	-	1,836,500	-	-	-	-	-	-	1,836,500
Net loans and advances to related parties at amortised cost										
<i>Commercial</i>	-	-	-	-	7,456	-	-	4	-	7,460
<i>Consumer</i>	-	-	17,304	384	-	-	-	-	-	17,688
Debtors by acceptances	8,178	-	-	41,863	85,989	72,698	-	-	-	208,728
Financial assets at amortised cost										
<i>Lebanese treasury bills</i>	-	843,584	-	-	-	-	-	-	-	843,584
<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	-	804,789	-	-	-	-	-	-	-	804,789
<i>Foreign governmental debt securities and debt securities issued by banks and financial institutions</i>	-	463,874	-	-	-	-	-	-	-	463,874
Financial assets at fair value through other comprehensive income										
<i>Lebanese bonds</i>	-	3,183	-	-	-	-	-	-	-	3,183
<i>Foreign governmental debt securities</i>	-	1,122,682	-	-	-	-	-	-	-	1,122,682
<i>Debt securities issued by banks and financial institutions</i>	52,885	-	-	-	-	-	-	-	-	52,885
	<u>13,277,151</u>	<u>146,683,919</u>	<u>1,853,958</u>	<u>2,926,261</u>	<u>1,041,935</u>	<u>1,098,696</u>	<u>-</u>	<u>1,850,216</u>	<u>319,300</u>	<u>169,051,436</u>

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.4 Analysis of risk concentrations (continued)

Industrial analysis (continued)

	2022									
	<i>Financial services and brokerage</i> LL million	<i>Government</i> LL million	<i>Consumers</i> LL million	<i>Retail and wholesale</i> LL million	<i>Construction and materials</i> LL million	<i>Manufacturing</i> LL million	<i>Energy and Petroleum</i> LL million	<i>Services and utilities</i> LL million	<i>Agriculture</i> LL million	<i>Total</i> LL million
Balances with central banks										
<i>Central Bank of Lebanon</i>	-	13,963,203	-	-	-	-	-	-	-	13,963,203
<i>Other Central Banks</i>	-	234,865	-	-	-	-	-	-	-	234,865
Due from banks and financial institutions	1,251,266	-	-	-	-	-	-	-	-	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	361,119	-	-	-	-	-	-	-	-	361,119
Derivative financial instruments	800	-	-	-	-	-	-	-	-	800
Financial assets at fair value through profit or loss	-	101,479	-	-	-	-	-	-	-	101,479
Net loans and advances to customers at amortised cost										
<i>Commercial</i>	-	4,610	-	464,518	216,549	277,744	-	266,210	53,554	1,283,185
<i>Consumer</i>	-	-	790,378	-	-	-	-	-	-	790,378
Net loans and advances to related parties at amortised cost										
<i>Commercial</i>	-	-	-	-	1,656	-	-	-	-	1,656
<i>Consumer</i>	-	-	3,867	-	-	-	-	-	-	3,867
Debtors by acceptances	310	-	-	3,175	10,569	11,699	-	-	-	25,753
Financial assets at amortised cost										
<i>Lebanese treasury bills</i>	-	1,400,911	-	-	-	-	-	-	-	1,400,911
<i>Certificates of deposit issued by the Central Bank of Lebanon</i>	-	1,832,574	-	-	-	-	-	-	-	1,832,574
<i>Foreign governmental debt securities and debt securities issued by banks and financial institutions</i>	-	31,825	-	-	-	-	-	-	-	31,825
Financial assets at fair value through other comprehensive income										
<i>Lebanese bonds</i>	-	311	-	-	-	-	-	-	-	311
<i>Foreign governmental debt securities</i>	-	67,572	-	-	-	-	-	-	-	67,572
<i>Debt securities issued by banks and financial institutions</i>	3,496	-	-	-	-	-	-	-	-	3,496
	<u>1,616,991</u>	<u>17,637,350</u>	<u>794,245</u>	<u>467,693</u>	<u>228,774</u>	<u>289,443</u>	<u>-</u>	<u>266,210</u>	<u>53,554</u>	<u>21,354,260</u>

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47 RISK MANAGEMENT (continued)**47.2 CREDIT RISK (continued)****47.2.5 Analysis of 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.

	2023					
	<i>Maximum exposure LL million</i>	<i>Cash LL million</i>	<i>Securities LL million</i>	<i>Letters of credit / guarantees LL million</i>	<i>Real estate LL million</i>	<i>Net credit exposure LL million</i>
Balances with central banks	142,416,386	-	-	-	-	142,416,386
Due from banks and financial institutions	9,614,947	-	-	-	-	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	3,595,689	(82,824)	(218,665)	-	-	3,294,200
Derivative financial instruments	5,452	-	-	-	-	5,452
Financial assets at fair value through profit or loss	1,024,811	-	-	-	-	1,024,811
Net loans and advances to customers at amortised cost:						
Commercial loans	7,032,778	(127,319)	(117,091)	-	(3,896,688)	2,891,680
Consumer loans	1,836,500	(47,491)	-	-	(1,580,975)	208,034
Net loans and advances to related parties at amortised cost	25,148	-	-	-	(7,373)	17,775
Financial assets at amortised cost	2,112,247	-	-	-	-	2,112,247
Financial assets at fair value through other comprehensive income	1,178,750	-	-	-	-	1,178,750
	<u>168,842,708</u>	<u>(257,634)</u>	<u>(335,756)</u>	<u>-</u>	<u>(5,485,036)</u>	<u>162,764,282</u>
Financial guarantees	141,934	(16,437)	-	-	-	125,497
Documentary credits (including acceptances)	1,828,404	(1,182)	-	-	-	1,827,222
	<u>170,813,046</u>	<u>(275,253)</u>	<u>(335,756)</u>	<u>-</u>	<u>(5,485,036)</u>	<u>164,717,001</u>
Utilized collateral		(275,253)	(117,091)	-	(5,485,036)	
Surplus of collateral before undrawn credit lines		(2,252,213)	(2,600,718)	(95,623)	(20,547,633)	
Guarantees received from banks, financial institutions and customers		<u>(2,527,466)</u>	<u>(2,717,809)</u>	<u>(95,623)</u>	<u>(26,032,669)</u>	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 3,631,262 million as at 31 December 2023.

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47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.5 Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2022					
	<i>Maximum exposure LL million</i>	<i>Cash LL million</i>	<i>Securities LL million</i>	<i>Letters of credit / guarantees LL million</i>	<i>Real estate LL million</i>	<i>Net credit exposure LL million</i>
Balances with central banks	14,198,068	-	-	-	-	14,198,068
Due from banks and financial institutions	1,251,266	-	-	-	-	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	361,119	(11,124)	(26,660)	-	-	323,335
Derivative financial instruments	800	-	-	-	-	800
Financial assets at fair value through profit or loss	101,479	-	-	-	-	101,479
Net loans and advances to customers at amortised cost:						
Commercial loans	1,283,186	(27,914)	(14,308)	-	(767,219)	473,745
Consumer loans	790,377	(21,053)	-	-	(671,267)	98,057
Net loans and advances to related parties at amortised cost	5,523	-	-	-	(2,248)	3,275
Financial assets at amortised cost	3,265,310	-	-	-	-	3,265,310
Financial assets at fair value through other comprehensive income	71,379	-	-	-	-	71,379
	<u>21,328,507</u>	<u>(60,091)</u>	<u>(40,968)</u>	<u>-</u>	<u>(1,440,734)</u>	<u>19,786,714</u>
Financial guarantees	13,750	(1,592)	-	-	-	12,158
Documentary credits (including acceptances)	134,234	(106)	-	-	-	134,128
	<u>21,476,491</u>	<u>(61,789)</u>	<u>(40,968)</u>	<u>-</u>	<u>(1,440,734)</u>	<u>19,933,000</u>
Utilized collateral		(58,581)	(40,968)	-	(1,440,734)	
Surplus of collateral before undrawn credit lines		(271,006)	(175,541)	(95,623)	(2,770,907)	
Guarantees received from banks, financial institutions and customers		(329,587)	(216,509)	(95,623)	(4,211,641)	

The surplus of collateral mentioned above presented before offsetting additional credit commitments given to customers amounting to LL 415,610 million as at 31 December 2022.

47 RISK MANAGEMENT (continued)

47.2 CREDIT RISK (continued)

47.2.5 Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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

The main types of collateral obtained are as follows:

- *Securities*: the balances shown represent the fair value of the securities.
- *Letters of credit/guarantees*: the Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions, which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.
- *Real estate (commercial and residential)*: the Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown reflects the fair value of the property limited to the related mortgaged amount.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. 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 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 balances with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the Bank's total foreign currency deposits as at 31 July 2020 by 28 February 2021, amended to become as of 30 September 2022 by BDL Intermediate Circular 645 of 7 October 2022. On 24 December 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The Bank submitted to the regulators monthly calculation for meeting the regulatory requirement of 3% liquidity ratio with foreign banks in accordance with Central Bank of Lebanon Basic Circular 154. Maintaining and improving the foreign currency liquidity ratio as stipulated by this circular has become the focal point of the bank management after the crisis.

The following outlines the monitoring process that takes place at the entity level, with some elaborate reference to Lebanon given the ongoing crisis.

47 RISK MANAGEMENT (continued)**47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)****Monitoring process***Daily*

On a daily basis, the Finance Division at Byblos Bank SAL communicates by email to the ALCO members a liquidity and investment position report (D-1) including by currency the balances of liquid assets (cash in vaults, current and money market accounts and placements) held with local and international banks, the Central Bank of Lebanon, and the Group related banks, with stating interest rate applied, transaction date and maturity date. Also, Group Treasury monitors daily the inflows and outflows in the main currencies used by the Group.

Weekly

A weekly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Lebanon.

Monthly

On a monthly basis, Risk Management communicates to the ALCO members a market risk and liquidity dashboard indicating, among other issues, compliance with internal and regulatory liquidity ratios, for all Byblos Bank SAL and each banking unit of the Group.

Quarterly

The Board of Directors is informed of compliance with internal and regulatory liquidity ratios for each banking unit and for the Group on at least a quarterly basis. Moreover, the Executive Committee maintains an open communication with the Board Risk Committee to coordinate course of actions under the highly distressed market and uncertain situation in the country.

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations. The contractual maturities were determined based on the period remaining to each maturity as per the consolidated statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately.

	2023					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	76,324,422	1,666,959	26,960,226	32,175,001	6,866,282	143,992,890
Due from banks and financial institutions	8,367,744	753,684	499,584	1,991	(8,056)	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	1,012,752	808,582	1,624,311	150,853	(809)	3,595,689
Derivative financial instruments	5,452	-	-	-	-	5,452
Financial assets at fair value through profit or loss	136,825	63,454	88,559	403,743	630,452	1,323,033
Net loans and advances to customers at amortised cost	3,440,198	1,033,180	1,265,152	1,326,667	1,812,585	8,877,782
Net loans and advances to related parties at amortised cost	5,620	62	3,198	3,060	13,210	25,150
Debtors by acceptances	31,780	170,907	4,649	1,686	(294)	208,728
Financial assets at amortised cost	355,041	180,918	380,801	2,240,774	(1,080,179)	2,077,355
Financial assets at fair value through other comprehensive income	224,417	143,823	73,976	636,745	1,111,355	2,190,316
Total undiscounted financial assets	89,904,251	4,821,569	30,900,456	36,940,520	9,344,546	171,911,342

47 RISK MANAGEMENT (continued)**47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)**

	2022					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Total LL million</i>
Financial assets						
Cash and balances with central banks	7,463,441	107,532	208,394	5,365,321	1,558,202	14,702,890
Due from banks and financial institutions	1,176,870	32,277	38,438	-	(3,624)	1,243,961
Loans to banks and financial institutions and reverse repurchase agreements	162,596	93,787	104,610	-	126	361,119
Derivative financial instruments	800	-	-	-	-	800
Financial assets at fair value through profit or loss	22,470	-	4,875	19,684	88,803	135,832
Net loans and advances to customers at amortised cost	665,165	167,194	278,211	461,620	525,746	2,097,936
Net loans and advances to related parties at amortised cost	3,152	21	158	367	1,825	5,523
Debtors by acceptances	5,344	18,720	1,973	-	(284)	25,753
Financial assets at amortised cost	375,414	211,143	1,264,980	1,404,478	16,599	3,272,614
Financial assets at fair value through other comprehensive income	6,358	21	22,278	44,583	93,251	166,491
Total undiscounted financial asset	9,881,610	630,695	1,923,917	7,296,053	2,280,644	22,012,919
	2023					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Total LL million</i>
Financial liabilities						
Due to central banks	15,335	21,493	82,331	484,591	76,504	680,254
Due to banks and financial institutions	3,417,001	372,365	532,416	693,581	2,409,983	7,425,346
Derivative financial instruments	14,411	-	-	-	-	14,411
Customers' deposits at amortised cost	134,714,877	4,230,223	9,554,783	2,064,456	17,071	150,581,410
Deposits from related parties at amortised cost	772,135	22,816	17,616	168,706	-	981,273
Engagements by acceptances	31,780	170,908	4,649	1,686	-	209,023
Subordinated debt	1,208,788	55	-	-	305,700	1,514,543
Total undiscounted financial liabilities	140,174,327	4,817,860	10,191,795	3,413,020	2,809,258	161,406,260
	2022					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Total LL million</i>
Financial liabilities						
Due to central banks	75,169	246,576	156,391	750,092	230,647	1,458,875
Due to banks and financial institutions	660,899	287,199	192,132	256,579	11,072	1,407,881
Derivative financial instruments	1,250	-	-	-	-	1,250
Customers' deposits at amortised cost	16,176,254	556,466	1,600,961	360,518	5,516	18,699,715
Deposits from related parties at amortised cost	84,897	2,204	8,328	18,802	-	114,231
Engagements by acceptances	5,344	18,721	1,972	-	-	26,037
Subordinated debt	125,627	6	1,498	7,988	30,723	165,842
Total undiscounted financial liabilities	17,129,440	1,111,172	1,961,282	1,393,979	277,958	21,873,831

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date on which it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	2023					
	<i>Less than 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 to 12 months LL million</i>	<i>1 to 5 years LL million</i>	<i>More than 5 years LL million</i>	<i>Total LL million</i>
Financial guarantees	-	-	69,060	72,874	-	141,934
Documentary credits	117,318	1,198,943	262,538	40,583	-	1,619,382
Commitments to lend	3,631,262	-	-	-	-	3,631,262
	3,748,580	1,198,943	331,598	113,457	-	5,392,578

47 RISK MANAGEMENT (continued)**47.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)**

	2022					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	-	-	7,781	5,969	-	13,750
Documentary credits	13,941	52,335	42,205	-	-	108,481
Commitments to lend	415,610	-	-	-	-	415,610
	<u>429,551</u>	<u>52,335</u>	<u>49,986</u>	<u>5,969</u>	<u>-</u>	<u>537,841</u>

47.4 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 variables such as interest rates, foreign exchange rates and equity prices.

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Group's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Group's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Group Risk Management division sets the framework necessary for identification, measurement and management of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities that mature or are re-priced in a given period. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management.

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible 100 basis points parallel changes in interest rates, with all other variables held constant, of the Group's income statement.

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 novel and prolonged nature of current economic crisis and the high levels of uncertainties, the Group expects lower interest rates during 2023. However, the Group is unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates used by the Lebanese banking sector through its various intermediate circulars.

The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in Note 33 to these consolidated financial statements.

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47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

The effect of any future associated hedges made by the Group is not accounted for.

<i>Currency</i>	<i>Decrease in basis points</i>	<i>2023</i>	<i>2022</i>
		<i>Effect on net interest income LL million</i>	<i>Effect on net interest income LL million</i>
LL	100 basis point	26	6
US Dollars	100 basis point	512,430	35,393
Euro	100 basis point	2,848	1,812

The Group's interest sensitivity position based on the contractual re-pricing date at 31 December is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates, particularly with regard to the maturity of customer demand deposits.

	<i>2023</i>						<i>Total LL million</i>
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Non interest bearing items LL million</i>	
ASSETS							
Cash and balances with central banks	21,781,442	1,500,000	26,672,250	32,175,000	7,567,950	54,296,248	143,992,890
Due from banks and financial institutions	2,389,408	750,925	494,197	1,686	-	5,978,731	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	1,011,016	815,523	1,647,243	150,843	-	(28,936)	3,595,689
Derivative financial instruments	-	-	-	-	-	5,452	5,452
Financial assets at fair value through profit or loss	-	-	-	-	-	1,323,033	1,323,033
Net loans and advances to customers at amortised cost	3,865,311	1,000,002	1,346,911	988,271	901,215	767,568	8,869,278
Net loans and advances to related parties at amortised cost	5,621	60	3,197	3,059	6,227	6,984	25,148
Debtors by acceptances	-	-	-	-	-	208,728	208,728
Financial assets at amortised cost	97,956	170,462	316,086	1,526,353	177,215	(175,825)	2,112,247
Financial assets at fair value through other comprehensive income	221,661	143,823	73,549	636,745	99,789	1,014,749	2,190,316
Total	29,372,415	4,380,795	30,553,433	35,481,957	8,752,396	63,396,732	171,937,728
LIABILITIES							
Due to central banks	33,936	10,795	69,704	483,752	75,510	6,558	680,255
Due to banks and financial institutions	2,152,667	369,784	136,892	697,902	2,409,983	1,541,903	7,309,131
Derivative financial instruments	-	-	-	-	-	14,411	14,411
Customers' deposits at amortised cost	60,522,081	4,201,913	7,891,882	2,663,713	17,065	75,209,704	150,506,358
Deposits from related parties at amortised cost	199,317	22,976	-	-	-	758,979	981,272
Engagements by acceptances	-	-	-	-	-	209,022	209,022
Subordinated debt	-	-	-	-	305,700	1,208,844	1,514,544
Total	62,908,001	4,605,468	8,098,478	3,845,367	2,808,258	78,949,421	161,214,993
Total interest sensitivity gap	(33,535,586)	(224,673)	22,454,955	31,636,590	5,944,138	(15,552,689)	10,722,735

47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Interest rate risk (continued)**

	2022						
	<i>Up to 1 month</i> <i>LL million</i>	<i>1 to 3 months</i> <i>LL million</i>	<i>3 months to 1 year</i> <i>LL million</i>	<i>1 to 5 years</i> <i>LL million</i>	<i>Over 5 years</i> <i>LL million</i>	<i>Non interest bearing items</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
ASSETS							
Cash and balances with central banks	2,431,266	42,210	153,306	5,365,321	1,844,925	4,865,862	14,702,890
Due from banks and financial institutions	312,661	32,115	38,116	-	-	868,374	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	162,441	94,094	106,638	-	195	(2,249)	361,119
Derivative financial instruments	-	-	-	-	-	800	800
Financial assets at fair value through profit or loss	-	-	-	-	-	135,832	135,832
Net loans and advances to customers at amortised cost	692,108	191,428	309,670	384,133	378,768	117,456	2,073,563
Net loans and advances to related parties at amortised cost	2,753	17	142	317	646	1,648	5,523
Debtors by acceptances	-	-	-	-	-	25,753	25,753
Financial assets at amortised cost	305,185	194,726	1,266,943	1,305,595	92,627	100,234	3,265,310
Financial assets at fair value through other comprehensive income	-	21	22,249	44,583	4,497	95,141	166,491
Total	3,906,414	554,611	1,897,064	7,099,949	2,321,658	6,208,851	21,988,547
LIABILITIES							
Due to central banks	61,966	221,234	99,664	479,931	151,699	29,026	1,043,520
Due to banks and financial institutions	395,893	282,230	133,977	232,620	10,651	321,317	1,376,688
Derivative financial instruments	-	-	-	-	-	1,250	1,250
Customers' deposits at amortised cost	7,256,023	543,132	1,345,279	435,526	5,515	9,021,588	18,607,063
Deposits from related parties at amortised cost	1,856	2,105	22,543	45,629	8,291	31,414	111,838
Engagements by acceptances	-	-	-	-	-	26,037	26,037
Subordinated debt	-	-	-	-	30,723	125,133	155,856
Total	7,715,738	1,048,701	1,601,463	1,193,706	206,879	9,555,765	21,322,252
Total interest sensitivity gap	(3,809,324)	(494,090)	295,601	5,906,243	2,114,779	(3,346,914)	666,295

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 and 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 Lira. Most of these financial assets and liabilities are in US Dollars, Euros. The Group has also exposure to foreign currency risk through its subsidiaries that have a functional currency other than the Lebanese Lira.

As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are valued at the official published exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency markets, this does not always represent a reasonable estimate of expected cash flows in Lebanese Liras 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 Dollars. The consolidated financial statements as at 31 December 2023 include adjustments from the change in this rate from LL 1,507.5 to LL 15,000 to the US Dollars. During February 2024, Central bank of Lebanon issued Basic Circular 167 requiring banks to value specific assets and liabilities based on the exchange rate quoted on the electronic platform (which stood at LL 89,500 to the US Dollars on 15 February 2024) effective 31 January 2024. This directive aligns with efforts toward exchange rate unification.

The Group will use the new rates as quoted on the electronic platform in its subsequent financial information reporting, with the first period being the quarterly reporting as of 31 March 2024. The carrying amounts of total assets, liabilities and shareholders' equity as at 31 March 2024 were reported at LL 1,026,014,525 billion, LL 952,596,040 billion and LL 73,418,485 billion, respectively.

47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Currency risk (continued)**

The gap between the several exchange rates and the subjectivity and complexities surrounding exchange rates remained in 2023 even after the change in the official published exchange rate. Management believes that the unification of exchange rates of the LL to the US Dollars that will be enacted starting 31 January 2024 will further have a significant impact on the Group's financial position and regulatory ratios from the translation of assets and liabilities in foreign currencies at a different rate.

Following is the consolidated statement of financial position as of 31 December 2023 and 31 December 2022 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL. 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.

	<i>2023</i>		
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	571,864	143,421,026	143,992,890
Due from banks and financial institutions	6,045	9,608,902	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	-	3,595,689	3,595,689
Derivative financial instruments	1,626	3,826	5,452
Financial assets at fair value through profit or loss	732	1,322,301	1,323,033
Net loans and advances to customers at amortised cost	372,926	8,496,352	8,869,278
Net loans and advances to related parties at amortised cost	1,312	23,836	25,148
Debtors by acceptances	(283)	209,011	208,728
Financial assets at amortised cost	1,528,365	583,882	2,112,247
Financial assets at fair value through other comprehensive income	44,681	2,145,635	2,190,316
Property, equipment and right-of-use assets	10,800,045	599,294	11,399,339
Intangible assets	12,083	84,425	96,508
Assets obtained in settlement of debt	2,049	61,617	63,666
Other assets	539,660	415,544	955,204
TOTAL ASSETS	13,881,105	170,571,340	184,452,445
LIABILITIES AND EQUITY			
Due to central banks	634,230	46,025	680,255
Due to banks and financial institutions	6,660	7,302,471	7,309,131
Derivative financial instruments	10,766	3,645	14,411
Customers' deposits at amortised cost	3,786,479	146,719,879	150,506,358
Deposits from related parties at amortised cost	9,392	971,880	981,272
Engagement by acceptances	-	209,022	209,022
Other liabilities	957,728	735,723	1,693,451
Provisions for risks and charges	5,574,109	1,709,981	7,284,090
Subordinated debt	-	1,514,544	1,514,544
TOTAL LIABILITIES	10,979,364	159,213,170	170,192,534
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Cash contribution to capital	-	407,025	407,025
Non-distributable reserves	566,419	438,438	1,004,857
Distributable reserves	72,787	18,360	91,147
Treasury shares	(8,524)	-	(8,524)
Accumulated losses	(2,466,407)	(129,256)	(2,595,663)
Revaluation reserve of real estate	9,696,351	-	9,696,351
Change in fair value of financial assets at fair value through other comprehensive income	391,692	393,874	785,566
Net results of the financial period – loss	(193,803)	266,572	72,769
Foreign currency translation reserves	3,008,914	-	3,008,914
NON-CONTROLLING INTERESTS	284,410	3,849	288,259
TOTAL EQUITY	12,040,952	2,218,959	14,259,911
TOTAL LIABILITIES AND EQUITY	23,020,316	161,432,129	184,452,445

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47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Currency risk (continued)**

	2022		
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	1,070,369	13,632,521	14,702,890
Due from banks and financial institutions	640	1,250,626	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	-	361,119	361,119
Derivative financial instruments	7	793	800
Financial assets at fair value through profit or loss	732	135,100	135,832
Net loans and advances to customers at amortised cost	939,396	1,134,167	2,073,563
Net loans and advances to related parties at amortised cost	2,546	2,977	5,523
Debtors by acceptances	(283)	26,036	25,753
Financial assets at amortised cost	2,311,114	954,196	3,265,310
Financial assets at fair value through other comprehensive income	27,089	139,402	166,491
Property, equipment and right-of-use assets	4,115,117	58,074	4,173,191
Intangible assets	12,546	4,275	16,821
Assets obtained in settlement of debt	(5,332)	65,080	59,748
Other assets	526,941	79,007	605,948
TOTAL ASSETS	9,000,882	17,843,373	26,844,255
LIABILITIES AND EQUITY			
Due to central banks	1,036,761	6,759	1,043,520
Due to banks and financial institutions	229,052	1,147,636	1,376,688
Derivative financial instruments	473	777	1,250
Customers' deposits at amortised cost	3,357,474	15,249,589	18,607,063
Deposits from related parties at amortised cost	11,939	99,899	111,838
Engagement by acceptances	-	26,037	26,037
Other liabilities	165,103	95,153	260,256
Provisions for risks and charges	484,277	117,634	601,911
Subordinated debt	-	155,856	155,856
TOTAL LIABILITIES	5,285,079	16,899,340	22,184,419
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Cash contribution to capital	-	407,025	407,025
Non-distributable reserves	651,240	356,509	1,007,749
Distributable reserves	72,301	18,360	90,661
Treasury shares	(8,524)	-	(8,524)
Accumulated losses	(314,689)	(116,910)	(431,599)
Revaluation reserve of real estate	3,679,488	-	3,679,488
Change in fair value of financial assets at fair value through other comprehensive income	23,233	(38,121)	(14,888)
Net results of the financial period – loss	(1,545,348)	3,601	(1,541,747)
Foreign currency translation reserves	(51,360)	-	(51,360)
NON-CONTROLLING INTERESTS	13,113	708	13,821
TOTAL EQUITY	3,208,567	1,451,269	4,659,836
TOTAL LIABILITIES AND EQUITY	8,493,646	18,350,609	26,844,255

47 RISK MANAGEMENT (continued)**47.4 MARKET RISK (continued)****Currency risk (continued)***The Group's Exposure to Currency Risk*

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

	2023 <i>LL million</i>	2022 <i>LL million</i>
ASSETS		
Cash and balances with central banks	139,697,156	13,213,389
Due from banks and financial institutions	519,043	32,261
Financial assets at fair value through profit or loss	264,263	20,552
Net loans and advances to customers at amortised cost	2,490,795	584,258
Net loans and advances to related parties at amortised cost	10,834	1,845
Financial assets at amortised cost	119,099	922,132
Financial assets at fair value through other comprehensive income	3,271	17,911
Assets obtained in settlement of debt	56,121	64,659
Other assets	279,485	67,971
TOTAL ASSETS	143,440,067	14,924,978
LIABILITIES AND EQUITY		
Due to central banks	41,256	6,100
Due to banks and financial institutions	24,455	7,620
Customers' deposits at amortised cost	134,549,417	14,177,642
	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Deposits from related parties at amortised cost	735,785	63,974
Engagement by acceptances	5,059	-
Other liabilities	412,892	69,735
Provisions for risks and charges	1,645,383	111,036
Subordinated debt	1,514,544	155,856
TOTAL LIABILITIES	138,928,791	14,591,963
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
Share premium – common shares	229,014	229,014
Share premium – preferred shares	591,083	591,083
Cash contribution to capital	407,025	407,025
Non-distributable reserves	333,777	261,112
Distributable reserves	17,205	17,205
Accumulated losses / retained earnings	(261,528)	(143,357)
Change in fair value of financial assets at fair value through other comprehensive income	2,729	(35,493)
Non-controlling interest	3,849	708
TOTAL EQUITY	1,323,154	1,327,297
TOTAL LIABILITIES AND EQUITY	140,251,945	15,919,260

47 RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies/maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock/index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Group's equities at 31 December 2023 would have increased other comprehensive income by LL 23,563 million and net income by LL 14,911 million (2022: LL 2,366 million and LL 1,718 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

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 or later than expected, such as fixed rate mortgages when 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 Bank in Lebanon prioritising the implementation of a de-risking strategy (with the aim of alleviating pressure on credit asset quality), the Group considers the impact of prepayment risk resulting from these transactions to be benign.

Outside Lebanon, market risks that lead to prepayments are not material with respect to the countries 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.

47.5 Operational Risk

Operational risk is the risk of loss or damage arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To keep operational risk under control, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks remain within the Group's desired risk appetite boundaries and internal controls standards. The framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Group's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines Senior Managers including the Chief Risk Officer and the General Manager.

The framework for managing and controlling operational risks encompasses various tools including Risk and Control Assessment (RCA), operational risk event reporting and loss database management and key risk indicators (KRIs). The RCA is performed by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

47 RISK MANAGEMENT (continued)**47.5 Operational Risk (continued)**

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are being established to facilitate the operational risk monitoring in a forward looking manner with pre-defined escalation triggers. The Group gives particular attention to preventive measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

The Group's operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact – along with natural disasters and terrorism/ vandalism events. As to the latter the Group purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, political violence, and Director's and officers' liability.

48 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. The maturity profile of the Group's assets and liabilities at 31 December is as follows:

	2023		
	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	104,951,608	39,041,282	143,992,890
Due from banks and financial institutions	9,621,012	(6,065)	9,614,947
Loans to banks and financial institutions and reverse repurchase agreements	3,445,644	150,045	3,595,689
Derivative financial instruments	5,452	-	5,452
Financial assets at fair value through profit or loss	288,839	1,034,194	1,323,033
Net loans and advances to customers at amortised cost	5,735,088	3,134,190	8,869,278
Net loans and advances to related parties at amortised cost	8,878	16,270	25,148
Debtors by acceptances	207,336	1,392	208,728
Financial assets at amortised cost	917,301	1,194,946	2,112,247
Financial assets at fair value through other comprehensive income	442,216	1,748,100	2,190,316
Property, equipment and right-of-use assets	-	11,399,339	11,399,339
Intangible assets	-	96,508	96,508
Assets obtained in settlement of debt	-	63,666	63,666
Other assets	952,940	2,264	955,204
TOTAL ASSETS	126,576,314	57,876,131	184,452,445
LIABILITIES			
Due to central banks	119,159	561,096	680,255
Due to banks and financial institutions	4,205,567	3,103,564	7,309,131
Derivative financial instruments	14,411	-	14,411
Customers' deposits at amortised cost	148,429,538	2,076,820	150,506,358
Deposits from related parties at amortised cost	812,567	168,705	981,272
Engagements by acceptances	207,336	1,686	209,022
Other liabilities	1,693,451	-	1,693,451
Provisions for risks and charges	-	7,284,090	7,284,090
Subordinated debt	1,208,844	305,700	1,514,544
TOTAL LIABILITIES	156,690,873	13,501,661	170,192,534
NET	(30,114,559)	44,374,470	14,259,911

48 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2022		
	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	7,779,367	6,923,523	14,702,890
Due from banks and financial institutions	1,254,890	(3,624)	1,251,266
Loans to banks and financial institutions and reverse repurchase agreements	360,993	126	361,119
Derivative financial instruments	800	-	800
Financial assets at fair value through profit or loss	27,345	108,487	135,832
Net loans and advances to customers at amortised cost	1,101,757	971,806	2,073,563
Net loans and advances to related parties at amortised cost	3,329	2,194	5,523
Debtors by acceptances	26,037	(284)	25,753
Financial assets at amortised cost	1,844,232	1,421,078	3,265,310
Financial assets at fair value through other comprehensive income	28,657	137,834	166,491
Property, equipment and right-of-use assets	-	4,173,191	4,173,191
Intangible assets	-	16,821	16,821
Assets obtained in settlement of debt	-	59,748	59,748
Other assets	603,698	2,250	605,948
TOTAL ASSETS	13,031,105	13,813,150	26,844,255
LIABILITIES			
Due to central banks	407,705	635,815	1,043,520
Due to banks and financial institutions	1,129,779	246,909	1,376,688
Derivative financial instruments	1,250	-	1,250
Customers' deposits at amortised cost	18,273,095	333,968	18,607,063
Deposits from related parties at amortised cost	94,653	17,185	111,838
Debt issued and other borrowed funds	-	-	-
Engagements by acceptances	26,037	-	26,037
Other liabilities	260,256	-	260,256
Provisions for risks and charges	-	601,911	601,911
Subordinated debt	125,134	30,722	155,856
TOTAL LIABILITIES	20,317,909	1,866,510	22,184,419
NET	(7,286,804)	11,946,640	4,659,836

49 LITIGATION RISK

Since 17 October 2019, the Group has been subject to an increased litigations in Lebanon and abroad, as a result of the restrictive measures adopted by Lebanese banks in relation to the withdrawal of funds and transfers abroad, as well as in relation to the repayment by customers of local foreign currency loans in Lebanese Liras. Management is carefully considering the impact of these existing litigation and claims against the Group in relation to these restrictive measures. There are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices. Due to recent development and the increasing trend in judgments ruled in favour of the plaintiffs and customers during 2021, 2022 and 2023 in Lebanon and abroad, management considers that they may affect negatively the liquidity of the Group (refer to Note 47). The amount cannot be determined presently. At the balance sheet date, shares and account balances owned by the Bank in one of its foreign subsidiary in Belgium were placed under seizure, by court orders in relation to litigations raised by customers and noteholders for the transfer of funds abroad. Moreover, buildings owned by the Bank are subject to seizure and restriction on disposal by court orders in relation to litigations raised by customers. The Group may, from time to time, become involved in other legal or arbitration proceedings which may affect its operations and results.

Complaints have also been filed by groups of individuals against "Lebanese banks" and the chairmen of their board of directors for alleged committed crimes of tort and fraudulent bankruptcy, money laundering, fraud and breach of trust, which resulted in different legal decisions and actions on several banks.

49 LITIGATION RISK (continued)

On 4 May 2023, a decision was rendered by the Disciplinary Council of Judges in Lebanon to suspend and dismiss the Public Prosecutor of Appeal in Mount Lebanon, noting that the decision is subject to the Supreme Disciplinary Authority.

During 2024, in relation other complaints raised by depositors against the Bank, the Public Prosecutor of Mount Lebanon initiated an investigation that is still ongoing. As of the date of the authorization of these financial statements, the Bank was the target of restraining orders preventing it from disposing of its real estate properties (Notes 25 and 27). The Bank has sought legal expertise on the matter: common consensus converges toward the fact that the claims are baseless and with no legal grounds.

In addition, the Group may, from time to time, become involved in other legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Group (Note 44).

50 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.

51 CAPITAL MANAGEMENT

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

Central Bank of Lebanon Intermediate Circular 567, issued on 26 August 2020, Intermediate Circular 649, issued on 24 November 2022, Intermediate Circular 659, issued on 21 January 2023, Intermediate Circular 685, issued on 28 December 2023, and Intermediate Circular 689 issued on 2 February 2024 introduced several key changes to the calculation of regulatory capital adequacy ratios. These changes include:

- Raising the regulatory expected credit loss level for Lebanese government securities in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45% initially and then again to 75% (the latter level to be reached by 31 December 2026). Regulatory ECL for other exposures remain unchanged. These levels remained applicable in 2023.

<i>Type of financial instrument</i>	2023	2022
Exposures to Central Bank of Lebanon in foreign currencies	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Liras	0 %	0 %
Lebanese Government securities in foreign currencies	75 %	75 %
Lebanese Government securities in Lebanese Liras	0 %	0 %

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020, but was later extended for the banking sector to 28 February 2021. The Central Bank of Lebanon's Central Council may exceptionally approve a bank to complete 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction.

51 CAPITAL MANAGEMENT (continued)

- Inclusion of gains from Foreign Currency Translation Adjustments in Common Equity Tier 1, effective from 2023 whereas regulation prior to amendments brought by Intermediate Circular 689 included only losses from Foreign Currency Translation Adjustments in Common Equity Tier 1 and 50% of gains in Tier 2 capital. As a result of the change in regulation and the change in the official published exchange rate from LL 1,507.5 to the US Dollars to LL 15,000 to the US Dollars, Common Equity Tier 1 increased by LL 3,060,274 million as at 31 December 2023 compared to 31 December 2022.
- Inclusion of 75% of cumulative change in the fair value of financial instruments classified at FVTOCI in Common Equity Tier 1, instead of 50% of the gain in Tier 2, as was the case previously.
- Inclusion of 75% of revaluations gain of owned real estate properties (excluding ones acquired in settlement of bad debt as per Article 154 of the Code of Money & Credit) in Common Equity Tier 1, instead of 50%. The regulatory deadline for completing the reappraisal process for such properties was set on 31 December 2023. During 2023, the Group revalued real estate properties and recorded a revaluation gain of LL 6,016,863 million at Sayrafa exchange rate of LL 89,500 to the US Dollars in accordance with Intermediary Circular 659 (2022: LL 3,673,799 million at Sayrafa exchange rate of LL 38,000 to the US Dollars). As a result of the revaluation and the increase in the allowed percentage of inclusion, CET 1 increased by LL 5,432,519 million at 31 December 2023 compared to 31 December 2022.
- Exceptionally during 2023 and 2024, allowing banks to draw down the 2.5% capital conservation buffer on condition of rebuilding based on future instructions by the Central Bank of Lebanon.
- Prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for Common Equity Tier 1, 10% for Tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).
- Exceptionally for 2020 and 2021, allowing banks to include provisions for expected credit losses on stage 1 and 2 exposures, excluding those relating to Lebanese Sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to Credit Risk Weighted Assets). Such provisions included under CET 1 should be amortized over a period of 3 years starting 2022 and ending in 2024 by 25% yearly. Amounts included as at 31 December 2023 were LL 780,170 million (2022: LL 104,386 million). The increase resulted from the published official exchange rate from LL 1507.5 to the US Dollars to LL 15,000 to the US Dollars.
- Exceptionally for 2022 and 2023, allowing banks to include under CET 1 part of the losses resulting from the purchase of local dollars from the Central Bank of Lebanon against Lebanese Lira for the purpose of reducing open net FX short positions prior to 17 November 2022. In 2022, 66% of these losses can be included under CET 1, while in 2023, a maximum of 33% level applies. Amounts included as at 31 December 2023 under CET 1 were LL 148,005 million (2022: LL 296,010 million).

The following table shows the applicable regulatory capital ratios:

	Common Tier 1 Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
31 December 2023			
Minimum required capital ratios (waiver from Capital conservation buffer)	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5% (applicable in 2024)	7.00%	8.50%	10.50%
31 December 2022			
Minimum required capital ratios	5.25%	6.75%	8.75%
With the full capital conservation buffer of 2.5% (applicable in 2024)	7.00%	8.50%	10.50%

51 CAPITAL MANAGEMENT (continued)

	2023 <i>LL million</i>	2022 <i>LL million</i>
Risk-weighted assets:		
Credit risk	171,074,136	22,816,059
Market risk	5,816,793	1,303,686
Operational risk	11,675,519	2,035,935
Total risk-weighted assets	188,566,448	26,155,680

The regulatory capital as of 31 December is as follows:

	2023 <i>LL million</i>	2022 <i>LL million</i>
Tier 1 capital	12,183,136	3,149,534
<i>Of which: common Tier 1</i>	<i>11,180,135</i>	<i>2,146,582</i>
Tier 2 capital*	2,431,604	277,251
Total capital	14,614,740	3,426,785

*Tier 2 capital includes provisions for expected credit losses on stage 1 exposures subject to 1.25% cap relative to Credit Risk Weighted Assets amounting to LL 2,125,834 million (2022: LL 236,693 million).

The capital adequacy ratio as of 31 December is as follows:

	2023	2022
Capital adequacy – Common Tier 1	5.93%	8.21%
Capital adequacy – Tier 1	6.46%	12.04%
Capital adequacy – Total capital	7.75%	13.10%

The capital adequacy ratios as at 31 December 2023 and 2022 were calculated based on the recorded figures and do not take into consideration the adjustments that may result from the resolution of the uncertainties reflected in Note 1. Due to the high levels of uncertainties, the lack of observable reliable indicators, the high gap between the currency parallel market rates, the Sayrafa rate and the official published exchange rate, and the lack of visibility on the government's plans with respect to: (a) the high exposures of Lebanese 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 the Group's capital adequacy. Management has concerns about the effects that the above matters will have on the capital of the Group and the recapitalisation needs that may arise once the necessary adjustments are determined and recorded, in particular as a first step, the needs and implications that might result from the accounting for the subsequent change in the official published exchange rate.

52 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 and a positive effect on its equity from its subsidiaries that have a functional currency other than the Lebanese Lira. However, this change negatively impacted the capital adequacy ratios of the Group from translation of FCY-denominated risk-weighted assets.