BLC BANK S.A.L

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
YEAR ENDED DECEMBER 31, 2023

BLC BANK S.A.L

Consolidated Financial Statements and independent auditor's report for the year ended December 31, 2023

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Independent Auditor's Report
To the Shareholders of
BLC Bank S.A.L
Beirut – Lebanon

Adverse Opinion

We have audited the consolidated financial statements of BLC Group S.A.L. (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2023 and the consolidated statement of profit or loss, and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policies and other explanatory information.

In our opinion, because of the significance of the matters described 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 December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) accounting standards.

Basis for Adverse Opinion

1. As disclosed in note 1.3.2 to the accompanying consolidated financial statements, the Group's functional currency is the Lebanese Pound which is the currency of a hyperinflationary economy and the Group has not applied the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" in the preparation of the financial statements for the year ended December 31, 2023.

Had the Group applied the requirements of IAS 29, many elements and disclosures in the accompanying financial statements, including the comparative financial statements for the year ended December 31, 2022, would have been significantly impacted. The effects on the consolidated financial statements arising from this departure have not been determined. Our opinion in the prior year was also modified in respect of this matter.

2. As disclosed in note 1.3.1 to the accompanying consolidated financial statements, the Group's transactions and monetary assets and liabilities denominated in foreign currencies have been translated to functional currency (i.e. Lebanese Pounds) in accordance with the accounting policy on foreign currency transactions detailed in note 3 of the consolidated financial statements, at the official exchange rate published at the end of the reporting period which significantly varies from the several exchange rates that have emerged since the start of the economic crisis.

As per IAS 21 "The Effects of Changes in Foreign Exchange Rates", when several exchange rates are available, the rate to be used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. Had the Group applied the requirements of IAS 21 many elements of the accompanying consolidated financial statements, including disclosures, would have been significantly impacted. The effects on the consolidated financial statements arising from this departure have not been determined. Our opinion in the prior year was also modified in respect of this matter.

Basis for Adverse Opinion (continued)

3. Cash and balances with the Central Bank of Lebanon and investment securities at amortized cost, which are carried in the consolidated statement of financial position, net of expected credit loss, at LBP 19,970 billion and LBP 6,228 billion respectively (2022: LBP 2,999 billion and LBP 1,339 billion respectively), include gross balances held with the Central Bank of Lebanon and Lebanese government debt securities at amortized cost of LBP 29,764 billion (2022: LBP 4,102 billion). Additionally, loans and advances to customers, deposits with banks and financial institutions and other assets, which are carried in the consolidated statement of financial position at LBP 1,834 billion, LBP 324 billion and LBP 96,042 billion respectively (2022: LBP 565 billion, LBP 32 billion and LBP 51,050 billion respectively), include balances of LBP 1,834 billion, LBP 37 billion and LBP 20 billion respectively (2022: LBP 565 billion, LBP 6 billion and LBP 11 billion respectively) which are concentrated in Lebanon.

The stated allowance for expected credit losses on these balances does not take into account the significant deterioration in credit quality which has occurred subsequent to initial recognition as a result of the continuing economic crisis in Lebanon and the government default on Eurobonds, which constitutes a departure from IFRS 9. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.

4. Provisions are carried in the consolidated statement of financial position at LBP 311 billion (2022: LBP 57 billion). The assumptions used in calculating and estimating these provisions are subject to high uncertainties due to the prevailing financial and economic situation in Lebanon as mentioned in note 1 to the financial statements, that expose the Group to increased litigation and regulatory risks. Consequently, we were unable to determine whether any adjustments to the calculation of these estimates were necessary.

Moreover, it includes a provision for expected credit losses on financial guarantees and other commitments of LBP 3.8 billion (2022: LBP 825 million). Management has not stated the allowance for expected credit losses on financial guarantees and other commitments which takes into account the full impact of the economic crisis and political turmoil in Lebanon, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to this amount. Our opinion in the prior year was also modified in respect of this matter.

5. Investment securities at fair value through profit or loss and investment securities at fair value through other comprehensive income which are carried in the consolidated statement of financial position at LBP 687 billion and LBP 36 billion respectively (2022: LBP 68 billion and LBP 14 billion respectively), include investment securities which are issued by the private entities domiciled in Lebanon of LBP 547 billion and LBP 19 billion respectively (2022: LBP 17 billion and LBP 55 billion respectively).

Management has stated the aforementioned financial assets at fair value by using inputs into the determination of fair value which are not indicative of economic reality and market conditions existing in Lebanon at the reporting date, which constitutes a departure from IFRSs. We were unable to determine the adjustments necessary to these amounts. Our opinion in the prior year was also modified in respect of this matter.

Basis for Adverse Opinion (continued)

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

7. We did not receive up to this report's date sufficient direct confirmation of balances related to customers' accounts and loans and advances to customers as at December 31, 2023 (notes 17 and 7). In addition, we were unable to verify by alternative means the balances of unconfirmed accounts included in the statement of financial position as at December 31, 2023 and accordingly, we were unable to satisfy ourselves as to the accuracy of the reported balances as at that date. Our opinion in prior years was also modified in respect of this matter.

8. We did not receive up to this report's date sufficient direct confirmation of balances related to deposits from banks and financial institutions' accounts as at December 31 2023 (note 16). In addition, we were unable to verify by alternative means the balances of unconfirmed accounts included in the statement of financial position as at December 31, 2023, and accordingly, we were unable to satisfy ourselves as to the accuracy of the reported balances as at that date.

9. As disclosed in note 1.3.4 to the accompanying financial statements, the Group is defendant in several lawsuits and is also exposed to increased litigations and claims. We were unable to obtain sufficient appropriate audit evidence as to the absence of any additional claims and their potential impact on the financial statements since we did not receive, up to the date of this report, most of the requested bank lawyers' letters.

10. The events, 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 the paragraphs above affect the financial position, liquidity, solvency and profitability of the Group, expose the Group to increased litigation and regulatory risks. Significant uncertainty exists in relation to the outcome of the litigations and claims raised against the Group and the negative impact that they might have on the Group's offshore liquidity, foreign assets and foreign currency exposure as disclosed in note 39. These events and conditions cast significant doubts 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. The opinion for the year ended 31 December 2022 was also modified for the same reasons explained above.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics of the Lebanese Association of Certified Public Accountants that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Emphasis of Matter

We draw attention to note 1.3.1 to the accompanying financial statements, which describes the exchange rates used by the Group for the translation of assets, liabilities and transactions denominated in foreign currencies.

As a result of the change in the official exchange rate USD/LBP from 1,507.5 to 15,000 effective February 1, 2023, the comparability of accounts and transactions denominated in foreign currencies and converted into LBP is not possible.

Our adverse opinion is not further modified in respect of this matter.

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 December 31, 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

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

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

In connection with our audit of the 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.

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

The Board of Directors and those charged with governance (referred to thereafter as "Management") are 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 the 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.

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

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

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• 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.

• 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.

• 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.

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

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 separate 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.

Beirut, Lebanon
July 24, 2024

DFK Fiduciaire du Moyen-Orient

Mazars Saade

BLC BANK S.A.L
Consolidated Statement of Financial Position

	Notes	December 31, 2023 LBP'000	December 31, 2022 LBP'000
Assets			
Cash and balances with the Central Bank of Lebanon	5	19,969,514,566	2,998,685,432
Deposits with banks and financial institutions	6	322,867,723	31,648,985
Loans and advances to customers	7	1,834,011,970	564,687,329
Financial assets at fair value through profit or loss	9	687,155,754	68,061,104
Investment securities	8	6,264,149,215	1,353,056,865
Assets acquired in satisfaction of loans	11	61,534,981	61,534,981
Right-of-use assets	12	2,059,520	6,057,203
Property and equipment	13	78,326,877	78,581,310
Intangible assets	14	783,067	1,719,184
Other assets	15	96,041,945	51,050,165
Total Assets		**29,316,445,618**	**5,215,082,558**
Liabilities			
Deposits from banks and financial institutions	16	41,105,956	102,325,165
Customers' accounts	17	28,027,622,155	4,253,465,754
Borrowings from Central Bank of Lebanon	18	194,577,107	182,977,458
Lease liabilities	12	24,332,630	7,127,008
Other liabilities	19	168,140,447	65,189,674
Provisions	20	311,742,578	57,523,567
Total Liabilities		**28,767,520,873**	**4,668,608,626**
Equity			
Capital	21	214,000,000	214,000,000
Shareholders' cash contribution to capital	21	141,492,443	141,492,443
Preferred shares	22	152,786,633	152,786,633
Treasury shares	23	(75,882,381)	(75,882,381)
Non-distributable reserves	24	262,369,519	262,973,595
Accumulated losses		(139,808,406)	(41,783,186)
Cumulative change in fair value of investments at fair value through other comprehensive income	8	(8,036,316)	(10,056,994)
Profit / (loss) for the year		1,625,326	(97,498,065)
Equity attributable to Equity holders of the Bank		**548,546,818**	**546,032,045**
Non-controlling interests		377,927	441,887
Total Equity		**548,924,745**	**546,473,932**
Total Liabilities and Equity		**29,316,445,618**	**5,215,082,558**
Financial instruments with off-balance sheet risks:	34		
Letters of guarantee and standby letters of credit		368,507,947	58,782,342
Forward exchange contracts		-	17,477,998
Fiduciary accounts	35	45,309,375	4,553,592

The accompanying notes 1 to 44 form an integral part of the consolidated financial statements

BLC BANK S.A.L
Consolidated Statement of Profit or Loss

	Notes	Year ended December 31, 2023 LBP'000	2022 LBP'000
Interest income		443,314,046	224,720,746
Less: Tax on interest		(22,687,860)	(16,051,029)
Interest income, net of tax	26	420,626,186	208,669,717
Interest expense	27	(102,371,530)	(27,022,698)
Net interest income		318,254,656	181,647,019
Fee and commission income	28	374,740,269	73,786,136
Fee and commission expense	29	(16,678,054)	(5,239,251)
Net fee and commission income		358,062,215	68,546,885
Net interest and other gain / (loss) on investment securities at fair value through profit or loss	30	223,058,276	(15,120,894)
Gain on disposal of investment in subsidiaries		4,487,405	392,523
Other operating income / (expenses), net	31	748,236,983	(76,145,511)
Net financial revenues		1,652,099,535	159,320,022
Allowance for expected credit losses, net	38	(943,747,528)	(111,393,740)
Recovery of loans and advances, net		1,956,347	(117,327)
Net financial revenues after net exected credit losses		710,308,354	47,808,955
Net gain on disposal of property and equipment and properties acquired in satisfaction of loans	11,13	50,722	11,354,022
Provision for risks and charges	20	(162,971,524)	(11,051,500)
Staff costs	32	(362,971,014)	(97,291,927)
General and administrative expenses	33	(175,443,777)	(40,215,026)
Depreciation and amortization	13,14	(6,088,967)	(6,839,645)
Depreciation of right-of-use assets	12	(1,110,405)	(1,216,250)
Profit / (Loss) before income tax		1,773,389	(97,451,371)
Income tax expense	19	(151,755)	(41,259)
Profit / (Loss) for the year		**1,621,634**	**(97,492,630)**
Attibutable to equity			
Equity holders of the Bank		1,625,325	(97,498,065)
Non-controlling interests		(3,691)	5,435
		1,621,634	(97,492,630)

The accompanying notes 1 to 44 form an integral part of the consolidated financial statements

BLC BANK S.A.L

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year ended December 31, 2023 LBP'000	2022 LBP'000
Profit / (Loss) for the year		1,621,634	(97,492,630)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value of investments at fair value through other comprehensive income		2,023,118	421,118
Deferred tax	15,19	-	(129,295)
		2,023,118	291,823
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of debt securities at fair value through other comprehensive income (net of tax)		(2,440)	23,271
Deferred tax	15,19	-	(220,800)
		(2,440)	(197,529)
Total other comprehensive income for the year		2,020,678	94,294
Total comprehensive loss for the year		**3,642,312**	**(97,398,336)**
Attributable to:			
Equity holders of the Bank		(3,638,621)	(97,403,771)
Non-controlling interests		(3,691)	5,435
		(3,642,312)	(97,398,336)

The accompanying notes 1 to 44 form an integral part of the consolidated financial statements

BLC BANK S.A.L
Consolidated Statement of Changes In Equity

	Capital	Preferred Shares	Treasury shares	Shareholders cash contribution to Capital	Non-Distributable Reserves	Cumulative Change in Fair Value of investment Securities	Accumulated losses	Profit / (Loss) for the Year	Total	Non-controlling interests	Total Equity
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance December 31, 2021	214,000,000	152,786,633	(75,882,381)	141,492,443	262,973,595	(10,151,288)	150,262,806	(192,025,700)	643,456,108	1,108,632	644,564,740
Appropriation of 2021 loss	-	-	-	-	-	-	(192,025,700)	192,025,700	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(672,180)	(672,180)
Other movement	-	-	-	-	-	-	28,589	-	28,589	-	28,589
Deferred tax on future dividend distribution of subsidiaries	-	-	-	-	-	-	(48,881)	-	(48,881)	-	(48,881)
Total comprehensive loss for the year 2022	-	-	-	-		94,294	-	(97,498,065)	(97,403,771)	5,435	(97,398,336)
Balance December 31, 2022	214,000,000	152,786,633	(75,882,381)	141,492,443	262,973,595	(10,056,994)	(41,783,186)	(97,498,065)	546,032,045	441,887	546,473,932
Appropriation of 2022 loss	-	-	-	-	-	-	(97,498,065)	97,498,065	-	-	-
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(60,269)	(60,269)
Other movement	-	-	-	-	(604,076)	-	(527,155)	-	(1,131,231)	-	(1,131,231)
Total comprehensive income for the year 2023	-	-	-	-	-	2,020,678	-	1,625,326	3,646,004	(3,691)	3,642,313
Balance December 31, 2023	214,000,000	152,786,633	(75,882,381)	141,492,443	262,369,519	(8,036,316)	(139,808,406)	1,625,326	548,546,818	377,927	548,924,745

The accompanying notes 1 to 44 form an integral part of the consolidated financial statement

BLC BANK S.A.L
Consolidated Statement of Cash Flows

	Notes	Year ended December 31, 2023 LBP'000	2022 LBP'000
Cash flows from operating activities:			
Profit / (loss) for the year		1,621,634	(97,492,630)
Adjustments for:			
Allowance for expected credit losses (net)	38	943,747,528	111,393,740
Depreciation and amortization	13,14	6,088,967	6,839,645
Depreciation of right-of-use	12	1,110,405	1,216,250
Provision for risk and charges (net)	20	162,971,524	11,051,500
Provision for end-of-service indemnities (net)	20	78,560,285	17,363,780
Provision for loss on foreign currency position	20	-	-
Unrealized (gain) / loss on investment securities at fair value through profit or loss	30	(103,689,989)	15,300,009
Income tax expense	19	151,755	41,259
Gain on disposal of property and equipment	13	(50,722)	(1,608,430)
Gain on disposal of property acquired in satisfaction of loans	11	-	(9,745,593)
Dividend income	30	(52,920)	(93,552)
Difference of exchange		49,915,609	-
Interest expense	27	102,371,530	27,022,698
Interest income	26	(420,626,186)	(208,755,280)
		822,119,420	(127,466,604)
Net (increase) / decrease in loans and advances to customers		(1,219,684,822)	434,980,999
Net (increase) / decrease in investments at fair value through other comprehensive income		(19,633,570)	1,400,239
Net increase in investments at fair value through profit or loss		(515,404,661)	(29,633,818)
Net (increase) / decrease in investments at amortized cost		(5,858,612,029)	78,666,146
Net increase in customers' deposits		23,778,981,918	28,252,205
Net increase in compulsory deposits with the Central Bank		(40,809,263)	(95,649,741)
Net (increase) / decrease in margin with banks		(16,131,646)	812,742
Net (increase) / decrease in term deposits with the Central Bank		(3,214,743,586)	173,983,685
Net (decrease) / increase in deposits from banks		(61,200,537)	27,598,164
Net (increase) / decrease in other assets		(44,991,780)	8,306,753
Net increase / (decrease) in other liabilities		102,950,773	(12,357,084)
Proceeds from disposal of assets acquired in satisfaction of loa	36	-	12,278,588
Acquisition of assets acquired in satisfaction of loans		-	(1,680,263)
Settlements made from provisions	20	(8,367,208)	(4,887,016)
		13,704,473,009	494,604,995
Income tax paid		(41,443)	(74,286)
Tax on revenues paid		-	-
Dividends received from investments at fair value through	30	52,920	93,552
Other movement		(527,154)	(20,291)
Interest paid		(103,075,502)	(21,371,611)
Interest received		471,713,528	192,302,856
Net cash generated from operating activities		14,072,595,358	665,535,215
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		285,233	2,546,099
Acquisition of property and equipment		(5,183,650)	(260,168)
Acquisition of intangible assets		-	(41,833)
Proceeds from disposal of assets held for sale		-	21,145,253
Net change in non-controlling interest		(60,269)	(672,180)
Net cash (used in) / generated from investing activities		(4,958,686)	22,717,171
Cash flows from financing activities:			
Settlement of lease liabilities	12	(8,823,080)	(1,398,540)
Net decrease in loan to a bank		-	704,766
Net increase / (decrease) in borrowings from the Central Bank of Lebanon	18	11,599,649	(36,388,070)
Net cash generated from / (used in) financing activities		2,776,569	(37,081,844)
Net increase in cash and cash equivalents		14,070,413,241	651,170,542
Cash and cash equivalents - Beginning of year	36	1,727,035,937	1,075,865,395
Cash and cash equivalents - End of year	36	15,797,449,178	1,727,035,937

The accompanying notes 1 to 44 form an integral part of the consolidated financial statements

1. General information

BLC Group S.A.L., (the "Group"), is a Lebanese joint stock company registered in the Commercial Register under No. 1952 and on the Central Bank of Lebanon list of banks under No. 11. The consolidated financial statements of the Group comprise the financial statements of the Bank and those of its subsidiaries (collectively of the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Bank's headquarters are located at BLC Bank building, Adlieh Square, Beirut, Lebanon.

Fransabank S.A.L. is the direct parent of the Bank.

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

	Ownership interest		Country of Incorporation	Business Activity
	2023	2022		
	%	%		
BLC Finance S.A.L.(Dormant)		99.33	Lebanon	Financial Institution
BLC Services S.A.L.	91.33	91.33	Lebanon	Insurance Brokerage

1.1 The Macro Economic Environment

Since the last quarter of 2019, Lebanon is witnessing severe events that have a significant impact on the economic situation during the past four years, resulting in the biggest crisis the country has witnessed since its independence in 1943 along with their related adverse impact on the financial, monetary and economic outlook in general and the banking system in particular.

The crisis was intensified by the negative impact of COVID-19 that affected Lebanon and the world, in addition to the explosion in the Beirut sea port on 4 August 2020, leading to further deterioration in the economic environment, disruption of commercial operations and regular banking practices, and increase in unemployment and social and economic turmoil.

Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default during March 2020 following the Lebanese Government decision to discontinue payments on all of its outstanding USD 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 affected.

The deterioration of the economic conditions referred to above led to a significant decrease in external capital inflows and to a decrease in the foreign exchange reserves in the Banque du Liban, which made it more difficult to secure foreign currencies to pay the cost of imports from abroad as the economic model of Lebanon relies mainly on imports, in addition to systemic failures across banking, debt and the exchange rate. Banks have imposed restrictions on capital and foreign currencies and on transfers of foreign currencies outside Lebanon, which led to the difficulty of accessing foreign currencies and cash, and to the emergence of a parallel market to the official peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the official peg of 1,507.5 LBP/USD (till 31 January 2023) and 15,000 LBP/USD (as from 1 February 2023).

Since 2020, the Lebanese economy was recognized as a hyperinflationary economy, the currency depreciation has accelerated and dollarization increased.

Foreign currency exchange rates for the Lebanese Pound

As a result of the ongoing crisis, several exchange rates have arisen for the US Dollar, namely:

- an unofficial rate has emerged in the foreign exchange market that is applied by foreign exchange brokers in their currency trades ("the parallel rate"); and
- the Central Bank of Lebanon ('the BDL') has launched a new foreign exchange platform, namely the Sayrafa platform, where US Dollars can be sold or purchased at a rate determined by the BDL. Thé Sayrafa rate generally fluctuates in line with the market rate.

As of February 1, 2023, a new official exchange rate was adopted by the Ministry of Finance and the Central Bank of Lebanon of LBP 15,000 to the US Dollar as compared to the previous rate of LBP 1,507.5 to the US Dollar.

International Monetary Fund (IMF)

On April 7, 2022 the International Monetary Fund (IMF) announced that the Lebanese authorities and the IMF team have reached a staff-level agreement on a comprehensive economic reform program for a US$ 3 billion that could be supported by a 46-month Extended Fund Arrangement (EFF), this agreement is subject to the approval by IMF management and the Executive Board.

The IMF issued in March 2023 the concluding statement of its 2023 Article IV Mission. It says Lebanon is at a particularly difficult juncture. Lebanon has been facing an unprecedented sovereign-banking-currency crisis, which is ongoing for more than three years. Since the onset of the crisis, the economy has contracted by about 40 percent, the Lebanese lira has lost 98 percent of its value, inflation has been at triple-digits, and the central bank has lost two thirds of its foreign exchange (FX) reserves.

Although the economy showed some signs of stabilization in 2022, it remains severely depressed. The stabilization was supported by the expiration of COVID measures, a rebound in tourism, strong remittances inflows, and a gradual improvement in terms of trade in the second half of the year. Still, high uncertainty, banking sector restrictions, and expensive and very limited electricity supply continue to hinder economic activity. Following the dramatic exchange rate depreciation in Q1 2023, cash dollarization increased, and inflation accelerated to 270 percent y-o-y in April 2023. The fiscal deficit is estimated to have widened to 5 percent of GDP in 2022, due to collapsing revenues. The current account deficit is estimated to have widened to almost 30 percent of GDP on account of surging imports, while foreign domestic investment (FDI) has remained depressed, as have been other financial inflows.

During the year 2023 the International Monetary Fund (IMF) warned that Lebanon's progress for reforms has been slow considering how complicated the situation is, adding, one would have expected more in terms of implementation and approval of the legislations, noting a very slow progress.

The International Monetary Fund (IMF) concluded by stating its commitment to supporting Lebanon and continuing its engagement with authorities through policy advice and technical assistance. Still, this support will depend on Lebanon's implementation of a comprehensive reform program.

Lebanese Government's Financial Recovery Plan

On 20 May 2022, the Lebanese Government endorsed a financial recovery roadmap which includes several measures to secure international aid and unlock funds from the IMF.

Despite the urgency of the situation, as a result of the continued political paralysis the authorities were not able to implement policies and reforms to resolve the crisis and restore macroeconomic stability.

1.2 Central Bank of Lebanon (BDL) policy initiatives

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

Regulatory framework:

- *Intermediate Circular 567:*
  - BDL licensees should apply the following minimum regulatory expected credit loss ("ECL") ratios, while permitting banks to constitute progressively those ECLs over a period of five years (starting from 2020). The BDL Central Council may consider the extension of the period to 10 years, for banks that manage to complete the 20% cash contribution to capital requirement:
    Foreign currency placements with BDL, including certificates of deposits: 1.89%

    Local currency deposits with BDL: 0%

    Lebanese government bonds in foreign currencies: 45% and later on increased to 75% in 2022

    Lebanese treasury bills in local currency: 0%

    Intermediate circular 649 issued on November 24, 2022 replaced the aforementioned five years and ten years deadline by the fixed dates of December 31, 2026 and December 31, 2029 respectively.
  - BDL licensees are allowed not to downgrade loans exposures showing past dues (principal and interest) between February 2020 and December 2020 as a result of COVID-19, unless borrower ceases to operate as a going concern, in which case exposure should be automatically downgraded to Stage 3.
  - Prohibition of dividends distribution on banks' common shares for the years 2019 and 2020 (years 2021, 2022 and 2023 were subsequently added by way of Intermediate Circulars 616 and 659 and 676 respectively).
  - By February 28, 2021 (extended), banks should complete a 20% increase of the common equity tier I capital as at December 31, 2018. The BDL Central Council may consider for banks to complete 50% of this capital increase through transfer of real estate by the shareholders, provided these are liquidated within 5 years.
  - Banks can include the revaluation surplus of property and equipment in Tier I capital, subject to BDL approval on the revaluation. However, on January 20, 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. On December 28, 2023, the Intermediate Circular 685 permitted the inclusion of 75% of the revaluation surplus of fixed assets in the calculation of Tier I capital, while allowing the use of the BDL platform rate as at 30.06.2023 and at the end of each reporting period over 5 years.
  - Banks must comply with the minimum capital adequacy ratios. Bank should refrain from dividend distribution, should these ratios fall below 7% for common equity Tier I ratio; 10% for tier I ratio; and 12% for total capital ratio.
    Furthermore, if the capital conservation buffer on common equity falls below 2.5% of risk weighted assets during 2020 and 2021, banks should rebuild the gap by end of 2024, by a minimum of 0.75% per year, starting 2022. Subsequently, on February 2, 2024, the Intermediate Circular 689 allowed a temporary full draw down of the 2.5% capital conservation buffer during years 2023 and 2024.

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

- *Basic Circular 154:*
  - Banks should perform a fair value assessment of their assets and liabilities and set a plan to comply with all applicable regulatory requirements, namely those related to liquidity and capital adequacy, and restore their levels of service which were in place before the economic crisis. Banks should also submit a request to the BDL Central Council to reconstitute/raise their capital to the required levels by the end of the first quarter of the year 2021, where applicable. In this respect, banks shall consider soliciting their depositors to convert their deposits into shares or bonds, provided listing the bank's shares on the Beirut Stock Exchange.
  - In order to enhance their offshore liquidity, banks are required to instigate those depositors to repatriate 30% (in the case of banks' key executives and politically exposed persons) and 15% (for other depositors) of their overseas transfers made since July 1, 2017 and exceeding the equivalent of USD 500,000. Funds received will be deposited in special saving accounts for 5 years and will not be subject to compulsory reserve requirements.
  - Banks should secure by February 28, 2021, offshore foreign currency deposits equivalent to a minimum of 3% of their total foreign currency as at July 31, 2020. The requirement was later amended through Intermediate Circular 645 to consider foreign currency deposits as at September 30, 2022 as the basis for the computation instead of 31 July 2020, thus lowering liquidity required levels as customers' deposits decreased over the period.

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

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

- *Basic Circular 162* issued on March 28, 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 May 27, 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 July 27, 2022 (amending Basic Circulars 65 and 78) requires banks selling real estate properties or participations acquired in accordance with the provisions of Article 153 or 154 of the CMC, only against fresh USD or its equivalent in LBP based on Sayrafa rate.

- *Basic Circular 164* issued on October 12, 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 649* issued on November 24, 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 LBP banknotes (66% and 33% respectively in 2022 and 2023).

- *Intermediate Circular 667* issued on April 13, 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.

Monetary policies and socio-economic support:

- *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 Deposit issued by BDL while continuing paying 50% of coupon payment in the instrument's currency and 50% in LBP at official rate (LBP1,507.5 to the US Dollar until January 31, 2023 and LBP15,000 to the US Dollar afterwards). This circular was later amended on February 2, 2024 by Intermediate Circular 686 increasing the interest rate reduction on foreign currencies placements with BDL and on Certificates of Deposit issued by BDL from 50% to 75% while limiting the coupon payment to be in FCY only.

- *Basic Circular 150* 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 ...)

- *Intermediate Circulars 547 and 552* requesting banks to rollover loans to customers in local and foreign currencies maturing between March 2020 to June 2020 up to 5 years at zero interest rate and fees, subject to the bank assessment of the customers' inability to settle their dues because of the economic situation. BDL also allowed the extension of loans to businesses to fund salaries and operating expenses, at the same terms mentioned above. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.

- *Basic Circular 152 and Intermediate Circular 569* allowing banks extension of loans up to 5 years at zero interest rate, to help those affected by the Beirut Seaport explosion. In return, BDL would extend loans to banks in USD at zero interest rates against those loans to banks' customers.

- *Intermediate Circular 568* requesting banks to accept repayment by resident customers of their USD denominated retail loans (up to USD800,000 for housing loans and USD100,000 for retail loans) in local currency at the official exchange rate (LBP1,507.5 to the USD). On January 20, 2023, Intermediate Circular 656 revoked the aforementioned provision effective February 1, 2023.

- *Basic Circular 161* issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate.

In return banks will provide the total amount to their customers at the same Sayrafa rate against LBP at limits set by the bank.

- *Basic Circular 165* issued on 19 April 2023 and requesting banks to open new accounts at BDL in LBP 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 LBP 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 664* issued on March 28, 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.

- *Intermediate Circular 690* issued on February 2, 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.

Foreign exchange policies:

- *Basic Circular 151 "Cash Withdrawals from Foreign Currency Bank Accounts"* dated April 21, 2020 provides withdrawals of pre-crisis customers' deposits in foreign currencies with banks, at the rate of 3,900 LBP / USD, which was then increased to 8,000 LBP / USD and within a monthly limit of USD 3,000 by bank account. On January 20, 2023, Intermediate Circular 657 amended the rate to be USD/ LBP 15,000 instead of USD/ LBP 8,000 while reducing the limit from USD 3,000 per month to USD 1,600 per month. On July 5, 2023, Intermediate Circular 673 removed the maximum conversion amount of USD 1,600 per month per customer. However, BDL maintained its commitment to buy from the Bank a maximum amount of USD 1,600 per month per customer. At maturity as at December 31, 2023, the circular was not renewed.

- *Basic Circular 157 "Exceptional Procedures on Foreign currency Operations"* issued on May 10, 2021 enacting the legal and regulatory framework of the 'Sayrafa' foreign exchange trading platform developed by the Central Bank of Lebanon. Transactions that can be conducted on the 'Sayrafa' platform consist of purchasing LBP in exchange of fresh foreign currency and purchasing fresh foreign currency in exchange of LBP. The bid/ask spread that banks are allowed to achieve, is capped at 1% of the purchase price.

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

- *Basic Circular 158 "Exceptional Measures for the Gradual Withdrawal of Deposits in Foreign currencies"* issued on June 8, 2021 setting out an exceptional framework for the settlement of onshore foreign currency deposits up to an amount equivalent to USD 50,000.

To benefit from the provisions of the said circular, certain eligibility criteria must be met. Customers' monthly entitlements are (i) an amount of USD 400 in cash or equivalent (transfer abroad, credited to a payment card with international usage, etc.) and (ii) an amount in LBP equivalent to USD 400 and converted at a rate USD/LBP 12,000 (before amendment USD/ LBP at 15,000 on January 20, 2023), noting that 50% of the amount will be paid in cash and 50% will be credited to a payment card. On July 5, 2023 the Intermediate Circular 674 introduced several amendments to the Basic Circular 158. First, it cancelled the amount in LBP that clients were able to withdraw on a monthly basis from their foreign currencies' accounts opened before October 31 2019. Second, for the US Dollars portion, the monthly withdrawal remains unchanged at USD 400 per month from the outstanding balance of subaccount opened prior to 1 July 2023 when the client signed the agreement with the Bank based on the aforementioned circular. Third, for all subaccounts created after June 30, 2023, the monthly withdrawal limit is set at USD 300 per month.

On 17 November 2023, BDL issued Intermediate Circular 682 adding eligibility criteria to benefit from Basic Circular 158; Customers who have transferred their funds after the crisis to another local Bank can benefit from the provisions of said circular if (i) transferred funds are returned to the originating bank, and if (ii) the customer hadn't benefited from the circular neither from the originating Bank, nor the destination Bank.

The financing of the aforementioned process will be secured equally through (i) BDL reduction of compulsory reserves requirements from 15% to 14% as per BDL Intermediary Circular 586 and (ii) the bank's offshore liquidity. To that end, banks can use their foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition they reconstitute it by 31 December 2024 as amended by the Intermediate Circular 674 issued on 5 July 2023.

- *Basic Circular 159* issued on 17 August 2021 preventing banks from processing foreign currency funds received from customers whether in the form of cash or through offshore transfers at a value other than its face value, with the exception of transactions pertaining to the settlement of loans. It also prevented banks from purchasing foreign currencies at parallel rate with the exception of the purchase foreign currencies duly recorded on the electronic platform and resulting from offshore incoming transfers with the purpose of (i) enhancing liquidity, (ii) engaging in medium or long-term investments, (iii) settling international commitments. Finally, the circular prevented banks from purchasing bankers' checks and other bank's accounts in foreign currencies whether directly or indirectly.

- *Intermediate Circular 600* issued on November 3, 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 661* issued on 31 January 2023 (amending Basic Circulars 23, 152 and 159) states that the exchange rate for repayment was increased to LBP15,000 to the US Dollar.

- *Intermediate Circular 659* issued on 20 January 2023 (amending Basic Circulars 32 and 44) states that banks should liquidate their short open FX positions, as at 31 December 2022, gradually, on a period of 5 years.

- *Intermediate Circular 683* issued on November 17, 2023 defining the calculation of the Foreign Exchange Trading Position, also to deduct from the Foreign Exchange Open Position the Special Long Foreign Exchange Position.

- *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 LBP from FCY accounts at pre-defined exchange rates and has not been renewed. Beneficiaries from said circular – who cannot be old or current beneficiaries from basic circular 158 - would be able to withdraw on a monthly basis USD150 in cash up to a cumulative amount of USD 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 LBP deposits into FCY for at least USD 300,000 post-crisis with the exception of those who converted their EOS indemnity, customers who settled their FCY loans for an amount equivalent to USD 300,000 from LBP proceeds, beneficiaries of sayrafa transaction above or equal to USD75,000, 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 31 January 2024 reported financials.

- *BCC circular 300* issued on 27 November 2023 defining the monetary and non-monetary assets and liabilities in accordance with the requirements of IAS 21, the foreign exchange position calculation, related accounting treatment, foreign exchange position limits and the reporting to the Banking Control Commission of Lebanon.

1.1 The Group's Financial particulars

1.3.1 Foreign exchange

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

	2023		*2022*	
	Year-end Rate LBP	*Average Rate LBP*	*Year-end Rate LBP*	*Average Rate LBP*
US Dollar	**15,000**	**13,875.63**	1,507.5	1,507.5
Euro	**16,695**	**15,049.23**	1,603.83	1,594.38

The exchange rates above consist of the official exchange rates published by the Central Bank of Lebanon on a monthly basis. However, several exchange rates have emerged since the last quarter of 2019 that vary significantly among each other and from the official one: parallel exchange markets and the Sayrafa rate that are highly volatile.

On 10 May 2021, the Central Bank of Lebanon issued Basic Circular157 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 LBP, as well as operations from/to foreign currencies external accounts against LBP. Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon. Foreign currency operations were executed on the Sayrafa platform at the following exchange rates:

	2023		2022	
	Year-end Rate LBP	Average Rate LBP	Year-end Rate LBP	Average Rate LBP
US Dollar	89,500	78,225	38,000	26,433

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

In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LBP 1,507.5 to LBP 15,000 to the USDollar. Sayrafa Rates and parallel market rates remained highly volatile and divergent from the new official published exchange rate (LBP42,000 and LBP 58,200 respectively at 1 February 2023).

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

Because of the gap between the several exchange rates available, the number of variables and assumptions affecting the possible future resolution of the uncertainties is very high, increasing the subjectivity and complexity of the judgment and management was unable to determine the rate at which the future cash flows represented by the transaction or balance could have been settled depending on its source and nature, if those cash flows had occurred at the measurement date. Accordingly, the Group uses the official published exchange rate above to translate all balances and transactions in foreign currencies regardless of their source or nature, which does not represent a reasonable estimate of expected cash flows in Lebanese Lira that would have to be generated/used from the realization of such assets or the payment of such liabilities at the date of the transaction or at the date of the separate financial statements.

The consolidated financial statements as at and for the year ended 31 December 2022 do not include adjustments from the change in this rate from LBP1,507.5 to LBP15,000 to the US Dollars.

The Group will use the new rate of LBP89,500 in its subsequent financial information reporting, with the first period being the quarterly reporting as of 31 March 2024. The Group used the new rate at LBP15,000 in its financial information reporting, with the first period ending 28 February 2023.

1.3.2 Hyperinflation in Lebanon

As of 31 December 2023, 2022 and 2021 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 analyzing the behavior of population, prices, interest rates and wages should also be considered.

The Lebanese Central Administration of Statistics reported 3-year and 12-month cumulative rates of inflation of 2,005% and 192%, respectively, as of December 2023 (2022: 1,670% and 122%). Qualitative indicators, following the deteriorating economic condition and currency controls, also support the conclusion that Lebanon is a hyperinflationary economy for accounting purposes for periods ending on or after 31 December 2020.

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

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

(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.

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

As of the date of the accompanying consolidated financial statements, for the reasons described below, Management is temporarily unable to apply the above-mentioned standard nor is it able to quantify the effect that the application of IAS 29 would have on the presented consolidated financial statements. 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 uses the official exchange rate of 15,000 LBP/USD starting February 1 2023 and 1,507.5 LBP/USD in 2022 to translate balances and transactions in foreign currencies. Since the emergence of the parallel market and since the introduction by the Central Bank of Lebanon of the "Sayrafa Rate" and the "Platform Rate", the Lebanese market has witnessed multiple pricing and valuations of balances receivable and payable and operations in foreign currencies, depending on the settlement method which is based on unofficial markets. The Group is translating balances (assets and liabilities) and transactions in foreign currencies at the official published exchange rate, which does not represent a reasonable estimate of expected cash flows in Lebanese Liras that would have to be generated / used from the realization of such assets or the payment of such liabilities at the date of the transaction or of the consolidated financial statements.

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

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

The 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.

1.3.3 Exposure to financial instruments

As at December 31, 2023, the Group's net credit exposure to Lebanese sovereign debt, including BDL, represented approximately 87% of total assets (2022: 63%).

As at 31 December 2023, loss allowances on assets held at the Central Bank of Lebanon and the portfolio of Lebanese government securities held at amortized cost are recorded in these consolidated financial statements at the loss rates mentioned in the Central Bank of Lebanon's Intermediate Circular 567 for 10 years. Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the government's plans with respect to the Group's exposures to the Central Bank of Lebanon and Lebanese sovereign, management is unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these consolidated financial statements do not include adjustments of the carrying amount of these assets to their recoverable amounts based on International Financial Reporting Standards and an expected credit 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 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 38 to these consolidated financial statements.

Fair values of financial assets originated in Lebanon have been determined by the Group using notional prices quoted on inactive and illiquid markets or using yield curves that are not reflective of economic reality and market conditions. In the absence of reliable data, the Group did not disclose the fair value of financial assets and financial liabilities measured at amortized cost as required by IFRS 13 *Fair Value Measurements.*

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

The financial position of the Group, as reported in these consolidated financial statements, does not reflect the adjustments that would be required by IFRS as a result of the future government reform program, the deep recession, the currency crisis and the hyperinflation.

Due to the high levels of uncertainties, the lack of observable indicators, the high gap between the parallel market rates, the Sayrafa rate, the Platform Rate and the official published exchange rate and the lack of visibility on the government's plans with respect to:
(a) the high exposures of banks with the Central Bank of Lebanon, (b) the Lebanese Sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, management is unable to estimate in a reasonable manner, the impact of these matters on its consolidated financial position.

Management considers that the adverse impact of the above is expected to be pervasive and will have a significant negative impact on the equity of the Group and the recapitalization needs that will arise once the necessary adjustments are determined and recorded.

As disclosed in Note 40 to these consolidated financial statements, the Group's capital adequacy ratio as at December 31, 2023 and 2022, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties reflected above once these uncertainties become reasonably quantifiable.

1.3.4 Litigations and claims

Until the above uncertainties are resolved, the Group is continuing its operations as performed since 17 October 2019 and in accordance with the laws and regulations. Unofficial capital controls and inability to transfer foreign currencies to correspondent banks outside Lebanon are exposing the Group to litigations that are dealt with on a case-by-case basis when they occur. 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 pound.

Management is carefully considering the impact of these existing litigations and claims. There are still uncertainties related to the consequences of these restrictive measures based on the current available information and the prevailing laws and local banking practices.

However, due to recent development and the increasing trend in judgments ruled in favor of the plaintiffs and customers during 2021, 2022 and 2023, management considers that they may affect negatively the offshore liquidity of the Group, its foreign assets and its foreign currency mismatch. as disclosed in Note 40. The amount cannot be determined presently.

The Lebanese crisis continues to impose severe limitations on the ability to conduct commercial banking activities or transactions under the normal course of business in Lebanon. Market embedded factors, such as unofficial capital controls, inability to secure foreign liquidity and the existence of several values for the US Dollar, resulted 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 Group to increased litigation and regulatory risks and negatively impact the financial position of the Group, its regulatory ratios and covenants due the adverse effects of the uncertainties. There is a significant uncertainty in relation to the extent and period over which this situation will continue and the impact that conducting operations under a crisis environment in the foreseeable future will further have on-the Group's financial position, future cashflows, results of operations, regulatory ratios and covenants. The Group's realization value of assets and sufficiency and settlement value of liabilities are premised on future events, the outcome of which are inherently uncertain.

2 . Application of new and revised IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) (IFRS Accounting Standards)

2.1 New and amended Standards and Interpretations that are effective for the current year

In the current year, the Bank has applied the below amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after January 1, 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- ***Amendments to IAS 8 — Definition of Accounting Estimates***
  The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

- ***Amendments to IAS 12 — Deferred Tax related to Assets and Liabilities arising from a Single Transaction***
  The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.
  It specifically addresses the recognition of deferred tax related to assets and liabilities arising from a single transaction. It requires companies to recognize deferred tax on particular transactions that, upon initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- ***Amendments to Amendments to IAS 1 and IFRS Practice Statement 2 — Disclosure of Accounting Policies***
  The amendments provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures.

  The amendments aim at helping 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.

- ***IFRS 17 — Insurance contract***
  IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.
  IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees. The Bank does not have any contracts that meet the definition of an insurance contract under IFRS 17.

2.2 Standards issued but not yet effective

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

- ***Amendments to IAS 1 Presentation of financial statements — Classification of Liabilities as Current or Non-current***
  The amendments provide guidance regarding the classification of assets and liabilities as current or non-current. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted.

- ***Amendments to IFRS 16 Leases — Lease Liability in a Sale and Leaseback***
  The amendments specifically address the treatment of lease liability in a sale and leaseback scenario and clarify how a seller-lessee subsequently measures sale and leaseback transactions that meet the requirements in IFRS 15 to be accounted for as a sale. The amendments are for annual periods beginning on or after January 1, 2024 with early application permitted.

- ***Amendment to IAS 7 and IFRS 7— Supplier finance arrangements***
  The amendments introduce two new disclosure objectives:
  One in IAS 7: To provide information enabling users (investors) to assess the effects of supplier finance arrangements on an entity's liabilities and cash flows.
  Another in IFRS 7: To help users understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if these arrangements were no longer available.
  These amendments aim to enhance transparency and provide investors with better insights into how supplier finance arrangements affect an entity's financial position and risk exposure.
  The amendments are for annual periods beginning on or after January 1, 2024 with early application permitted.

- ***Amendments to IAS 21 — Lack of exchangeability***
  The amendments specify when a currency is exchangeable into another currency and when it is not, and how an entity determines a spot rate when a currency lacks exchangeability.
  Under the amendments, entities are required to provide additional disclosures to help users evaluate how a currency's lack of exchangeability affects, or is expected to affect, its financial performance, financial position and cash flows.
  These amendments are effective for reporting periods beginning on or after January 1, 2025 with early application permitted.

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

3. Material accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standard Board (IASB).

The financial statements are presented in Lebanese Pound (LBP) which is the Group 's reporting currency. The primary currency of the economic environment in which the Group operates (functional currency) is the Lebanese Pound. All values are rounded to the nearest thousands, except when indicated otherwise.

The financial statements have been prepared on the historical cost basis except for the following that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below:

- Land and buildings acquired prior to 1999 are measured at their revalued amounts based on market prices prevailing during 1999 as permitted by local regulations, to compensate for the inflationary effects prevailing in the earlier years.
- Financial assets and liabilities at fair value through profit and loss and other comprehensive income.
- Derivative financial instruments.
- Assets and liabilities classified as held for sale.

Summary of material accounting policies

Following is a summary of the Group's material accounting policies:

A. Basis of Consolidation:

The Consolidated Financial statements of BLC Bank S.A.L. incorporated the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries) as the reporting date. Control is achieved when the Bank 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, and
- The ability to use its power over the investee to affect its returns.

The Bank 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.

When the Bank has less than a majority of the voting or similar right of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements.
- The Bank's voting rights and potential voting rights

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Total Comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidated. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Upon the loss of control, The Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit and loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. <u>Business combination</u>

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit and loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the excess is negative, a bargain purchase gain is recognized immediately in profit and loss. where applicable, adjustments are made to provisional value of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interest and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests proportionate share of the recognized amounts of the acquiree s identifiable net assets. The choice of the measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests' proportionate share of net assets acquired. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified at equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changed to the fair value of the contingent consideration are recognized in profit and loss.

C. Foreign currencies

Transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the official rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

D. Financial instruments

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

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

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

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

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

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

Exchange of debt securities:
Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

Repurchase and Reverse Repurchase Agreements:
Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the statement of financial position. The corresponding consideration received, including accrued interest, is recognized on the statement of financial position reflecting its economic substances as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified date are not recognized in the statement of financial position. The consideration paid, including accrued interest is recorded in the statement of financial position reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as interest income in the statement of profit or loss and is accrued over the life of the agreement using the effective interest rate method.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net trading (loss) gain" in the separate income statement.

E. Financial assets

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

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

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

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

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- The Group may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortized cost or at FVTOCI

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

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

The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period.

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described below.

Reclassifications

If the business model under which the Group holds financial assets- changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets.

Impairment

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

- deposits at banks
- loans and advances to banks
- loans and advances to customers
- customers' liability under acceptances
- debt investment securities
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognized on equity investments.

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

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

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

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

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantees contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

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

Credit-impaired financial assets

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

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

It may not be possible to identify a single discrete event instead, the combined effect of several events may we caused financial assets to become credit impaired. The Group assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, edit ratings and the ability of the borrower to raise funding.

Purchased or originated credit impaired (POCI) financial assets

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

Definition of default

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

The Group considers the following as constituting an event of default:

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

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

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

The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

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

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Modification and derecognition of financial assets

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

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

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

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

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.

The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognized in the consolidated statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments' revaluation reserve;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

F. Equity and Financial Liabilities

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Group's own equity instruments.

Financial liabilities:

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.
Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognized in profit or loss.

In making the determination of whether recognizing changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

<u>Other financial liabilities</u>

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.
It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

G. Offsetting

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

H. Derivative financial instruments

Derivatives, such as foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps, are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. The resulting gain/loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment hedges).
A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

Embedded Derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

I. Financial guarantee contracts

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

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

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

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

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

J. Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. The Group does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition, the Group does not use the exemption to continue using IAS 39 hedge accounting rules, i.e. the Group applies IFRS 9 hedge accounting rules in full.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- 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 Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases discontinuation may apply to only part of the hedging relationship.

For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships the Group designates only the intrinsic value of options. In this case the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item.

The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

The hedged items designated by the Group are time-period related hedged items, which means that-the amount of the original time value of the option that relates to the hedged item is amortized from equity to profit or loss on a rational basis (e.g. straight-line) over the term of the hedging relationship.

In some hedge relationships the Group excludes from the designation the forward element of forward contracts, or the currency basis spread of cross currency hedging instruments. In this case a similar treatment is applied to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional, and the option is applied on a hedge-by-hedge basis, unlike the treatment for the time value of the options which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation the Group generally recognizes the excluded element in OCI.

Fair value hedges

The fair value change on qualifying hedging instruments is recognized in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognized in OCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognized in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortized cost or at FVTOCI) arising from the hedged risk is amortized to profit or loss commencing no later than the date when hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in the cash flow hedging reserve, a consolidated component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognized in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognized in OCI and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss.

When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognized immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain/loss on the hedging instrument relating to the effective portion of the hedge is recognized in OCI and accumulated in the foreign currency translation reserve.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

K. Non-Current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

L. Property and equipment

Property and equipment except for buildings acquired prior to 1999 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1999 are stated at their revalued amounts, based on market prices prevailing during 1999 less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures less their residual values, if any, using the straight-line method over the useful lives estimated as follows:

	%
Buildings	2-4
Office improvements and installations	20
Furniture, equipment and machines	8-20
Computer equipment	20-33
Vehicles	10-20

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

M. Intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets other than goodwill are amortized on a straight line over their estimated useful lives as follows:

Computer software	5 years
Key money	15 years

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

N. Leases

The Group as lessee

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.
The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.
Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'General and administrative expenses' in the consolidated statement of profit or loss.

O. Assets acquired in satisfaction of loans

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78, -are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses.

The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from Banking Control Commission approval date. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the consolidated statement of profit or loss. Gains resulting from the sale of repossessed assets are transferred to reserves to be used for capital increase starting in the following financial year.

P. Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets, other than investment properties and deferred taxes, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).
Goodwill is tested annually for impairment. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.
An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Q. Provision for employees' end-of-service indemnity

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund (the 'Fund') and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

R. Provisions

Provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact is material.

S. Deferred restricted contributions

Restricted contributions derived from special and non-conventional deals arrangement concluded with the regulator are deferred until designated conditions for recognition are met. At the time income is received it is deferred under "regulatory deferred liability" and applied to the designated purpose according to the regulator's requirements.

T. Net Interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognized in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net interest and other gain on investment securities at fair value through profit or loss.

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

The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.
The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of noncredit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities.

U. Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

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

V. Dividend income

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re- segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used:

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3 and note 38 for more details on ECL.

B. Key Sources of Estimation Uncertainty:

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

Macroeconomic Factors and Forward-Looking Information:

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

Probability of default (PD):

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

Loss Given default (LGD):

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

5. Cash and balances with the Central Bank of Lebanon

	December 31,			
	2023		2022	
	Balance	of which compulsory/ Regulatory Deposits	Balance	of which compulsory/ Regulatory Deposits
	LBP'000	LBP'000	LBP'000	LBP'000
Cash on hand	143,414,722	-	502,948,036	-
Central Bank of Lebanon :				
Current accounts	11,662,606,589	215,646,142	1,222,397,302	174,836,879
Term placements	8,278,506,058	3,735,908,400	1,268,770,131	399,635,205
Accrued interest receivable	51,297,638	-	16,092,391	-
	20,135,825,007	3,951,554,542	3,010,207,860	574,472,084
Allowance for expected credit losses (Note 38)	(166,310,441)	-	(11,522,428)	-
	19,969,514,566	3,951,554,542	2,998,685,432	574,472,084

Compulsory deposits under current accounts with the Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds subject to certain exemptions, in accordance with local banking regulations. These deposits are not available for use in the Bank's day-to-day operations.

Regulatory deposits under term placements with the Central Bank of Lebanon are placed in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 14% of customers' deposits in foreign currencies, certificates of deposit and borrowings acquired from non-resident financial institutions.

6. Deposits with banks and financial institutions

	December 31, 2023 LBP'000	December 31, 2022 LBP'000
Current accounts with banks and financial institutions	267,849,888	25,608,959
Current accounts with the Parent Bank (Note 42)	35,067,939	5,384,418
Current accounts with related banks (Note 42)	4,156,182	814,101
Term Placements with banks and financial institutions	16,885,135	-
Purchased checks	46,085	-
Accrued Receivables	21,013	-
	324,026,242	31,807,478
Allowance for expected credit losses (Note 38)	(1,158,519)	(158,493)
	322,867,723	31,648,985

Above balances are allocated between onshore and offshore accounts as follows:

	December 31, 2023 LBP'000	December 31, 2022 LBP'000
Onshore	37,214,852	6,447,933
Offshore	286,811,390	25,359,545
	324,026,242	31,807,478

7. Loans and advances to customers

Loans and advances to customers at amortized cost consist of the following:

	December 31, 2023		
	Gross Amount (Net of Unrealized Interest)	Allowance for Expected Credit Losses	Carrying Amount
	LBP'000	LBP'000	LBP'000
Credit risk stage 1 & 2:			
Retail loans:			
Housing loans	170,296,014	(2,681,398)	167,614,616
Personal loans	12,669,951	(818,250)	11,851,701
Car loans	1,908,003	(481,500)	1,426,503
Credit cards	7,146,095	(395,400)	6,750,695
Education loans	1,132,553	(56,700)	1,075,853
Staff loans	1,582,283	-	1,582,283
Private Banking	1,540,483	-	1,540,483
Small and medium enterprises	180,238,710	(9,239,850)	170,998,860
Corporates	612,293,273	(25,741,650)	586,551,623
	988,807,365	(39,414,748)	949,392,617
Credit risk stage 3:			
Substandard	346,498,233	(1,278,498)	345,219,735
Doubtful	1,056,749,162	(538,890,450)	517,858,712
Bad	441,229,520	(441,208,950)	20,570
	1,844,476,915	(981,377,898)	863,099,017
	2,833,284,280	(1,020,792,646)	1,812,491,634
Accrued interest receivable	21,520,336	-	21,520,336
	2,854,804,616	(1,020,792,646)	1,834,011,970

	December 31 ,2022		
	Gross Amount (Net of Unrealized	Allowance for Expected Credit Losses	Carrying Amount
	LBP'000	LBP'000	LBP'000
Credit risk stage 1 & 2:			
Retail loans:			
Housing loans	169,217,565	(1,752,787)	167,464,778
Personal loans	31,403,209	(1,572,127)	29,831,082
Car loans	9,333,016	(346,921)	8,986,095
Credit cards	1,803,911	(28,477)	1,775,434
Education loans	2,716,501	(22,793)	2,693,708
Staff loans	841,916	-	841,916
Private Banking	10,640	-	10,640
Small and meduim enterprises	46,151,062	(715,942)	45,435,120
Corporates	154,552,832	(3,410,312)	151,142,520
	416,030,652	(7,849,359)	408,181,293
Credit risk stage 3:			
Substandard	77,433,357	(1,323,441)	76,109,916
Doubtful	155,061,330	(81,065,767)	73,995,563
Bad	52,844,573	(52,844,493)	80
	285,339,260	(135,233,701)	150,105,559
	701,369,912	(143,083,060)	558,286,852
Accrued interest receivable	6,400,477	-	6,400,477
	707,770,389	(143,083,060)	564,687,329

The above balances include loans to related parties of LBP 499 million (2022: LBP 10 million) (Note 42).

8. Investment securities

	December 31,					
	2023			2022		
	Local Currency	Foreign Currencies	Total	Local Currency	Foreign Currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
At fair value through other comprehensive	11,393,990	24,605,766	35,999,756	12,093,260	2,326,687	14,419,947
Accrued interest receivable	21,268	-	21,268	66,475	-	66,475
	11,415,258	24,605,766	36,021,024	12,159,735	2,326,687	14,486,422
At amortized cost	658,753,468	5,543,240,681	6,201,994,149	659,115,137	657,163,517	1,316,278,654
Accrued interest receivable	22,077,651	4,056,391	26,134,042	21,884,122	407,667	22,291,789
	680,831,119	5,547,297,072	6,228,128,191	680,999,259	657,571,184	1,338,570,443
	692,246,377	5,571,902,838	6,264,149,215	693,158,994	659,897,871	1,353,056,865

A. Investment securities at fair value through other comprehensive income:

	December 31,					
	2023			2022		
	Local Currency	Foreign Currencies	Total	Local Currency	Foreign Currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equities	10,319,169	8,281,641	18,600,810	7,149,427	830,116	7,979,543
Lebanese government bonds	-	249,759,225	249,759,225	-	25,100,802	25,100,802
Lebanese treasury bills	1,074,821	-	1,074,821	4,943,833	-	4,943,833
	11,393,990	258,040,866	269,434,856	12,093,260	25,930,918	38,024,178
Accrued interest receivable	21,268	-	21,268	66,475	-	66,475
Allowance for expected credit losses (Note 38)	-	(233,435,100)	(233,435,100)	-	(23,604,231)	(23,604,231)
	11,415,258	24,605,766	36,021,024	12,159,735	2,326,687	14,486,422

B. Investment securities at amortized cost:

	December 31, 2023							
	Local currency				Foreign currencies			
	Amortized Cost	Allowance for Expected Credit Losses	Net Carrying Value	Accrued Interest Receivable	Amortized Cost	Allowance for Expected Credit Losses	Net Carrying Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	40,754,078	-	40,754,078	700,790	-	-	-	-
Lebanese government bonds	-	-	-	-	7,391,175,588	(3,531,044,391)	3,860,131,197	-
Certificates of deposit issued by Central Bank of Lebanon	617,999,390	-	617,999,390	21,376,861	1,696,500,000	(13,390,516)	1,683,109,484	4,056,391
	658,753,468	-	658,753,468	22,077,651	9,087,675,588	(3,544,434,907)	5,543,240,681	4,056,391

	December 31, 2022							
	Local currency				Foreign currencies			
	Amortized Cost	Allowance for expected credit losses	Net Carrying Value	Accrued Interest Receivable	Amortized Cost	Allowance for expected credit losses	Net Carrying Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	41,054,941	-	41,054,941	690,671	-	-	-	-
Lebanese government bonds	-	-	-	-	742,953,129	(256,148,115)	486,805,014	-
Certificates of deposit issued by Central Bank of Lebanon	618,060,196	-	618,060,196	21,193,451	170,498,250	(139,747)	170,358,503	407,667
	659,115,137	-	659,115,137	21,884,122	913,451,379	(256,287,862)	657,163,517	407,667

Certificates of deposit issued by Central Bank of Lebanon amounting to LBP 79 billion (2022: LBP 7.94 billion) are pledged against borrowings from the Central Bank of Lebanon (Note 37).

Debt securities at amortized cost are segregated over the remaining period to maturity as follows:

	December 31, 2023					
	Local currency			Foreign currencies		
	Nominal Value	Amortized Cost	Average Coupon rate	Nominal Value	Amortized Cost	Average Coupon rate
Remaining Period to Maturity	**LBP'000**	**LBP'000**	**%**	**LBP'000**	**LBP'000**	**%**
Lebanese treasury bills:						
Up to one year	3,155,000	3,154,631	7.1	-	-	-
1 year to 3 years	20,819,020	21,350,274	8.69	-	-	-
3 years to 5 years	829,000	829,000	7.46	-	-	-
5 years to 10 years	15,124,490	15,420,173	10.5	-	-	-
Above 10 years	-	-		-	-	-
	39,927,510	40,754,078		-	-	
Lebanese government bonds:						
Past due (defaulted)	-	-	-	1,128,885,000	1,128,885,000	-
Up to one year (defaulted)	-	-	-	105,000,000	105,907,192	-
1 year to 3 years (defaulted)	-	-	-	2,148,045,000	2,149,146,798	-
3 years to 5 years (defaulted)	-	-	-	566,235,000	567,008,370	-
5 years to 10 years (defaulted)	-	-	-	1,243,725,000	1,243,692,354	-
Above 10 years (defaulted	-	-	-	2,195,250,000	2,196,535,874	-
	-	-		7,387,140,000	7,391,175,588	
Certificates of deposit issued by the Central Bank of Lebanon:						
Up to one year	-	-	-	225,000,000	225,000,000	3.0
3 years to 5 years	-	-	-	1,050,000,000	1,050,000,000	3.37
5 years to 10 years	3,000,000	3,000,000	10.0	421,500,000	421,500,000	3.43
Above 10 years	607,000,000	614,999,390	11.0	-	-	-
	610,000,000	617,999,390		1,696,500,000	1,696,500,000	

	December 31, 2022					
	Local currency			Foreign currencies		
	Nominal Value	Amortized Cost	Average Coupon rate	Nominal Value	Amortized Cost	Average Coupon rate
Remaining Period to Maturity	LBP'000	LBP'000	%	LBP'000	LBP'000	%
Lebanese treasury bills:						
1 year to 3 years	23,155,020	23,970,241	8.52	-	-	-
3 years to 5 years	1,648,000	1,648,000	7.46	-	-	-
Above 10 years	15,124,490	15,436,700	10.50	-	-	-
	39,927,510	41,054,941		-	-	
Lebanese government bonds:						
Past due (defaulted)	-	-	-	113,452,943	113,452,942	-
1 year to 3 years (defaulted)	-	-	-	10,552,500	10,738,735	-
3 years to 5 years (defaulted)	-	-	-	215,878,523	216,010,468	-
5 years to 10 years (defaulted)	-	-	-	98,536,230	98,625,855	-
Above 10 years (defaulted	-	-	-	303,987,375	304,125,129	-
	-	-		742,407,571	742,953,129	
Certificates of deposit issued by the Central Bank of Lebanon:						
1 year to 3 years	-	-	-	22,612,500	22,612,500	3.24
5 years to 10 years	-	-	-	147,885,750	147,885,750	3.00
Above 10 years	610,000,000	618,060,196	10.94	-	-	-
	610,000,000	618,060,196		170,498,250	170,498,250	

No interest income on defaulted Lebanese government bonds is being recognized by the Group for both year 2023 and 2022.

9. Investment securities at fair value through profit or loss:

	December 31,					
	2023			2022		
	Local Currency	Foreign Currencies	Total	Local Currency	Foreign Currencies	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equities	5,040,000	511,172,195	516,212,195	-	51,077,276	51,077,276
Unquoted equities	719,965	26,521,967	27,241,932	1,235,275	2,597,590	3,832,865
Lebanese government bonds	-	140,326,627	140,326,627	-	12,811,775	12,811,775
Mutual Funds	-	3,375,000	3,375,000	-	339,188	339,188
	5,759,965	681,395,789	687,155,754	1,235,275	66,825,829	68,061,104

Unquoted equities represent the Group's share in startups established based on co-sharing agreement with the regulator providing the funding.

10. Assets under leverage arrangement with the Central Bank of Lebanon

	December 31,	
	2023	2022
	LBP'000	LBP'000
Assets under leverage arrangements:		
Term placements with Central Bank of Lebanon	128,067,000	128,067,000
Lebanese treasury bills at amortized cost	75,052,980	75,744,530
	203,119,980	203,811,530
Less: Borrowings under leverage arrangements	203,119,980	203,811,530
Net	-	-

Assets under leverage arrangement consist of term placements with the Central Bank of Lebanon and Lebanese Treasury bills in LBP subject to interest rates between 1.26% and 10.66% originated from and are pledged against the corresponding leverage arrangements with the Central Bank of Lebanon for the same amounts in LBP (bearing a 2% interest rate), with the purpose of providing yield adjustment on certain transactions related to either fresh deposits in foreign currency or sale of foreign currency against LBP placed in term deposits at the Central Bank of Lebanon and/or Government securities.

The leverage and related pledged assets mechanism resulted in a yield enhancement on the following financial assets:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Term placements with Central Bank of Lebanon in U.S.dollar	615,750,000	61,882,875
Term placements with Central Bank of Lebanon in Euro	217,382,731	20,883,195
Term placements with Central Bank of Lebanon in LBP originated from the sale of foreign currency	55,756,952	68,383,953
Term placements with Central Bankof Lebanon in LBP originated from the swap of certificates of deposit in foreign currency	-	19,682,000
	888,889,683	170,832,023

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

11. Assets acquired in satisfaction of loans

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years from the date of approval of the Banking Central Commission. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits (Note 24).

The movement of assets acquired in satisfaction of loans during 2023 and 2022 was as follows:

	Cost	Impairment	Carrying Value
	LBP'000	LBP'000	LBP'000
Balance January 1, 2022	70,229,293	(7,841,580)	62,387,713
Additions	1,680,263	-	1,680,263
Disposals	(2,581,453)	48,458	(2,532,995)
Balance December 31, 2022	69,328,103	(7,793,122)	61,534,981
Balance December 31, 2023	69,328,103	(7,793,122)	61,534,981

Gain on disposal of assets acquired in satisfaction of loans during 2022 amounted to LBP 9.7 billion recorded in the statement of profit or loss.

12. Leases

The Group only operates as a lessee for the Group's branches. The average lease term is 7 years.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and their related movement during 2023 and 2022:

	Right-of-use assets	Lease liabilities
	LBP'000	LBP'000
Balance January 1, 2022	8,159,620	8,824,282
Termination of lease contracts	(886,167)	(886,167)
Amortization of right-of-use assets	(1,216,250)	-
Accretion of interest expense (Note 27)	-	587,432
Payments	-	(1,398,539)
Balance December 31, 2022	6,057,203	7,127,008
Exchange rate gain	-	33,170,721
Termination of lease contracts	(2,887,278)	(11,282,236)
Amortization of right-of-use assets	(1,110,405)	-
Accretion of interest expense (Note 27)	-	4,140,217
Payments	-	(8,823,080)
Balance December 31, 2023	2,059,520	24,332,630

The following are the amounts recognized in profit or loss during the year:

	2023	2022
	LBP'000	LBP'000
Amortization of right-of-use assets	1,110,405	1,216,250
Interest portion of lease liabilities (Note 27)	4,140,217	587,433
	5,250,622	1,803,683

13. Property and equipment

	Balance January 1, 2023	Additions	Disposals and Adjustments	Transfers	Balance December 31, 2023
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:					
Owned properties	86,711,366	-	-	-	86,711,366
Computer hardware	16,274,359	3,069,196	-	(398)	19,343,157
Machine and equipment	6,539,301	1,112,093	(18,000)	398	7,633,792
Furniture and fixture	6,066,255	-	(947)	-	6,065,308
Vehicles	722,149	98,901	(86,681)	-	734,369
Freehold and leasehold improvements	37,643,935	903,460	-	-	38,547,395
Advance payments	234,017	-	-	(234,017)	-
	154,191,382	5,183,650	(105,628)	(234,017)	159,035,387
Accumulated depreciation	(75,589,237)	(5,152,850)	54,412	-	(80,687,675)
Allowance for impairment	(65,308)	-	-	-	(65,308)
	(75,654,545)	(5,098,438)	-	-	(80,752,983)
Capital work-in-progress	44,473	-	-	-	44,473
Carrying values	78,581,310				78,326,877

	Balance January 1, 2022	Additions	Disposals and Adjustments	Transfers	Balance December 31, 2022
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:					
Owned properties	87,770,621	-	(1,059,255)	-	86,711,366
Computer hardware	18,469,195	264,625	(2,459,461)	-	16,274,359
Machine and equipment	6,567,388	10,764	(38,851)	-	6,539,301
Furniture and fixture	6,497,100	-	(430,845)	-	6,066,255
Vehicles	750,521	-	(28,372)	-	722,149
Freehold and leasehold improvements	37,571,854	72,081		-	37,643,935
Advance payments	308,264	91,128	-	(165,375)	234,017
	157,934,943	438,598	(4,016,784)	(165,375)	154,191,382
Accumulated depreciation	(73,317,082)	(5,338,216)	3,066,061	-	(75,589,237)
Allowance for impairment	(65,308)	-	-	-	(65,308)
	(73,382,390)	(5,338,216)	3,066,061	-	(75,654,545)
Capital work-in-progress	44,473	-	-	-	44,473
Carrying values	84,597,026				78,581,310

Gain on disposal of property and equipment during the year amounted to LBP 50.7 million recorded in the statement of profit or loss (2022: gain of LBP 1.6 billion).

14. Intangible assets

	Balance January 31, 2023	Additions	Amortization for the year	Balance December 31, 2023
	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	1,719,184	-	(936,117)	783,067
	1,719,184	-	(936,117)	783,067

	Carrying Value January 31, 2022	Additions	Amortization for the year	Carrying Value December 31, 2022
	LBP'000	LBP'000	LBP'000	LBP'000
Computer software	3,178,780	41,833	(1,501,429)	1,719,184
	3,178,780	41,833	(1,501,429)	1,719,184

15. Other assets

	December 31,	
	2023	2022
	LBP'000	LBP'000
Prepayments	25,802,605	8,760,390
Commission receivable	4,008,428	1,058,046
Sundry debtors (a)	61,730,912	24,063,650
Receivables from the Central Bank of Lebanon (b)	-	12,602,200
Regulatory blocked deposit (c)	4,500,000	4,500,000
Fair valuation of forward exchange contracts	-	65,879
	96,041,945	51,050,165

(a) Sundry debtors include mainly medical costs receivable from the Lebanese National Social Security Fund (NSSF) for the amount of LBP 20.2 billion. It represents medical expenses settled by the Bank on behalf of its employees subject to recuperation from the NSSF.

(b) Receivables from the Central Bank of Lebanon as at December 31, 2022, consist of amounts resulting of application of Basic Circulars 151, 158 and 161. As at December 31, 2023, the balance was nil since there were no Sayrafa operations outstanding at year end.

(c) Regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the establishment of a subsidiary that is in the process of liquidation. This deposit will be refunded upon finalizing the liquidation of the subsidiary, according to article 132 of the Lebanese Code of Money and Credit.

16. Deposits from banks and financial institutions

	December 31, 2023 LBP'000	December 31, 2022 LBP'000
Short term deposits from Parent Bank (Note 42)	12,750,000	-
Currents deposits	17,637,102	1,136,898
Short term deposits	10,576,894	101,064,979
Accrued interest payable (Note 42)	141,960	123,288
	41,105,956	102,325,165

17. Customers' accounts

Customers' accounts at amortized cost are detailed as follows:

	December 31, 2023 LBP'000	December 31, 2022 LBP'000
Deposits:		
Current/demand deposits	10,530,393,903	1,871,643,846
Term deposits	17,093,595,570	2,312,118,032
Collateral against loans and advances	149,607,905	30,944,064
Margins and other accounts:		
Margins against import letters of credit	9,302	9,282
Margins against letters of guarantee issued	206,182,035	25,904,440
Other margins	25,797,032	1,116,589
Blocked accounts	15,943,638	10,462,248
Accrued interest Payable	6,092,770	1,267,253
	28,027,622,155	4,253,465,754

Blocked accounts include balances amounting to LBP 694 million (2022: LBP 5.4 billion) representing undisbursed loans to customers.

Customers' deposits include related party deposits detailed as follows:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Demand deposits	70,929,236	2,901,612
Term deposits	404,177,958	60,448,091
Collateral against loans and advances	5,035,256	505,719
Accrued interest payable	1,452	161,167
	480,143,902	64,016,589

Deposits from customers include coded deposit accounts in the aggregate amount of LBP 294 billion as at December 31, 2023 (2022: LBP 30 billion). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Group's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

18. Borrowings from the Central Bank of Lebanon

	December 31,	
	2023	2022
	LBP'000	LBP'000
Soft loans from Central Bank of Lebanon (a)	4,305,974	1,232,408
Borrowings from Central Bank of Lebanon (b)	190,260,467	181,745,050
Accrued interest payable	10,666	-
	194,577,107	182,977,458

(a) Outstanding facilities granted from the Central Bank of Lebanon in the amount of LBP 4.3 billion (LBP 1.2 billion as at December 31, 2022) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans the Group has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism.

(b) Outstanding facilities granted from the Central Bank of Lebanon in the amount of LBP 190 billion (2022: LBP 182 billion) are in accordance with Central Bank of Lebanon Basic Decision No. 6116 of March 7, 1996 and its amendments by which the Bank benefited from credit facilities granted against loans the Bank has granted, on its own responsibility, to its customers, pursuant to certain conditions, rules and mechanism. Part of these facilities are collateralized by Lebanese treasury bills which were matured during 2022 and certificates of deposit issued by Central Bank of Lebanon.

The remaining contractual maturities of above borrowings are as follows:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Up to 3 months	6,996,107	15,888,911
3 months to 1 year	163,715,000	374,975
1 year to 3 years	-	3,548,590
3 years to 5 years	23,866,000	9,251,781
Over 5 years	-	153,913,201
	194,577,107	182,977,458

The movement of borrowings from the Central Bank of Lebanon during 2023 and 2022 was as follows:

	2023	2022
	LBP'000	LBP'000
Balance January 1	182,977,458	219,365,528
Additions	7,061,040	2,981,900
Settlements	(58,391,473)	(39,369,970)
Effect of difference of exchange	62,930,082	-
Balance December 31	194,577,107	182,977,458

19. Other liabilities

	December 31,	
	2023	2022
	LBP'000	LBP'000
Sundry accounts payable	50,331,280	16,099,291
Accrued expenses	67,877,532	29,090,105
Provision for tax- Article 20 of Law No. 6/2020	7,409	7,409
Provision for Income tax (a)	7,554,123	7,604,653
Withheld taxes payable	10,628,044	699,278
Deferred tax liability on accrued interest receivable	6,667,186	2,679,592
Deferred tax liability on future dividend distribution of subsidiaries	821,864	853,976
Deferred tax liability	1,639,606	1,639,606
Payable to personnel and directors	10,613,808	3,593,263
Checks and incoming payment orders in course of settlement	2,189,135	468,692
Deferred income	7,320,236	874,809
Due to the National Social Security Fund	2,490,224	1,169,785
Blocked capital subscriptions for companies under incorporation	-	409,215
	168,140,447	65,189,674

(a) Below is the reconciliation of income tax expense:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Profit / (Loss) before tax	1,656,747	(97,539,887)
Income tax on enacted applicable rates	151,755	41,259
Income tax expense	151,755	41,259
Unpaid prior year income tax	7,402,368	7,563,211
Other additional provisions/adjustments	-	-
Income tax liability	7,554,123	7,604,470

The movement of current tax liability was as follows:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Balance January 1,	7,604,470	7,637,497
Charge for the year	151,755	41,259
Settlements	(202,102)	(74,286)
Balance December 31	7,554,123	7,604,470

Provision for income tax includes provision for tax contingencies in the amount of LBP 6.4 billion that was recorded during 2020.

20. Provisions

	December 31,	
	2023	2022
	LBP'000	LBP'000
Provision for staff end-of-service indemnity (a)	100,338,734	20,278,484
Provision for risks and charges (b)	207,316,468	36,126,382
Expected credit losses on commitments and financial guarantees	3,793,334	824,659
Provision for loss on foreign currency position	294,042	294,042
	311,742,578	57,523,567

a) The movement of the provision for staff end-of-service indemnity was as follows:

	2023	2022
	LBP'000	LBP'000
Balance January 1	20,278,484	3,764,895
Additions- net (Note 32)	80,558,024	17,363,780
Write-back	(1,997,739)	-
Settlements	(2,264,184)	(850,191)
Difference of exchange	3,764,149	-
Balance December 31	100,338,734	20,278,484

b) The movement of the provision for risks and charges was as follows:

	2023	2022
	LBP'000	LBP'000
Balance January 1	36,126,382	29,111,657
Additions	162,971,524	11,051,500
Settlements	(6,103,024)	(4,036,775)
Difference of exchange	14,321,586	-
Balance December 31	207,316,468	36,126,382

21. Capital

As at December 31, 2023 and 2022, the Group's ordinary share capital consists of 214,000,000 shares of a par value of LBP 1,000 each fully paid.

The Group followed the requirements of the Central Bank of Lebanon regarding the increase in common equity Tier I as at December 31, 2018 by 20% in foreign currencies that was later extended to February 28, 2021. The Group's Extraordinary General Assembly of shareholders held on January 30, 2020 called additional cash contribution from shareholders in the amount of USD 93.86 million (LBP 141.49 billion). Up to December 31, 2020, the Group's shareholders settled USD 45.96 million (LBP 69.29 billion) in the form of cash contribution and the remaining balance of USD 47.9 million (LBP 72.2 billion) was settled in 2021 by the shareholders.

22. Preferred shares

	Year of Issue	Number of Shares	Annual Return	December 31, 2023	December 31, 2022
			%	LBP'000	LBP'000
Series "D"	2016	750,000	6.75	113,062,501	113,062,501
Series "E"	2018	263,510	7.00	39,724,132	39,724,132
				152,786,633	152,786,633

The above are Tier I non-cumulative preferred shares with an issue price of USD 100 per share and a nominal value of LBP1,000 each.

The preferred shares may be redeemed during the 60 days period following the annual general meeting held to approve the Group's financial statements after 5 years for issue date and each subsequent year thereafter.

In the event of liquidation of the Group, holders of preferred shares series "D" and "E" rank senior to the holders of common shares.

23. Treasury shares

	No. of shares	Cost
		LBP'000
Balance January 1, 2022	21,365,000	75,882,381
Balance December 31, 2022	21,365,000	75,882,381
Balance December 31, 2023	21,365,000	75,882,381

24. Non-distributable reserves

	Legal Reserve	Reserve For General Banking Risks	Special Reserve for Loans and Advances	Reserve for Assets requieredin Satisfaction of Loans	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance - January 1, 2022	26,852,521	177,781,659	7,303,478	51,035,937	262,973,595
Reallocation of reserves	-	1,504,493	-	(1,504,493)	-
Balance - December 31, 2022	26,852,521	179,286,152	7,303,478	49,531,444	262,973,595
Other movement	-	(604,076)	-	-	(604,076)
Balance - December 31, 2023	26,852,521	178,682,076	7,303,478	49,531,444	262,369,519

a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and credit Law and the Group's articles of incorporation on the basis of 10% of the yearly net profits. Subsidiaries are also subject to legal reserve requirements. This reserve is not available for distribution.

(b) Based on the Central Bank of Lebanon Circular No73 and the Banking Control Commission memo No12/2010 relating to reserve allocation for doubtful debts, the Group has allocated an amount of LBP 7.3 billion for the year 2020 to special reserve for the uncovered portion of its doubtful debts outstanding as at June 30, 2003 and not yet resolved. This reserve is not available for distribution.

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

25. Dividends paid

The Group distributed nil dividends during 2023 and 2022 to ordinary and preferred shares owners.

26. Interest income

	2023		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Loans and advances to customers	148,949,917	-	148,949,917
Deposits with the Central Bank	157,134,008	(13,639,283)	143,494,725
Investment securities (excluding FVTPL)	128,775,458	(9,048,577)	119,726,881
Deposits with banks and financial institutions	8,450,412	-	8,450,412
Loans and advances to related parties (Note 42)	4,251	-	4,251
	443,314,046	(22,687,860)	420,626,186

	2022		
	Interest Income	Withheld Tax	Total
	LBP'000	LBP'000	LBP'000
Interest income from:			
Loans and advances to customers	48,973,345	-	48,977,577
Deposits with the Central Bank	87,136,033	(8,223,127)	78,912,906
Investment securities (excluding FVTPL)	88,535,961	(7,827,145)	80,708,816
Deposits with banks and financial institutions	53,193	-	53,193
Loan to a bank	2,801	(757)	2,044
Loans and advances to related parties (Note 42)	19,413	-	15,181
	224,720,746	(16,051,029)	208,669,717

Interest income on investment securities:

	2023	2022
	LBP'000	LBP'000
Lebanese treasury bills	9,226,557	11,233,499
Certificates of deposit issued by Central Bank of Lebanon	119,548,901	77,302,149
Corporate bonds and asset backed securities	-	313
	128,775,458	88,535,961

Interest income on financial assets at fair value through profit or loss is included under "Net interest and other gain / (loss) on investment securities at fair value through profit or loss" (Note 30).

27. Interest expense

	2023	2022
	LBP'000	LBP'000
Interest expense on:		
Customers' accounts at amortized cost	14,626,151	21,064,089
Deposits and borrowings from banks	49,104,683	991,629
Deposits and borrowings from Parent Bank and subsidiaries (Note 42)	2,215,290	2,245,794
Special loan from Central Bank of Lebanon	3,697,403	2,133,643
Customers' accounts - related parties (Note 42)	28,587,786	111
Lease liability (Note 12)	4,140,217	587,432
	102,371,530	27,022,698

28. Fee and commission income

	2023	2022
	LBP'000	LBP'000
Commission income from:		
Fee income on customers' transactions	248,953,677	52,821,589
Fee income on loans and advances	90,002,588	16,442,765
Commission earned on insurance policies	4,104,359	1,541,327
Fee income on letters of guarantee and on documentary credits (Note 34)	7,732,884	1,661,267
Commission on transactions with banks	163,188	31,710
Commission on capital markets customers' transactions	11,719,148	335,166
Other	12,064,425	952,312
	374,740,269	73,786,136

29. Fee and commission expense

	2023 LBP'000	2022 LBP'000
Commission expense on:		
Brokerage fees	323,176	282,115
Commission on transactions with banks and financial institutions	3,229,132	830,187
Commission paid to cars dealers	10,345	237,774
Other	13,115,401	3,889,175
	16,678,054	5,239,251

30. Net interest and other gain / (loss) on investment securities at fair value through profit or loss

	2023 LBP'000	2022 LBP'000
Interest (expense) / income (net of withheld tax)	(3,125,224)	85,563
Dividends received	52,920	93,552
Net unrealized gain / (loss)	103,689,989	(15,300,009)
Realized gain (a)	122,440,591	-
	223,058,276	(15,120,894)

(a) The sale of 103,707 Solidere A shares and 69,625 Solidere B shares during 2023 resulted in a gain of LBP 122 billion.

31. Other operating income / (expenses) net

	2023 LBP'000	2022 LBP'000
Multiplier factor costs (a)	(332,298)	(853,773)
Foreign exchange gain / (losses)	716,222,294	(77,602,819)
Rent income	5,097,263	2,237,207
Other income	27,143,224	73,874
Dividend income from securities measured at fair value through other comprehensive income	106,500	-
	748,236,983	(76,145,511)

(a) Multiplier factor costs represent amounts paid to depositors on fresh funds benefitting from the multiplier factor.

32. Staff costs

	2023 LBP'000	2022 LBP'000
Salaries	100,165,461	39,822,871
Board of Directors remunerations (Note 42)	5,104,120	962,327
Social security contributions*	15,914,576	7,184,065
Provision forend-of-service indemnities (Note 20)	80,558,024	17,363,780
Bonus and other staff benefits	161,228,833	31,958,884
	362,971,014	97,291,927

* Social security contributions are detailed as follows:

	2023 LBP'000	2022 LBP'000
End of service contributions	10,616,245	4,102,664
Family contributions	1,132,154	989,441
Medical contributions	4,166,177	2,091,960
	15,914,576	7,184,065

33. General and administrative expenses

	2023	2022
	LBP'000	LBP'000
Maintenance and repairs	52,990,176	6,818,971
Heat, light and power	19,961,321	11,725,036
Legal and professional fees	9,705,746	1,986,180
Credit card expenses	11,898,323	1,527,879
Fees and taxes	11,323,464	2,093,098
Electricity and water	4,899,661	2,193,795
Rent and building services	6,501,704	1,044,339
Subscriptions	12,664,252	2,131,091
Insurance	6,382,563	957,052
Public relations and entertainment	2,876,477	1,687,062
Cleaning	2,097,815	1,639,564
Telephone and postage	4,223,277	1,539,572
Security	2,224,826	709,767
Printing and stationary	1,397,714	427,513
Penalty fees	1,650,000	-
Advertising and publicity	1,983,880	299,019
Money transport	2,472,464	7,019
Travel	652,442	70,211
Software implementation fees	317,179	43,506
Miscellaneous expenses	19,220,493	3,314,352
	175,443,777	40,215,026

34. Financial instruments with off-balance sheet risks

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

Forward exchange contracts outstanding as of December 31, 2022 represent positions held for customers' accounts. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

35. Fiduciary accounts

Fiduciary deposits include deposits invested in back-to-back lending and are related to resident lenders and borrowers in addition to fiduciary deposits held or invested on behalf of the Group's customers on a non-discretionary basis. The risks and rewards of the related operations belong to the account holders.

36. Cash and cash equivalents

	December 31, 2023	December 31, 2022
	LBP'000	LBP'000
Cash on hand (Note 5)	143,414,722	502,948,036
Current accounts with Central Bank of Lebanon (excluding compulsory deposits) (Note 5)	11,446,960,447	1,047,560,423
Term placements with Central Bank of Lebanon (with original maturity of less than 3 month)	3,900,000,000	144,720,000
Current accounts with banks and financial institutions (Note 6)	267,849,888	25,608,959
Current accounts with related banks (Note 6)	4,156,182	814,101
Current accounts with the Parent Bank (Note 6)	35,067,939	5,384,418
	15,797,449,178	1,727,035,937

Major non-cash transactions excluded from the statement of cash flows for the years ended December 31, 2023 and 2022 are summarized as follows:

a. Negative change in fair value of investments at fair value through other comprehensive income of LBP 2 billion (Negative change in fair value of LBP 444 million and related deferred tax liability of LBP 350 million during 2022).

37. Collateral given

The carrying values of financial assets given as collateral are as follows:

	December 31, 2023				December 31, 2022
		Corresponding Facilites			
	Amount of Pledged Assets	Maturity Date	Amount of Facility	Nature of Facility	Amount of Pledged Assets
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Certificates of deposit issued by the Central Bank of Lebanon	79,042,680	June 9, 2029	73,006,657	Facilities from the Central Bank of Lebanon	7,943,789

38. Risk management

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.
- Liquidity risk: the risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- 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.
- 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 risk, political risk and business/strategic risk.

The Board of Directors (the Board) is ultimately responsible for setting the level of acceptable risks to which the Group is exposed, and as such, approves the risk appetite and policies of the Group. The Board monitors the risk profile in comparison to the risk appetite on a regular basis and follow-up on existing and emerging risks. A number of Management committees and departments are also responsible for various levels of risk management.

A. Credit Risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in government debt securities, certificates of deposit issued by the Central Bank of Lebanon and term deposits with the Central Bank of Lebanon. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

Credit risk management

The Group's Risk Management committee is responsible for managing the Group's credit risk by:

- Overseeing the risk management function as a whole.
- Ensuring that adequate policies and procedures governing the work of the risk management function exist at all levels, are up to date at all times, and ensure the proper and timely identification of risks that may put the capital of the Group at risk.
- Ensuring full compliance with laws and regulations related to risk management.
- Following up on corrective measures proposed by the risk management function and approved by the risk management committee.
- Overseeing the work of sub-committees especially when it comes to policies and procedures.
- Relaying to the Board of Directors its assessment on the adequacy of the risk management frame work as a whole.
- Reviewing the risk reports making sure to relay to the Board of Directors in due time identified risks that may require a prompt attention/action.
- Validating all Risk related Policies, Business Continuity Policies, the Internal Capital Adequacy.
- Ensuring that the Group risk appetite and limits are properly understood and duly approved by BOD.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

- Developing and maintaining the Group's risk grading to categories exposures according to the degree of risk of default. Risk grades are subject to regular reviews.

Significant increase in credit risk

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored, and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis
- Extent of utilization of granted limit
- Forbearances (both requested and granted)
- Changes in business, financial and economic conditions
- Credit rating information supplied by external rating agencies.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

Central Bank of Lebanon Risk Rating	Central Bank of Lebanon Description	Moody's Grading	Moody's Description
1	Normal	1 - 4	Excellent - Satisfactory
2	Follow up	5 - 6	Adequate - Marginal
3	Follow up and regularization	7	Vulnerable
4	Substandard	8	Substandard
5	Doubtful	9	Doubtful
6	Loss	10	Loss

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic, mainly Real GDP growth. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group presumes for retail loans that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

Incorporation of forward-looking information
The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Measurement of ECL
The key inputs used for measuring ECL are:
- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD 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, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for exposures such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such exposures the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

These exposures do not have a fixed term or repayment structure and have a short contractual cancellation period.
However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these exposures. This is because these exposures are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level.
This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics
When ECL are measured on a collective basis, the financial instruments are grouped on the basis of product type.
The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

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

I. Maximum exposure to credit risk

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

	December 31, 2023		
	Gross amounts	Allowance for expected credit losses	Net carrying amounts
	LBP'000	LBP'000	LBP'000
Deposits with the Central Bank of Lebanon (Note 5)	19,992,410,285	(166,310,441)	19,826,099,844
Deposits with banks and financial institutions (Note 6)	324,026,242	(1,158,519)	322,867,723
Loans and advances to customers (Note 7)	2,854,804,616	(1,020,792,646)	1,834,011,970
Investment securities at amortized cost (Note 8)	9,772,563,098	(3,544,434,907)	6,228,128,191
Investment securities at fair value through other comprehensive income (Note 8)	269,456,124	(233,435,100)	36,021,024
Investment securities at fair value through profit or loss (Note 9)	687,155,754	-	687,155,754
Other assets (Note 15)	65,739,340	-	65,739,340
	33,966,155,459	(4,966,131,613)	29,000,023,846
Commitments and financial guarantees	368,507,947	(3,793,334)	364,714,613

	December 31, 2022		
	Gross amounts	Allowance for expected credit losses	Net carrying amounts
	LBP'000	LBP'000	LBP'000
Deposits with the Central Bank of Lebanon (Note 5)	2,507,259,824	(11,522,428)	2,495,737,396
Deposits with banks and financial institutions (Note 6)	31,807,478	(158,493)	31,648,985
Loans and advances to customers (Note 7)	707,770,389	(143,083,060)	564,687,329
Investment securities at amortized cost (Note 8)	1,594,858,305	(256,287,862)	1,338,570,443
Investment securities at fair value through other comprehensive income (Note 8)	38,090,653	(23,604,231)	14,486,422
Investment securities at fair value through profit or loss (Note 9)	68,061,104	-	68,061,104
Other assets (Note 15)	37,807,560	-	37,807,560
	4,985,655,313	(434,656,074)	4,550,999,239
Commitments and financial guarantees	58,782,342	(824,659)	57,957,683

II. Exposures subject to ECL

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross Exposures				
Deposits with the Central Bank of Lebanon	-	19,992,410,285	-	19,992,410,285
Deposits with banks and financial institutions	324,026,242	-	-	324,026,242
Loans and advances to customers	660,364,779	349,962,922	1,844,476,915	2,854,804,616
Investment securities at amortized cost	-	680,831,119	9,091,731,979	9,772,563,098
Investment securities at fair value through other comprehensive income	19,696,899	-	249,759,225	269,456,124
Commitments and financial guarantees	333,228,449	35,278,498	1,000	368,507,947
	1,337,316,369	21,058,482,824	11,185,969,119	33,581,768,312
Expected Credit Losses				
Deposits with the Central Bank of Lebanon	-	(166,310,441)	-	(166,310,441)
Deposits with banks and financial institutions	(1,158,519)	-	-	(1,158,519)
Loans and advances to customers	(12,242,330)	(27,172,418)	(981,377,898)	(1,020,792,646)
Investment securities at amortized cost	-	-	(3,544,434,907)	(3,544,434,907)
Investment securities at fair value through other comprehensive income	-	-	(233,435,100)	(233,435,100)
Commitments and financial guarantees	(432,171)	(3,360,163)	(1,000)	(3,793,334)
	(13,833,020)	(196,843,022)	(4,759,248,905)	(4,969,924,947)
Net Exposures				
Deposits with the Central Bank of Lebanon	-	19,826,099,844	-	19,826,099,844
Deposits with banks and financial institutions	322,867,723	-	-	322,867,723
Loans and advances to customers	648,122,449	322,790,504	863,099,017	1,834,011,970
Investment securities at amortized cost	-	680,831,119	5,547,297,072	6,228,128,191
Investment securities at fair value through other comprehensive income	19,696,899	-	16,324,125	36,021,024
Commitments and financial guarantees	332,796,278	31,918,335	-	364,714,613
	1,323,483,349	20,861,639,802	6,426,720,214	28,611,843,365

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Gross Exposures				
Deposits with the Central Bank of Lebanon	-	2,507,259,824	-	2,507,259,824
Deposits with banks and financial institutions	31,807,478	-	-	31,807,478
Loans and advances to customers	333,813,115	88,618,014	285,339,260	707,770,389
Investment securities at amortized cost	-	680,999,259	913,859,046	1,594,858,305
Investment securities at fair value through other comprehensive income	12,989,851	-	25,100,802	38,090,653
Commitments and financial guarantees	50,864,084	7,917,258	1,000	58,782,342
	429,474,528	3,284,794,355	1,224,300,108	4,938,568,991
Expected Credit Losses				
Deposits with the Central Bank of Lebanon	-	(11,522,428)	-	(11,522,428)
Deposits with banks and financial institutions	(158,493)	-	-	(158,493)
Loans and advances to customers	(1,292,645)	(6,556,714)	(135,233,701)	(143,083,060)
Investment securities at amortized cost	-	-	(256,287,862)	(256,287,862)
Investment securities at fair value through other comprehensive income	-	-	(23,604,231)	(23,604,231)
Commitments and financial guarantees	(47,681)	(775,978)	(1,000)	(824,659)
	(1,498,819)	(18,855,120)	(415,126,794)	(435,480,733)
Net Exposures				
Deposits with the Central Bank of Lebanon	-	2,495,737,396	-	2,495,737,396
Deposits with banks and financial institutions	31,648,985	-	-	31,648,985
Loans and advances to customers	332,520,470	82,061,300	150,105,559	564,687,329
Investment securities at amortized cost	-	680,999,259	657,571,184	1,338,570,443
Investment securities at fair value through other comprehensive income	12,989,851	-	1,496,571	14,486,422
Commitments and financial guarantees	50,816,403	7,141,280	-	57,957,683
	427,975,709	3,265,939,235	809,173,314	4,503,088,258

III. Movement of ECL

	December 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
At January 1, 2023				
Deposits with the Central Bank of Lebanon	-	11,522,428	-	11,522,428
Deposits with banks and financial institutions	158,493	-	-	158,493
Loans and advances to customers	1,292,645	6,556,714	135,233,701	143,083,060
Investment securities at amortized cost	-	-	256,287,862	256,287,862
Investment securities at fair value.through other comprehensive income	-	-	23,604,231	23,604,231
Commitments and financial guarantees	47,681	775,978	1,000	824,659
	1,498,819	18,855,120	415,126,794	435,480,733
Net charge for the year				
Deposits with the Central Bank of Lebanon	-	44,665,178	-	44,665,178
Deposits with banks and financial institutions	179,439	-	-	179,439
Loans and advances to customers	3,848,139	6,814,420	(75,422,237)	(64,759,678)
Investment securities at amortized cost	-	-	965,212,028	965,212,028
Investment securities at fair value through other comprehensive income	-	-	74,439	74,439
Commitments and financial guarantees	216,268	(1,840,146)	-	(1,623,878)
	4,243,846	49,639,452	889,864,230	943,747,528
Write-offs				
Loans and advances to customers	-	-	(64,216,653)	(64,216,653)
	-	-	(64,216,653)	(64,216,653)
Net transfers between stages				
Loans and advances to customers	1,620,924	(12,977,467)	11,356,543	-
	1,620,924	(12,977,467)	11,356,543	-
Effect of exchange rates changes				
Deposits with the Central Bank of Lebanon	-	110,122,835	-	110,122,835
Deposits with banks and financial institutions	820,587	-	-	820,587
Loans and advances to customers	5,480,622	26,778,751	974,426,544	1,006,685,917
Investment securities at amortized cost	-	-	2,322,935,017	2,322,935,017
Investment securities at fair value through other comprehensive income	-	-	209,756,430	209,756,430
Commitments and financial guarantees	168,222	4,424,331	-	4,592,553
	6,469,431	141,325,917	3,507,117,991	3,654,913,339
At December 31, 2023				
Deposits with the Central Bank of Lebanon	-	166,310,441	-	166,310,441
Deposits with banks and financial institutions	1,158,519	-	-	1,158,519
Loans and advances to customers	12,242,330	27,172,418	981,377,898	1,020,792,646
Investment securities at amortized cost	-	-	3,544,434,907	3,544,434,907
Investment securities at fair value through other comprehensive income	-	-	233,435,100	233,435,100
Commitments and financial guarantees	432,171	3,360,163	1,000	3,793,334
	13,833,020	196,843,022	4,759,248,905	4,969,924,947

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
At January 1, 2022				
Deposits with the Central Bank of Lebanon	7,700,342	-	-	7,700,342
Deposits with banks and financial institutions	213,837	-	-	213,837
Loan to a bank	13,320	-	-	13,320
Loans and advances to customers	5,954,861	24,215,482	124,442,763	154,613,106
Investment securities at amortized cost	-	-	140,369,213	140,369,213
Investment securities at fair value through other comprehensive income	-	-	20,615,990	20,615,990
Commitments and financial guarantees	255,284	950,949	-	1,206,233
	14,137,644	25,166,431	285,427,966	324,732,041
Net charge for the year				
Deposits with the Central Bank of Lebanon	-	3,836,330	-	3,836,330
Deposits with banks and financial institutions	(53,344)	-	-	(53,344)
Loan to a bank	(13,320)	-	-	(13,320)
Loans and advances to customers	(4,222,120)	(12,715,530)	6,036,356	(10,901,294)
Investment securities at amortized cost	-	-	115,918,651	115,918,651
Investment securities at fair value through other comprehensive income	-	-	2,988,241	2,988,241
Commitments and financial guarantees	(207,553)	(174,971)	1,000	(381,524)
	(4,496,337)	(9,054,171)	124,944,248	111,393,740
Net transfers between stages				
Deposits with the Central Bank of Lebanon	(7,700,342)	7,700,342	-	-
Loans and advances to customers	(52,121)	(4,943,240)	4,995,361	-
	(52,121)	(4,943,240)	4,995,361	-
Effect of exchange rates changes				
Deposits with the Central Bank of Lebanon	-	(14,244)	-	(14,244)
Deposits with banks and financial institutions	(2,000)	-	-	(2,000)
Loans and advances to customers	(387,975)	2	(240,779)	(628,752)
Investment securities at amortized cost	-	-	(2)	
Commitments and financial guarantees	(50)	-	-	(50)
	(390,025)	(14,242)	(240,779)	(645,046)
At December 31, 2022				
Deposits with the Central Bank of Lebanon	-	11,522,428	-	11,522,428
Deposits with banks and financial institutions	158,493	-	-	158,493
Loan to a bank	-	-	-	-
Loans and advances to customers	1,292,645	6,556,714	135,233,701	143,083,060
Investment securities at amortized cost	-	-	256,287,862	256,287,862
Investment securities at fair value through other comprehensive income	-	-	23,604,231	23,604,231
Commitments and financial guarantees	47,681	775,978	1,000	824,659
	1,498,819	18,855,120	415,126,794	435,480,733

Allocation of gross amount of loans and advances to customers by economic sector:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Corporate:		
Agriculture	62,347,501	15,347,831
Commerce	912,279,471	152,242,787
Construction and real estate	784,032,398	182,011,927
Individual	50,953,847	75,965,380
Industrial	216,358,650	31,090,194
Services	158,101,650	25,307,228
	2,184,073,517	481,965,347
Retail loans	649,210,763	219,404,565
Accrued interest receivable	21,520,336	6,400,477
	2,854,804,616	707,770,389

Netting arrangements:

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

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

IV. Risk Mitigation Policies

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

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees

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

V. Financial assets with credit risk exposure and related concentrations

(a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of deposits with banks and financial institutions and loans and advances:

(a.1) Details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2023			Carrying Values of Collaterals Received							
	Carrying Amount	Expected Credit Losses	Net Amount	Pledged Funds	Bank Guarantee	First and second degree Mortgage on Properties	Equity Securities	Debt Securities	Others	Total Guarantees	Lesser of individual Exposure or Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing - Stages 1 and 2	1,010,327,701	(39,414,748)	970,912,953	136,818,182	15,821,262	876,887,409	-	1,500,000	150,921,192	1,181,948,045	922,861,376
Substandard - Stage 3	346,498,233	(1,278,498)	345,219,735	157,025	1,265,756	362,874,487	-	-	12,604,356	376,901,624	70,234,181
Doubtful - Stage 3	1,056,749,162	(538,890,450)	517,858,712	726,013	8,965,712	795,031,562	-	-	165,451,483	970,174,770	104,467,249
Bad - Stage 3	441,229,520	(441,208,950)	20,570	58,192	53,061	3,429,673	-	-	53,061	3,593,987	9,364,697
	2,854,804,616	(1,020,792,646)	1,834,011,970	137,759,412	26,105,791	2,038,223,131	-	1,500,000	329,030,092	2,532,618,426	1,106,927,503

	December 31, 2022			Carrying Values of Collaterals Received							
	Carrying Amount	Expected Credit Losses	Net Amount	Pledged Funds	Bank Guarantee	First and second degree Mortgage on Properties	Equity Securities	Debt Securities	Others	Total Guarantees	Lesser of individual Exposure or Total Guarantees
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Performing - Stages 1 and 2	422,431,129	(7,849,359)	414,581,770	33,474,957	139,282	323,123,334	339,188	150,750	72,191,832	429,419,342	350,799,114
Substandard - Stage 3	77,433,357	(1,323,441)	76,109,916	3,045	-	69,374,277	-	-	2,132,227	71,509,549	70,234,181
Doubtful - Stage 3	155,061,330	(81,065,767)	73,995,563	4,571	-	101,086,023	-	-	4,791,809	105,882,403	104,467,249
Bad - Stage 3	52,844,573	(52,844,493)	80	115,863	-	718,334	-	-	12,340,122	13,174,319	9,364,697
	707,770,389	(143,083,060)	564,687,329	33,598,436	139,282	494,301,968	339,188	150,750	91,455,990	619,985,613	534,865,241

(a.2) Concentration of major financial assets and liabilities by geographical location:

	December 31, 2023					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS						
Cash and balances with the Central Bank of Lebanon	19,969,514,566	-	-	-	-	19,969,514,566
Deposits with banks and financial institutions	36,056,329	6,755,775	92,843,533	187,212,086	-	322,867,723
Investment securities at fair value through profit or loss	687,155,754	-	-	-	-	687,155,754
Loans and advances to customers	1,761,337,110	64,043,799	2,023,427	4,389,863	2,217,771	1,834,011,970
Investment securities	6,264,149,215	-	-	-	-	6,264,149,215
	28,718,212,974	70,799,574	94,866,960	191,601,949	2,217,771	29,077,699,228
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	39,258,920	1,324	-	1,845,712	-	41,105,956
Customers' accounts	22,048,351,554	3,895,866,883	668,614,385	1,031,269,533	383,519,800	28,027,622,155
Borrowings from the Central Bank of Lebanon	194,577,107	-	-	-	-	194,577,107
Lease liabilities	24,332,630	-	-	-	-	24,332,630
	22,306,520,211	3,895,868,207	668,614,385	1,033,115,245	383,519,800	28,287,637,848

	December 31, 2022					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS						
Cash and balances with the Central Bank of Lebanon	2,998,685,432	-	-	-	-	2,998,685,432
Deposits with banks and financial institutions	6,289,441	328,823	4,551,158	20,479,563		31,648,985
Investment securities at fair value through profit or loss	68,061,104	-	-	-	-	68,061,104
Loans and advances to customers	546,355,779	15,063,789	1,100,162	1,747,805	419,794	564,687,329
Investment securities	1,353,056,865	-	-	-	-	1,353,056,865
	4,972,448,621	15,392,612	5,651,320	22,227,368	419,794	5,016,139,715
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	102,139,538	133	-	185,494	-	102,325,165
Customers' accounts	3,567,536,675	447,892,989	75,807,100	118,331,783	43,897,207	4,253,465,754
Borrowings from the Central Bank of Lebanon	182,977,458	-	-	-	-	182,977,458
Lease liabilities	7,127,008	-	-	-	-	7,127,008
	3,859,780,679	447,893,122	75,807,100	118,517,277	43,897,207	4,545,895,385

B. <u>Liquidity Risk</u>

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. Lebanon is facing adverse conditions and high level of uncertainty since October 2019, as a result of deterioration of the economic environment which lead to a severe disruption of normal business operations and the de-facto capital control, leading to incremental credit risks and restricted access to foreign currency among other adverse factors.

1. Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to changes in their business operations or unanticipated events. Through Assets and Liabilities Committee, the Board of Directors is responsible for establishing the liquidity policy as well as approving operating and contingency procedures and monitoring liquidity on an ongoing basis. The treasury department is responsible for planning and executing their funding activities and strategy.

2. Exposure to liquidity risk

Regulatory requirements

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

The Central Bank of Lebanon, through its Basic circular 154 dated 27 August 2020, issued various requirements aiming at restoring the normal banking operations in Lebanon to their pre-October 2019 levels. Among these requirements, Lebanese banks were requested to maintain total current account balance with foreign correspondent banks (international liquidity that is free of any obligation) in excess of 3% of the bank's total foreign currency deposits as at July 31, 2020 by February 28, 2021. On December 24, 2020, the Banking Control Commission of Lebanon issued memo 18/2020 that contains guidance for the calculation of this ratio. The requirement was later amended through Intermediate Circular 645 to consider foreign currency deposits as at September 30, 2022 as the basis for the computation instead of July 31, 2020, thus lowering liquidity required levels as customers' deposits decreased over the period. The Group has not yet met this regulatory international liquidity ratio, and communication with the regulator is still ongoing to meet this ratio.

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

Residual contractual maturities of financial liabilities

	December 31, 2023					
	Up to 3 months	3 months to 1 Year	1 year to 3 Years	3 Years to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Deposits from banks and financial institutions	38,532,956	2,573,000	-	-	-	41,105,956
Customers' accounts	23,006,328,155	4,926,737,000	94,557,000	-	-	28,027,622,155
Lease liabilities	3,169,767	1,535,962	7,459,201	5,123,604	7,044,096	24,332,630
Borrowings from Central Bank of Lebanon	53,402,955	3,689,653	6,536,180	21,107,161	109,841,158	194,577,107
	23,101,433,833	4,934,535,615	108,552,381	26,230,765	116,885,254	28,287,637,848

	December 31, 2022					
	Up to 3 months	3 months to 1 Year	1 year to 3 Years	3 Years to 5 Years	Over 5 years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Deposits from banks and financial institutions	101,936,165	389,000	-	-	-	102,325,165
Customers' accounts at amortized cost	3,152,759,754	1,090,500,000	5,180,000	5,026,000	-	4,253,465,754
Lease liabilities	1,689,356	2,852,073	1,086,948	508,801	989,830	7,127,008
Borrowing from Central Bank of Lebanon	15,888,911	374,975	3,548,590	9,251,781	153,913,201	182,977,458
	3,272,274,186	1,094,116,048	9,815,538	14,786,582	154,903,031	4,545,895,385

C. Market Risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

Exposure to foreign exchange risk:

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2023					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and balances with Central Bank of Lebanon	690,009,738	17,715,957,942	1,545,702,848	17,844,038	-	19,969,514,566
Deposits with banks and financial institutions	3,671,759	229,925,542	51,553,587	5,650,807	32,066,028	322,867,723
Investment securities at fair value through profit or loss	5,759,965	681,395,789	-	-	-	687,155,754
Loans and advances to customers	117,939,010	1,708,721,339	7,332,701	6,384	12,536	1,834,011,970
Investment securities	692,246,377	5,571,409,083	493,755	-	-	6,264,149,215
Assets acquired in satisfaction of loans	10,924,978	50,610,003	-	-	-	61,534,981
Right-of-use assets	2,059,520	-	-	-	-	2,059,520
Property and equipment	78,326,877	-	-	-	-	78,326,877
Intangible assets	783,067	-	-	-	-	783,067
Other assets	35,301,106	60,691,630	19,003	30,206	-	96,041,945
Total Assets	1,637,022,397	26,018,711,328	1,605,101,894	23,531,435	32,078,564	29,316,445,618
LIABILITIES						
Deposits from banks and financial institutions	22,091,995	18,997,181	16,780	-	-	41,105,956
Customers' accounts	1,171,905,649	25,122,877,355	1,678,119,534	30,963,233	23,756,384	28,027,622,155
Borrowings from the Central Bank of Lebanon	141,364,532	53,212,575	-	-	-	194,577,107
Lease liabilities	121,817	24,210,813	-	-	-	24,332,630
Other liabilities	82,565,530	84,682,687	855,945	35,288	997	168,140,447
Provisions	291,710,738	20,030,692	1,148	-	-	311,742,578
Total Liabilities	1,709,760,261	25,324,011,303	1,678,993,407	30,998,521	23,757,381	28,767,520,873
Net Assets	(72,737,864)	694,700,025	(73,891,513)	(7,467,086)	8,321,183	548,924,745

	December 31, 2022					
	LBP	USD	Euro	GBP	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS						
Cash and balances with the Central Bank of Lebanon	1,122,409,777	1,756,257,693	119,022,067	995,895	-	2,998,685,432
Deposits with banks and financial institutions	3,317,662	8,781,175	16,871,587	450,874	2,227,687	31,648,985
Investments securities at fair value through profit or loss	1,235,275	66,825,829	-	-	-	68,061,104
Loans and advances to customers	258,356,379	305,232,841	1,095,881	350	1,878	564,687,329
Investment securities	693,158,994	659,850,437	47,434	-	-	1,353,056,865
Investments in subsidiaries	7,661,510	-	-	-	-	7,661,510
Assets acquired in satisfaction of loans	10,924,978	50,610,003	-	-	-	61,534,981
Right-of-use assets	483,105	5,574,098	-	-	-	6,057,203
Property and equipment	78,581,310	-	-	-	-	78,581,310
Intangible assets	1,719,184	-	-	-	-	1,719,184
Other assets	44,625,405	6,383,928	1,802	5,573	(3)	51,016,705
Total Assets	2,222,473,579	2,859,516,004	137,038,771	1,452,692	2,229,562	5,222,710,608
LIABILITIES						
Deposits from banks and financial institutions	115,067,591	2,146,255	2,768	-	-	117,216,614
Customers' accounts	1,413,634,393	2,672,047,359	162,070,759	3,005,717	2,707,526	4,253,465,754
Borrowings from the Central Bank of Lebanon	175,945,597	7,031,861	-	-	-	182,977,458
Lease liabilities	537,648	6,589,360	-	-	-	7,127,008
Other liabilities	58,736,915	8,046,583	123,238	89	405	66,907,230
Provisions	47,814,077	8,455,741	851,749	-	-	57,121,567
Total Liabilities	1,811,736,221	2,704,317,159	163,048,514	3,005,806	2,707,931	4,684,815,631
Net Assets	410,737,358	155,198,845	(26,009,743)	(1,553,114)	(478,369)	537,894,977

The Group is subject to currency risk on financial assets and liabilities that are denominated in currencies other than the Lebanese Pound. Most of these financial assets and liabilities are in US Dollars and Euros. As disclosed in Note 1, the Group's assets and liabilities in foreign currencies are converted at the official exchange rate, whereas there is high volatility and significant variance in the multiple unofficial exchange rates in the parallel markets that have emerged since the start of the economic crisis and the de-facto capital control on foreign currency withdrawals and transfers overseas, and therefore, management is unable to determine what would be a reasonable possible movement in order to provide useful quantitative sensitivity analysis.

The impact of the valuation of these assets and liabilities at a different rate will be recognized in the financial statements once the official exchange rate is changed by the relevant authorities.

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

The tables below include segregation of onshore and offshore assets and liabilities in foreign currencies:

	December 31, 2023			
	LBP	Onshore Foreign currency	Offshore foreign Currency	Total
	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS:				
Cash and Central Bank	690,009,738	19,188,739,352	90,765,476	19,969,514,566
Deposits with banks and financial institutions	3,741,605	32,314,728	286,811,390	322,867,723
Investments securities at fair value through profit or loss	5,759,965	681,395,789	-	687,155,754
Loans and advances to customers	117,939,010	1,630,543,039	85,529,921	1,834,011,970
Investment securities	692,246,377	5,571,902,838	-	6,264,149,215
Assets acquired in satisfaction of loans	10,924,978	50,610,003	-	61,534,981
Right-of-use assets	2,059,520	-	-	2,059,520
Property and equipment	78,326,877	-	-	78,326,877
Intangible assets	783,067	-	-	783,067
Other assets	35,301,106	60,740,839	-	96,041,945
Total Assets	1,637,092,243	27,216,246,588	463,106,787	29,316,445,618
LIABILITIES				
Deposits from banks and financial institutions	22,091,995	17,166,925	1,847,036	41,105,956
Customers' accounts	1,171,905,649	21,198,169,376	5,657,547,130	28,027,622,155
Borrowings from Central Bank of Lebanon	141,364,532	53,212,575	-	194,577,107
Lease liabilities	121,817	24,210,813	-	24,332,630
Other liabilities	82,565,530	85,353,214	221,703	168,140,447
Provisions	291,710,738	20,031,840	-	311,742,578
Total Liabilities	1,709,760,261	21,398,144,743	5,659,615,869	28,767,520,873
Net assets	(72,668,018)	5,818,101,845	(5,196,509,082)	548,924,745

	December 31, 2022			
	LBP	Onshore Foreign currency	Offshore foreign Currency	Total
	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS:				
Cash and Central Bank	1,122,409,777	1,860,496,038	15,779,617	2,998,685,432
Deposits with banks and Financial institutions	3,384,539	2,904,901	25,359,545	31,648,985
Investments at fair value through profit or loss	1,235,275	66,825,829	-	68,061,104
Loans and advances to customers	258,356,379	295,275,785	11,055,165	564,687,329
Investment securities	693,158,994	659,897,871	-	1,353,056,865
Assets acquired in satisfaction of loans	10,924,978	50,610,003	-	61,534,981
Right-of-use assets	483,105	5,574,098	-	6,057,203
Property and equipment	78,581,310	-	-	78,581,310
Intangible assets	1,719,184	-	-	1,719,184
Other assets	44,658,865	6,391,300	-	51,050,165
Total Assets	2,214,912,406	2,947,975,825	52,194,327	5,215,082,558
LIABILITIES				
Deposits from banks	100,404,317	1,735,220	185,627	102,325,165
Customers accounts	1,413,634,381	2,279,327,263	560,504,110	4,253,465,754
Borrowing from Central Bank of Lebanon	175,945,597	7,031,861	-	182,977,458
Lease liabilities	537,648	6,589,360	-	7,127,008
Other liabilities	57,019,359	8,144,950	25,365	65,189,674
Provisions	48,216,077	9,307,490	-	57,523,567
Total Liabilities	1,795,757,379	2,312,136,144	560,715,102	4,668,608,626
Net assets	419,155,027	635,839,681	(508,520,775)	546,473,932

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level of volatility of interest rates. These instruments include, but are not limited to, loans, debt securities, certain trading-related assets and liabilities, deposits, borrowings and derivative instruments. Interest rate repricing gap is used to estimate the impact on earnings of an adverse movement in interest rates.

Exposure to Interest rate risk

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

	December 31, 2023						
	Not subject to Interest	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS							
Cash and balances with the Central Bank of Lebanon	15,676,359,566	-	655,557,000	678,648,000	932,972,000	2,025,978,000	19,969,514,566
Deposits with banks and financial institutions	305,928,649	16,939,074	-	-	-	-	322,867,723
Investment securities at fair value	368,423,762	-	290	-	243,628,000	75,103,702	687,155,754
Loans and advances to customers	863,097,727	171,154,000	274,512,000	106,351,000	80,959,000	337,938,243	1,834,011,970
Investment securities	3,896,474,780	-	255,078,258	23,001,000	1,092,856,000	996,739,177	6,264,149,215
	21,110,284,484	188,093,074	1,185,147,548	808,000,000	2,350,415,000	3,435,759,122	29,077,699,228
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	22,896,725	15,636,231	2,573,000	-	-	-	41,105,956
Customers' accounts	21,863,976,185	1,142,351,970	4,926,737,000	94,557,000	-	-	28,027,622,155
Borrowing from the Central Bank of Lebanon	51,874,830	1,528,126	3,689,653	6,536,180	21,107,161	109,841,158	194,577,107
Lease liabilities	-	3,169,767	1,535,962	7,459,201	5,123,604	7,044,096	24,332,630
	21,938,747,740	1,162,686,094	4,934,535,615	108,552,381	26,230,765	116,885,254	28,287,637,848

	December 31, 2022						
	Not subject to Interest	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS							
Cash and balances with the Central Bank of Lebanon	2,134,048,432	-	7,057,000	140,905,000	98,572,000	618,103,000	2,998,685,432
Deposits with banks and financial institutions	31,594,912	54,073	-	-	-	-	31,648,985
Investment securities at fair value through profit or loss	22,792,347	22,505,000	290	-	15,215,000	7,548,467	68,061,104
Loans and advances to customers	150,107,558	86,536,000	121,357,000	63,283,000	64,876,000	78,527,771	564,687,329
Investment securities	509,585,446	692,000	12,675,982	63,225,754	61,495,000	705,382,683	1,353,056,865
	2,848,128,695	109,787,073	141,090,272	267,413,754	240,158,000	1,409,561,921	5,016,139,715
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	3,236,840	99,088,325	-	-	-	-	102,325,165
Customers' accounts	3,814,329,776	355,112,978	73,817,000	5,180,000	5,026,000	-	4,253,465,754
Borrowing from the Central Bank of Lebanon	13,952,026	1,936,886	374,975	3,548,590	9,251,781	153,913,201	182,977,458
Lease liabilities	-	-	-	172,309	1,434,371	5,520,328	7,127,008
	3,831,518,642	456,138,189	74,191,975	8,900,899	15,712,152	159,433,529	4,545,895,385

D. Operational Risks

Operational risk is defined as the risk of loss or damage resulting from inadequate or failed internal processes, people, systems or external events. The Basel definition of operational risk includes legal risk, and excludes reputational and strategic risks. Still, the failure of operational risk controls may result in reputational damage, business disruptions, business loss, or non-compliance with laws and regulations that can lead to significant financial losses. Therefore, reputational and strategic risks are indirectly mitigated once the operational risks acting as their key drivers are well managed.

The operational risk management framework is implemented by an independent Operational Risk Management department that operates in coordination with other support functions such as: Corporate Information Security and Compliance. The Internal Audit provides an independent assurance on the adequacy and effectiveness of this framework through periodic reviews.

Operational risks are managed across the bank based on a set of principles and standards detailed in the Board-approved operational risk management framework. These principles and standards include at a minimum: segregation of duties, four-eye principle, and independency of employees performing controls, reconciliations, and awareness. Controls are also embedded within systems and formalized in policies and procedures.

Incidents are captured and analyzed to identify their root causes. Corrective and preventive measures are recommended to prevent future reoccurrences. Risk and Control Assessments (RCAs) are conducted on an ongoing basis to identify risks and control vulnerabilities associated to existing or new operations, products, processes, activities and systems. Key Risk Indicators are also developed continuously to detect alarming trends. Recommendations to improve the control environment are communicated to concerned parties and escalated to Management as deemed necessary.

Major incidents, RCA findings and operational losses are reported to the Board of Directors and Board Risk Committees periodically as per the governance framework set in the bank Operational Risk policy.

Insurance coverage is used as an additional layer of mitigation and is commensurate with the Group business activities, in terms of volume and nature.

E. Other risks

Litigation Risk

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

Since October 17, 2019, and as a result of the de-facto capital control and other measures adopted by Lebanese banks imposing various restrictions of free flow of customers' funds deposited with the banking sector, the Group has been subject to an increased litigation risk. Management is monitoring and assessing the impact of potential litigation and claims against the Group in relation to these restrictive measures taking into consideration prevailing laws, regulations and local banking practices.

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 bank's activities and social developments in the countries in which the Group operates, political developments in Lebanon, and the political and social unrest and political instability or military conflict in neighboring countries and/or other overseas areas.

Given the above, the Group recognizes 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.

39. Contingencies

Provisions for risk and charges includes provisions against tax contingencies, litigations and claims whereby the Group is defendant in several lawsuits.

The Group 's tax returns for the years 2018 till 2023 inclusive are still subject to review by the relevant tax authorities. Any additional tax liability depends on the outcome of such reviews.

The Group 's social security declarations since October 2017 remain subject to review by the Social Security authorities. Any additional liabilities depend on the outcome of such reviews.

On June 7, 2021 a decision was taken by the Execution court in Metn to apply a conservative seizure on the Bank's movable assets in some of its branches as one of the customers has filed a lawsuit against the Bank for an amount of USD 1.4 million and EUR 259. The Bank has filed an opposition against the decision on November 1, 2021 which is still pending before the court and also requested to move the conservatory seizure in counterpart of depositing a bankers check in LBP amounting to LBP 2.4 billion on December 6, 2021 but has been rejected by the court on April 11, 2022. The advance payment was recorded under "sundry debtors" (Note 15).

On May 17, 2022 a decision was issued to expand the conservatory seizure to include property No. 4740 from Ashrafieh real estate area.

On June 6, 2022 the Bank deposited a bankers check in USD amounting to USD 1,5 million in order to request to move the conservatory seizure which is still pending before the court.

40. Capital management

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

Central Bank of Lebanon introduced several key changes in the calculation of regulatory capital adequacy ratios. These changes include:

- Increasing the regulatory expected credit loss level for Lebanese Government bonds in foreign currency and Lebanese government-related exposures in same currency from 9.45% to 45% and then later to 75% (as per intermediate circulars No.649 dated November 24, 2022 and No.659 dated January 20, 2023 updating the changes introduced by intermediate circular No.567 dated August 26, 2020). Regulatory ECL for other exposures remain unchanged.

Type of financial instrument	*2023*	*2022*
Exposures to Central Bank of Lebanon in foreign currency	1.89 %	1.89 %
Exposures to Central Bank of Lebanon in Lebanese Lira	0 %	0 %
Lebanese government securities in foreign currency	75 %	75 %
Lebanese government securities in Lebanese Lira	0 %	0 %

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their common equity tier one capital as of December 31, 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 December 31, 2020 but was later extended for the banking sector to February 28, 2021.

  As discussed in note 21, the Bank's extraordinary General Assembly of shareholders held on January 30, 2020 called additional cash contribution from shareholders in the amount of USD 93.86 million. Up to December 31, 2020 the Bank's shareholders settled USD 45.96 million (LBP 69.29 billion) in the form of cash contribution and the remaining balance of USD47.9 million (LBP 72.2 billion) was settled in 2021.

- Exceptionally during 2020 and 2021, allowing banks to drawn down the 2.5% capital conservation buffer on condition of rebuilding it progressively starting 2022 by 0.75% each year, to reach the minimum required level of 2.5% by the end of 2024.

- Prohibiting Lebanese banks from distributing dividends on common shares for the financial years 201, 2020, 2021, 2022 and 2023 as well as prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for common equity tier 1, 10% for tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).

- Exceptionally for 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).

- 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 Pound 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.

- Allowing banks to include the revaluation surplus of property and equipment in Tier I capital, subject to BDL approval on the revaluation. 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. On 28 December 2023, the Intermediate Circular 685 permitted the inclusion of 75% of the revaluation surplus of fixed assets in the calculation of Tier I capital, while allowing the use of the BDL platform rate as at 30.06.2023 and at the end of each reporting period over 5 years.

- In October 2020, BCC issued a memo 15/2020 requesting from Banks to develop a roadmap to ensure adherence to capital ratios and liquidity requirements, covering the years from 2020 to 2024. As per the memo, the below minimum capital adequacy ratios are applied:

Ratio (%)	2020	2021	2022	2023	2024
Minimum Capital Ratio (including the Capital Conservation Buffer)					
Common Equity Tier 1 / risk-weighted assets	4.50%	4.50%	5.25%	6.00%	7.00%
Net Tier 1 / risk-weighted assets	6.00%	6.00%	6.75%	7.50%	8.50%
Total capital / risk-weighted assets	8.00%	8.00%	8.75%	9.50%	10.50%
Provisions added to Capital equity Tier 1					
Provisions taken on Stage 1 and 2 assets and commitments except provisions taken against Lebanese Sovereign & Central Bank exposures, to be added to Common Equity Tier 1	100.00%	100.00%	75.00%	50.00%	25.00%

In 2022, BCC issued an intermediate circular number 595 whereby it has lowered the risk-weight to be applied on the Lebanese Corporate Resident Portfolio from 150% to 100%.

The Group 's capital adequacy ratio was as follows:

	December, 31	
	2023	2022
	LBP Million	LBP Million
Common Equity Tier I	418,234	405,758
Additional Tier I capital	152,787	152,787
	571,021	558,545
Tier II capital	186,627	9,988
Total regulatory capital	757,648	568,533
Credit risk	23,667	3,028,580
Market risk	3,719	284,041
Operational risk	1,681	333,812
Risk-weighted assets and risk-weighted off-balance sheet items	29,067	3,646,433
Equity Tier I ratio	1.44%	11.13%
Tier I capital ratio	1.96%	15.32%
Risk based capital ratio - Tier I and Tier II capital	2.61%	15.59%

The Bank's capital adequacy ratio as at December 31, 2023 and 2022, similarly to other applicable regulatory ratios, was calculated based on the disclosed figures, and did not take into consideration the adjustments that will result from the uncertainties discussed under Note 1.3 once these uncertainties become reasonably quantifiable.

Due to the high levels of these uncertainties, management is unable to estimate in a reasonable manner, the impact of these matters on the Group 's capital adequacy and the recapitalization needs that may arise once the necessary adjustments are determined and recorded.

41. Fair value of financial assets and liabilities

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group determines 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.

As a result of the unprecedented levels of uncertainty surrounding the economic crisis that Lebanon, and particularly the banking sector in Lebanon, is experiencing, as described in Note 1, management is unable to produce reasonable estimation of the fair value of financial assets and liabilities concentrated in Lebanon as the measurement of their fair value is either (i) dependent on prices quoted in a market that is severely inactive and illiquid; or (ii) determined using cash flow valuation models using observable market inputs, comprising of interest rates and yield curves, implied volatilities, and credit spreads that are not reflective of the economic reality and market conditions.

In the absence of reliable data, the Group did not disclose the fair value of financial assets and liabilities originated in Lebanon as required by IFRS 13 *Fair Value Measurements.*

42. Related party transactions

Related parties represent the Parent Bank, key management personnel and their close family members, and entities controlled or jointly controlled by them. In the normal course of business, the Group has dealings at market rates, or on terms agreed by the management of the Group with related parties.

Below are balances and transactions with related parties included in these consolidated financial statements:

	December 31,	
	2023	2022
	LBP'000	LBP'000
Deposits with related banks		
Current accounts with Parent Bank (note 6) :		
Fransabank S.A.L.	35,067,939	5,384,418
Current accounts with related banks (note 6) :		
Fransa Invest Bank S.A.L	-	628,664
Fransabank France S.A.	4,156,182	185,437
Interest income from deposits with related banks	4,353	1,026
Loans and advances to related parties – Board members and key management (Note 7)		
Loans and advances	499,073	9,648
Interest income from loans and advances to related parties (Note 26)	4,251	19,413
Deposits from related banks (Note 16)		
Short term deposits from Parent Bank - Fransabank S.A.L	12,750,000	-
Accrued interest payable	141,960	123,288
Interest expense on deposits from Parent Banks and subsidiairies (Note 27)	2,215,290	2,245,794
Related parties' customers' deposits – Board members, key management and related company (Note 17)		
Demand deposits	70,929,236	2,901,612
Term deposits	404,177,958	60,448,091
Collateral against loans and advances	5,035,256	505,719
Accrued interest payable	1,452	161,167
Interest expense on customers' deposits from related parties (Note 27)	28,587,786	111
Board members remunerations (Note 32)		
Board of Directors remuneration fees	5,104,120	962,327

43. Subsequent events

The Central Bank of Lebanon issued Basic circular 167 on February 2, 2024 requesting banks to adopt the requirements of IAS 21 when preparing their financial statements by translating their monetary assets and liabilities in foreign currencies, as well as the non-monetary assets classified at fair value, using the rate of the electronic platform of BDL. This circular is applicable starting the financial positions of January 31, 2024.

44. Approval of the financial statements

The consolidated financial statements for the year ended December 31, 2023 were approved by the Board of Directors in its meeting held on July 24, 2024.