

**NATIONAL BANK OF KUWAIT
(LEBANON) SAL**

FINANCIAL STATEMENTS

31 DECEMBER 2023

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT (LEBANON) SAL

Adverse opinion

We have audited the financial statements of National Bank of Kuwait (Lebanon) SAL (the "Bank"), which comprise the statement of financial position as at 31 December 2023, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, because of the significance of the matters discussed in the "*Basis for adverse opinion*" section of our report, the accompanying financial statements do not present fairly, the financial position of the Bank as at 31 December 2023, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for adverse opinion

- 1- As disclosed in Note 2.1 to the financial statements, the Bank did not apply the requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies (IAS 29) in the financial statements from and for the years from which the Republic of Lebanon has been designated as a hyperinflationary economy, including the current year ended 31 December 2023, nor did the Bank consider its effects on forecasts and discount rates used in accounting estimates. In addition, as disclosed in Note 14, the Bank determined the carrying amount of lands and buildings in Lebanon based on a valuation performed by an accredited external independent valuer in US Dollars and then translated it to the Lebanese Lira at the Sayrafa rate at the beginning of the reporting period of LL 38,000 to the US Dollar compared to a Sayrafa rate at 31 December 2023 of LL 89,500 to the US Dollar, which is required for use by the Central Bank of Lebanon Intermediate Circular 659. The gain from revaluation amounting to LL 393,723 million was recognized in other comprehensive income during 2023. In accordance with IAS 29, the historical cost should be restated from the date of acquisition by applying the general price index, and then compared to the appraised amount with the difference treated as required by IAS 16 – Property, Plant and Equipment ("IAS 16") and subsequently, the appraised carrying amount should be restated from the date of appraisal by applying the general price index. In addition, due to the lack of information and visibility on the impact of the current macroeconomic crisis in Lebanon, we were unable to conclude on the adequacy of the appraised amount. Had the Bank applied the requirements of IAS 29 and considered its effects on accounting estimates, many elements and disclosures in the financial statements, including the comparative financial information, would have been materially different. The effects on the financial statements arising from this departure have not been determined. Our opinion for the year ended 31 December 2022 was modified for same reasons.
- 2- Except for the exchange rate used for the translation of the appraised amount of lands and buildings as described in paragraph 1 above, the Bank translated its assets and liabilities, denominated in foreign currencies, as at 31 December and all transactions in foreign currencies that occurred during the years then ended, using the official published exchange rates as disclosed in Note 1 to the financial statements. However, other exchange rates through legal exchange mechanisms are available, depending on the source and nature of the operation or balance. As per IAS 21, when several exchange rates are available, the rate to be used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. Due to the uncertainties disclosed in Note 1 to the financial statements, management did not use the rate at which the future cash flows could have been settled. Had the Bank applied the requirements of IAS 21 and had the Bank used the rates at which the future cashflows could have been settled during 2021, 2022 and 2023, many accounts and disclosures in the financial statements would have been materially different. The effects on the financial statements from the departure of IAS 21 and the uncertainties relating to the appropriate exchange rates have not been determined. Our opinion for the year ended 31 December 2022 was also modified for same reasons.

Basis for adverse opinion (continued)

3- As at 31 December 2023, the Bank holds assets with the Central Bank of Lebanon amounting to LL 1,298,500 million stated net of allowance for expected credit losses of LL 24,712 million (2022: LL 162,262 million stated net of allowance for expected credit losses of LL 2,314 million) as disclosed in Note 9 and a portfolio of Lebanese government eurobonds amounting to LL 164,931 million stated net of allowance for expected credit losses of LL 150,069 million (2022: LL 17,411 million stated net of allowance for expected credit losses of LL 14,247 million) as disclosed in Note 13 which represent 48.97% of the Bank's total assets as at 31 December 2023 (2022: 55.54%).

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

Also, as disclosed in Note 26, management did not produce information about the fair value of these assets and other financial assets concentrated in Lebanon and these financial statements consequently do not include the fair value disclosures required by IFRS 13 – Fair Value Measurement.

Had such adjustments and disclosures been determined and made, many elements and related disclosures in the accompanying financial statements as at 31 December 2023 and 2022 would have been materially different. The effects of the resolution of these uncertainties on the financial statements have not been determined. Our opinion for the year ended 31 December 2022 was modified for same reasons.

4- As disclosed in Note 8, the Bank did not provide for current income tax for the year ended 31 December 2023, measured by management at LL 79,321 million, which is not in accordance with the requirements of IAS 12 – Income Taxes. Had the Bank provided for current income tax as measured by management, the profit for the year 2023 would have decreased by LL 79,321 million against an increase in tax payable as at 31 December 2023 by the same amount. The matters described in paragraphs 1, 2 and 3 above, affect many accounts in the financial statements, including the measurement of current income tax, and accordingly, we were unable to determine the adjustments to this amount.

5- The events and conditions in Note 1 and the matters described in paragraphs 1, 2 and 3 above, affect the financial position, liquidity, solvency and profitability of the Bank, expose the Bank to increased litigation and regulatory risks and represent events and conditions that may cast significant doubt on the Bank's ability to continue as a going concern. We were unable to obtain sufficient appropriate audit evidence about the Bank's ability to continue as a going concern. Our opinion for the year ended 31 December 2022 was modified for same reasons.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended 31 December 2023. Except for the matters described in the *"Basis for adverse opinion"* section, we have determined that there are no other key audit matters to communicate in our report.



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Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those charged with governance is responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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


Ernst & Young

7 June 2024
Beirut, Lebanon

National Bank of Kuwait (Lebanon) SAL

INCOME STATEMENT

For the year ended 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Interest and similar income	3	55,444	4,820
Interest and similar expense	4	(394)	(355)
NET INTEREST INCOME		<u>55,050</u>	<u>4,465</u>
Fee and commission income		19,966	2,299
Fee and commission expenses		(2,429)	(353)
NET FEE AND COMMISSION INCOME	5	<u>17,537</u>	<u>1,946</u>
Net gain from foreign exchange		494,266	128
Other operating income		2,179	42
TOTAL OPERATING INCOME		<u>569,032</u>	<u>6,581</u>
(Impairment loss) write-back of impairment loss on financial assets, net	25	(10,212)	5,120
NET OPERATING INCOME		<u>558,820</u>	<u>11,701</u>
Personnel expenses	6	(50,277)	(14,447)
Administrative and other operating expenses	7	(26,937)	(3,845)
Depreciation of property and equipment	14	(584)	(541)
TOTAL OPERATING EXPENSES		<u>(77,798)</u>	<u>(18,833)</u>
PROFIT (LOSS) BEFORE TAX		<u>481,022</u>	<u>(7,132)</u>
Income tax expense	8	-	-
NET PROFIT (LOSS) FOR THE YEAR		<u>481,022</u>	<u>(7,132)</u>

The attached notes 1 to 30 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023

		2023	2022
		LL million	LL million
NET PROFIT (LOSS) FOR THE YEAR		481,022	(7,132)
<i>Other comprehensive income not to be reclassified to income statement in subsequent periods:</i>			
<i>Revaluation of lands and buildings:</i>			
Revaluation gain	14	393,723	-
Tax effects		(19,637)	-
Net revaluation of lands and buildings		374,086	-
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		855,108	(7,132)

The attached notes 1 to 30 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
ASSETS			
Cash and balances with the Central Bank of Lebanon	9	1,421,640	171,095
Due from banks and financial institutions	10	61,748	76,200
Due from head office, branches and affiliates	11	836,931	26,233
Loans and advances to customers at amortized cost	12	64,110	18,394
Loans and advances to related parties at amortized cost	22	8	17
Financial assets at amortized cost	13	194,950	20,417
Property and equipment	14	405,418	9,615
Other assets	15	3,901	1,526
TOTAL ASSETS		2,988,706	323,497
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to the Central Bank of Lebanon	9	-	754
Due to head office, branches and affiliates	11	485	55
Customers' deposits at amortized cost	16	2,001,880	248,755
Related parties' deposits at amortized cost	22	25,278	2,838
Other liabilities	17	16,538	3,263
Provisions for risks and charges	18	26,955	5,370
TOTAL LIABILITIES		2,071,136	261,035
SHAREHOLDERS' EQUITY			
Share capital – common shares	19	40,020	40,020
Cash contribution by a shareholder	19	17,819	17,819
Non-distributable reserves (legal and obligatory)	20	10,543	10,543
Distributable reserves		34,328	34,328
Accumulated losses		(40,248)	(33,116)
Revaluation reserve of lands and buildings	14	374,086	-
Net results of the financial year – profit (loss)		481,022	(7,132)
TOTAL SHAREHOLDERS' EQUITY		917,570	62,462
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,988,706	323,497

The financial statements were authorized for issuance by the Board of Directors on 5 June 2024.

National Bank of Kuwait (Lebanon) SAL
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	Share capital – common shares		Cash contribution by a shareholder		Non-distributable reserves (legal and obligatory)			Distributable free reserve		Revaluation reserve of lands and buildings	Net results of the financial year	Total LL million
	LL million	LL million	LL million	LL million	Statutory reserve LL million	Reserve for capital increase LL million	General reserve LL million	General reserve LL million	Accumulated losses LL million			
Balance at 1 January 2023	40,020	17,819	5,083	3,419	2,041	10,543	34,328	-	(7,132)	-	(7,132)	62,462
Net profit for the year - 2023	-	-	-	-	-	-	-	-	-	-	481,022	481,022
Other comprehensive income for the year - 2023	-	-	-	-	-	-	-	-	-	374,086	-	374,086
Total comprehensive income for the year - 2023	-	-	-	-	-	-	-	-	-	374,086	481,022	855,108
Appropriation of 2022 loss	-	-	-	-	-	-	-	-	(7,132)	-	7,132	-
Balance at 31 December 2023	40,020	17,819	5,083	3,419	2,041	10,543	34,328	34,328	(40,248)	374,086	481,022	917,570
Balance at 1 January 2022	40,020	17,819	5,083	3,419	2,041	10,543	34,328	-	(26,508)	-	(6,608)	69,594
Net loss for the year - 2022	-	-	-	-	-	-	-	-	-	-	(7,132)	(7,132)
Total comprehensive loss for the year - 2022	-	-	-	-	-	-	-	-	-	-	(7,132)	(7,132)
Appropriation of 2021 loss	-	-	-	-	-	-	-	-	(6,608)	-	6,608	-
Balance at 31 December 2022	40,020	17,819	5,083	3,419	2,041	10,543	34,328	34,328	(33,116)	-	(7,132)	62,462

The attached notes 1 to 30 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
OPERATING ACTIVITIES			
Net profit (loss) before income tax		481,022	(7,132)
Adjustments for:			
Depreciation of property and equipment	14	584	541
Provision for retirement benefits obligation	18	15,796	2,403
Impairment (write-back of impairment) loss on financial assets, net	25	10,212	(5,120)
Loss on sale of property and equipment		-	33
Difference of exchange		181,285	-
		<u>688,899</u>	<u>(9,275)</u>
Working capital changes:			
Financial assets at amortized cost		(310,355)	(12)
Loans and advances to customers at amortized cost		(71,587)	10,506
Loans and advances to related parties at amortized cost		9	9
Other assets		(2,441)	(375)
Customers' deposits at amortized cost		1,753,125	(4,837)
Related parties' deposits at amortized cost		22,440	(721)
Other liabilities		13,275	(628)
Cash from (used in) operations		<u>2,093,365</u>	<u>(5,333)</u>
Taxes paid		(19,637)	-
Provisions for risks and charges paid	18	(60)	(60)
Net cash from (used in) operating activities		<u>2,073,668</u>	<u>(5,393)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	14	(2,664)	(31)
Net cash used in investing activities		<u>(2,664)</u>	<u>(31)</u>
FINANCING ACTIVITIES			
Due to the Central Bank of Lebanon		(754)	(301)
Net cash used in financing activities		<u>(754)</u>	<u>(301)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		<u>2,070,250</u>	<u>(5,725)</u>
Cash and cash equivalents at 1 January		260,951	266,676
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	<u>2,331,201</u>	<u>260,951</u>
OPERATING CASH FLOWS			
Interest received		55,444	4,720
Interest paid		394	256

The attached notes 1 to 30 form part of these financial statements.

National Bank of Kuwait (Lebanon) SAL

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

1 CORPORATE INFORMATION

National Bank of Kuwait (Lebanon) SAL (the “Bank”) is a shareholding company registered in Beirut, Lebanon. It was registered during 1963 under the name of RIF Bank SAL under commercial registration number 13188 and number 73 on the list of banks published by the Central Bank of Lebanon. In 1996, the name of the Bank was changed to National Bank of Kuwait (Lebanon) SAL. The Bank provides a full range of commercial banking activities. Its main branch is at Sanayeh and it operates through two branches.

National Bank of Kuwait S.A.K. owns directly and indirectly 72.66% of the Bank’s shares. The main address of National Bank of Kuwait S.A.K. is P.O.Box 95 Safat 13001, Kuwait.

1.1 Macroeconomic environment

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

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed de facto capital controls, restricted transfers of foreign currencies outside Lebanon and significantly reduced credit lines to companies and withdrawal of cash to private depositors, all of which added to the disruption of the country’s economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses downsized, closed or bankrupted and unemployment and poverty rose fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies increased constantly, deviating significantly from the peg of LL 1,507.5 to the US Dollar. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese Lira, impacting intensely the purchasing power of Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index. In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LL 1,507.5 to LL 15,000 to the US Dollars. In January 2024, the Central Bank of Lebanon changed the official published exchange rate from LL 15,000 to LL 89,500 to the US Dollars.

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

- (a) Subsidized imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 US\$/LL (the official exchange rate). During 2021, this subsidy was lifted.
- (b) Introduced the BDL Basic Circular 151 rate, to be used only in specific circumstances. During 2023, the circular was not renewed.
- (c) Subsidized imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate. During 2021, this subsidy was lifted.
- (d) Introduced exceptional measures for bank depositors to withdraw small amounts of cash in LL from their “local” foreign currency bank accounts at the Platform Rate, but up to limits set by the Bank. During 2023, the circular was not renewed.

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

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

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

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

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

Lebanese government's financial recovery plan

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

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

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

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

The plan made no mention of a sovereign fund to manage state-owned assets but pledges to limit recourse to public assets, which had been a demand of Lebanon's commercial banks. The plan said it would protect small depositors "to the maximum extent possible" in each viable bank but did not lay out a minimum amount to be protected – unlike draft plans. Non-viable banks, however, would be dissolved by the end of November, it added. As of today, laws for the reinstatement of financial stability, for the resolution of banks and capital controls are yet to be issued. The timeline for their issuance is affected by the presidential vacuum and political deadlock facing Lebanon. It also said the government would unify the official exchange rate, ending a system in which, the government offered various exchange rates for different operations.

International Monetary Fund (IMF)

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

International Monetary Fund (IMF) (continued)

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

- Cabinet approval of a bank restructuring strategy that recognises and addresses upfront the large losses in the sector, while protecting small depositors and limiting recourse to public resources.
- Parliament approval of an appropriate emergency bank resolution legislation which is needed to implement the bank restructuring strategy.
- Initiation of an externally assisted bank-by-bank evaluation for the 14 largest banks.
- Parliament approval of a reformed bank secrecy law to bring it in line with international standards.
- Completion of the special purpose audit of the BDL's foreign asset position.
- Cabinet approval of a medium-term fiscal and debt restructuring strategy.
- Parliament approval of the 2022 budget, to start regaining fiscal accountability.
- Unification by BDL of the exchange rates for authorised current account transactions.

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

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

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

Budget Draft Law 2024

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

Maritime Border Demarcation Agreement

The maritime border demarcation agreement between Lebanon and Israel was finalised in October. The deal could enhance long-term economic prospects and improve the country's external position, which is positive for Lebanon's credit profile, but implementation risks remain significant. International Rating Fitch disclosed that gas discoveries would generate important economic benefits for Lebanon, should the resources prove to be commercially viable. Moody's disclosed that the agreement is credit positive for Lebanon because it will help alleviate the country's chronic power deficit and kick-start an economic recovery. Such deals and initiatives are of a long term rather than imminent nature and the timing of the flow of economic benefit and positive development in Lebanon is uncertain. Although there was no discovery from the initiatives undertaken to date, the data and samples obtained constitute a motive for the continuation of the exploration activities.

Presidential vacuum

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

1 CORPORATE INFORMATION (continued)

1.1 Macroeconomic environment (continued)

Regional conflict

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

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

1.2 Regulatory environment

During 2020 and up to the date of approval of the financial statements, The Central Bank of Lebanon has issued several circulars to address the situations, mainly:

- Basic Circular 150 issued on 9 April 2020 and exempting Banks from placing mandatory reserves with the Central Bank of Lebanon in relation to funds transferred from abroad or cash deposits in foreign currency received after 9 April 2020 subject to preserving and guaranteeing the liberty of the depositors in determining the use of these funds and benefiting from all kinds of banking services (transfers abroad, international credit card limits, foreign currency cash withdrawals ...)
- Basic Circular 151 issued on 21 April 2020 and concerning depositors who wish to withdraw amounts of cash from their foreign currencies accounts as per a specific rate up to limits set by the Bank. The exchange rate specified by the Central Bank of Lebanon in its transactions with banks will remain applicable to all other operations in US Dollars. At maturity as at 31 December 2023, the circular was not renewed.
- Intermediate Circular 552 issued on 22 April 2020 (amending Basic Circular 23) and requesting banks to grant loans against the settlement of facilities and instalments due during the months of March, April, May and June for clients who are not able to pay their dues due to the current economic situation, as assessed by the Bank. The new loans are to be granted up to 5 years starting 30 June 2020 and on condition, among others, that these are granted to repay the above months' settlements or, if the client is an establishment or corporation, to pay the staff or the production and operational fees, with no commissions or fees and zero interest rate. The Central Bank of Lebanon will grant the banks loans with zero interest rate against the said loans.
- Intermediate Circular 567 issued on 26 August 2020 (amending Basic Circular 23, 44 and 78), which partly altered the directives for the determination of expected credit losses and regulatory capital calculation and ratios, previously set in its Intermediate Circular 543 issued on 3 February 2020. Loss rate applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in foreign currencies was increased from 9.45% to 45%, (later on increased again to 75% by Intermediate Circular 649) while loss rates applied for the calculation of regulatory expected credit losses on exposures to Lebanese sovereign bonds in local currency, exposures to the Central Bank of Lebanon in foreign currencies and exposures to the Central Bank of Lebanon in local currency remained the same (0%, 1.89% and 0% respectively).
- Allowing banks to constitute the expected credit losses on exposures to Lebanese sovereign and the Central Bank of Lebanon, progressively over a period of five years, noting that the Central Bank of Lebanon's Central Council may accept to extend the term to 10 years for banks that manage to complete the 20% cash contribution to capital requirement. Intermediate Circular 649 issued on 24 November 2022 replaced the aforementioned five years and ten years deadline by the fixed dates of 31 December 2026 and 31 December 2029 respectively.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Allowing banks not to automatically downgrade loan classification or staging for borrowers that were negatively affected by the COVID-19 pandemic, showing past due and unpaid for the period from 1 February 2020 to 31 December 2020. These borrowers must be identified as either still operating on a going concern basis or not. In case the borrower is still operating as a going concern, the Bank may reschedule the loan. In exceptional cases when the borrower ceases to operate as a going concern following the impact of the COVID-19 pandemic, the Bank must immediately downgrade the loan classification and staging to Stage 3 (default).
 - Requesting from banks to finalise the assessment of the future financial position of their customers by 31 December 2020, and to estimate expected credit losses based on this assessment and recognise the financial impact in the statement of income for the year ended 31 December 2020.
 - Prohibiting banks from distributing dividends on common shares for the years 2019 and 2020 (Years 2021, 2022 and 2023 were subsequently added by way of Intermediate Circulars 616, 659 and 676 respectively).
 - Requesting from banks to increase their own funds (equity) by an amount equal to 20% of their common equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments that meet the criteria for inclusion as regulatory capital, except retained earnings and gain from revaluation of fixed assets. The Central Bank of Lebanon's Central Council may exceptionally approve for a bank to complete 50% of the 20% required capital increase through the transfer of real estate properties from the shareholders to the concerned bank. However, these real estate properties must be liquidated in a period of 5 years following the operation.
 - Changing the treatment of revaluation of fixed assets reserve for regulatory capital calculation, to become allowed for inclusion as Common Equity Tier 1 (previously 50% of this reserve was allowed for inclusion as Tier 2), subject to approval of the Central Bank of Lebanon on the revaluation gain. On 20 January 2023, Intermediate Circular 659 capped the inclusion of revaluation of fixed assets at 50% under certain conditions while allowing the use of the prevailing Sayrafa rate at the end of each reporting period over 5 years. Besides, it widened the scope of revaluation to include participations and long-term loans to affiliated banks and financial institutions. Intermediate Circular 685 issued on 28 December 2023 increased the contribution of this revaluation to Common Equity Tier 1 from 50% to 75%.
 - Banks must comply with the minimum capital adequacy ratios and are forbidden from distributing profits if these ratios drop below 7% for common equity Tier 1, 10% for Tier 1 and 12% for total capital. Banks must maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1. After allowing banks to draw down the buffer fully during 2020 and 2021, a partial drawn up to 1.75% in 2022, latest regulatory changes introduced on 2 February 2024 via Intermediate Circular 689 allowed a full draw down of the 2.5% buffer during years 2023 and 2024 to be reconstituted based on future instructions by the Central Bank of Lebanon.
 - Preparing and presenting to the Central Bank of Lebanon a comprehensive plan for rectifying non-compliances with regulatory capital requirements and other regulations imposed by the Central Bank of Lebanon, taking into consideration all required provisions by the Banking Control Commission of Lebanon (BCCL), as well as other losses or provisions that the Bank expects to incur from all kinds of exposures to risks, and specifying the period of time needed to address the non-compliances.
 - Exceptionally for the years 2020 and 2021, Allowances for Expected Credit Losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, may be included under regulatory Common Equity Tier 1. This treatment will be amortised over a period of 3 years (2022-2024 by 25% yearly).
- Basic Circular 154 issued on 27 August 2020 and aiming mainly at restoring the operations of banks in Lebanon to their normal levels as at before October 2019, and rectifying any non-compliance with regulatory ratios and banking regulations. The circular mainly introduced the following measures:
 - Requesting banks to present a fair assessment of the value of their assets and liabilities for the purpose of putting in place the comprehensive plan referred to in Intermediate Circular 567 (refer to above), in order to be able, within a period limited in time, to comply with the regulatory and banking requirements, mainly those related to liquidity and solvency, and in order to restore the operations of the Bank to their normal levels as at before October 2019.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Requesting banks to incite each customer who has transferred abroad, between 1 July 2017 and the date of the circular, more than US\$ 500,000 or their equivalent in other foreign currencies, to deposit in a 5-year term “special account” an amount equal to 15% to 30% (depending on the type of customer) of the transferred amount. Banks shall use this type of deposits to facilitate foreign operations that stimulate the national economy. This is also applicable for the banks’ importing customers, based on opened letters of credits during any of the years 2017, 2018 and 2019, and without a minimum threshold.
 - Requesting from banks to maintain a current account with a foreign correspondent bank offshore, free of any obligations (liquidity abroad). Such accounts shall be at no time less than 3% of the Bank’s total foreign currency deposits as at 31 July 2020, by 28 February 2021. The requirement was later amended through Intermediate Circular 645 to consider foreign currency deposits as at 30 September 2022 as the basis for the computation instead of 31 July 2020, thus lowering liquidity required levels as customers’ deposits decreased over the period.
 - Requesting from banks, after taking consideration of their fair assessment of their financial position, to present a plan during the first quarter of 2021, to address recapitalisation needs, if any, to the Central Bank of Lebanon’s Central Council, for its approval. Banks shall take the necessary legal and regulatory measures in order to facilitate the consensual possibility for their depositors to transfer their deposits to shares or bonds. Bank shares will be exclusively listed in Beirut. Banks can pay interest on the bonds that exceed current levels.
- Intermediate Circular 568 issued on 26 August 2020 (amending Basic Circular 81) and allowing the payments of retail loans denominated in US Dollars in Lebanese Liras based on the official exchange rate of LL 1,507.5 to the US Dollar subject to the following conditions:
 - The client should be a Lebanese resident;
 - The client should not have a bank account denominated in US Dollars; and
 - The housing loans granted to the client should not exceed US\$ 800,000 while the aggregate amount of retail loans should not exceed US\$ 100,000 per client.On 20 January 2023, Intermediate Circular 656 revoked the aforementioned provision effective 1 February 2023.
- Intermediate Circular 575 issued on 5 November 2020 states that banks should book one third of the capital gains arising from the revaluation of fixed assets held in settlement of debt under Tier 2 capital based on the following binding conditions:
 - The Central Bank of Lebanon’s Central Council investigating and approving at the expense of the concerned bank the validity of the revaluation process.
 - Raising the capital before 31 December 2021, as follows:
 - Add a maximum of one third of the revaluation gains under Tier 2 capital.
 - Increase Common Equity Tier 1 capital in cash by an amount at least equivalent to the amount of the revaluation gains booked under Tier 2 capital.
- Basic Circular 157 issued on 10 May 2021 and setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers’ FX operations (buy and sell) related to their personal or commercial needs on the electronic platform “Sayrafa”. Transactions with customers encompass purchase and sale of foreign currencies banknotes against LL, as well as operations from/to foreign currencies external accounts against LL. Banks are required to properly document each transaction and should not collect commission margins between buy and sell operations exceeding 1%.
- Basic Circular 158 issued on 8 June 2021 and defining the mechanism for the gradual settlement of foreign currency deposits up to an amount equivalent to US\$ 50,000. To benefit from the provisions of the said circular, certain eligibility criteria must be met.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

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

The financing of the aforementioned process will be secured equally through (i) BDL reduction of compulsory reserves requirements from 15% to 14% as per BDL Intermediate Circular 586 and (ii) the Bank's offshore liquidity. To that end, the Bank can use its foreign liquidity subject computed as per BDL Basic Circular 154 requirements on the condition that it reconstitutes it by 31 December 2022, extended to 31 December 2023 by Intermediate Circular 626 issued on 21 June 2022.

- Basic Circular 159 issued on 17 August 2021 preventing banks from processing foreign currency funds received from customers whether in the form of cash or through offshore transfers at a value other than its face value, with the exception of transactions pertaining to the settlement of loans (which was subsequently removed by Intermediate Circular 671 issued on 20 June 2023). It also prevented banks from purchasing foreign currencies at parallel rate with the exception of the purchase foreign currencies duly recorded on the electronic platform and resulting from offshore incoming transfers with the purpose of (i) enhancing liquidity, (ii) engaging in medium- or long-term investments, (iii) settling international commitments. Finally, the circular prevented banks from purchasing bankers' checks and other bank accounts in foreign currencies, whether directly or indirectly.
- Intermediate Circular 600 (amending Basic Circular 73) issued on 3 November 2021 requires banks to record existing and future provisions for expected credit losses in the same currency as the related assets and off-balance sheet exposures. Banks are also required to set in place necessary measures to manage their FX position resulting from provisions recorded in foreign currencies.
- Intermediate Circular 601 issued on 8 December 2021 is an amendment to the provisions of Basic Circular 151. The circular stipulates that the Platform Rate to be applied for withdrawal cash from foreign currencies accounts is LL 8,000 US\$/LL up to a maximum limit of US\$ 3,000 per month. On 20 January 2023, Intermediate Circular 657 amended the rate to be 15,000 instead of 8,000 while reducing the limit from US\$ 3,000 per month to US\$ 1,600 per month. On 5 July 2023, Intermediate Circular 673 removed the maximum conversion amount of US\$ 1,600 per month per customer. However, BDL maintained its commitment to buy from the Bank a maximum amount of US\$ 1,600 per month per customer. As at 31 December 2023, the circular was not renewed.
- Basic Circular 161 issued on 16 December 2021 whereby the Central Bank of Lebanon will be providing banks with US Dollar up to the limits set for each bank, at the Sayrafa rate. In return, banks will provide the total amount to their customers at the same Sayrafa rate against LL at limits set by the bank.
- Intermediate Circular 616 issued on 3 March 2022 prohibiting banks from distributing dividends to ordinary shareholders from results of financial years 2019, 2020 and 2021 (years 2022 and 2023 were added through Intermediate Circular 659 and 676 respectively).

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Basic Circular 162 issued on 28 March 2022 requesting from banks to secure a level of liquidity sufficient to allow public sector employees to withdraw their monthly salaries and other compensations without setting any type of limits.
- Basic Circular 163 issued on 27 May 2022 defining the framework for the monitoring of the accounts of public officials, the performance of due diligence on their operations and the reporting to the Special Investigation Committee on the basis of founded suspicion.
- Intermediate Circular 637 issued on 27 July 2022 (amending Basic Circulars 65 and 78) requires banks selling real estate properties or participations acquired in accordance with the provisions of Article 153 or 154 of the CMC, only against fresh US\$ or its equivalent in LL based on Sayrafa rate.
- Basic Circular 164 issued on 12 October 2022 and requesting banks to report to the Banking Control Commission on the cost of their monthly operating expenses that should be paid with fresh money, the resources for settling these expenses and how to ensure those resources.
- Intermediate Circular 648 issued on 1 November 2022 (amending Basic Circulars 14 and 67) reduced by 50% the interest rates served on foreign currencies placements with BDL and on Certificates of Deposits issued by BDL while continuing paying 50% of coupon payment in the instrument's currency and 50% in LL at official rate (LL 1,507.5 to US Dollar until 31 January 2023 and LL 15,000 to the US Dollar afterwards). This circular was later amended on 2 February 2024 by Intermediate Circular 686 increasing the interest rate reduction on foreign currencies placements with BDL and on Certificates of Deposits issued by BDL from 50% to 75% while limiting the coupon payment to be in FCY only.
- Intermediate Circular 649 issued on 24 November 2022 (amending Basic Circulars 44 and 143) introduced a forbearance treatment in capital ratios computation by allowing the exclusion from Common Equity Tier 1 of a portion of losses incurred from FX purchases from BDL against LL banknotes (66% and 33% respectively in 2022 and 2023).
- Intermediate Circular 664 issued on 28 March 2023 (amending Basic Circular 81) requires banks to comply with article 863 of the Civil Procedure Law, which does not allow blocking partially or in full the wages and retirement pensions of employees, workers and servants and the salaries of civil servants, for the settlement of retail loans in foreign currencies except according to the ceilings set in the mentioned article. Banks were requested to reschedule retail loans provided in foreign currencies so that the related monthly settlements don't exceed the ceilings of article 863 nor 35 % of the family income. On 3 November 2023, the Intermediate Circular 680 was issued and requested from banks to also comply with article 865 (in addition to article 863) of the Civil Procedure Law and article 860 of the same law on the prohibition of seizing the retirement pensions of civil servants.
- Basic Circular 165 issued on 19 April 2023 and requesting banks to open new accounts at BDL in LL and in US\$ specifically and exclusively for the "Cash Money" (i.e. money transferred from abroad and/or received as banknotes in foreign currencies after 17 November 2019 in addition to the money deposited or which will be deposited as banknotes in new accounts in LL and which respect the conditions set in BDL basic circular 150 for "fresh money"). These new accounts will be used for the settlement, compensation & transfer operations through BDL National Payment System (BDL-NPS).
- Intermediate Circular 667 issued on 13 April 2023 (amending Basic Circular 69) enhancing the framework of "Electronic Banking and Financial Operations" by introducing mainly new detailed rules applicable to E-signature, E-KYC and data protection, along with the related authorization processes from regulatory bodies.

1 CORPORATE INFORMATION (continued)

1.2 Regulatory environment (continued)

- Intermediate Circular 683 issued on 17 November 2023 amending the provisions BDL Basic Circular 32 which defines the framework of Foreign Exchange (“FX”) operations in Banks operating in Lebanon and various FX positions computation. This circular came on the wake of several amendments applied in 2023 (Intermediate Circulars 659, 675 and 677) aiming at converging to the IAS 21: The Effects of Changes in Foreign Exchange Rates differentiating monetary from non-monetary items and the corresponding impact on the Bank’s FX position. Based on the new definition, the Bank is authorized to hold a Special Long FX position to hedge its core equity against FX risk. This special long FX position is to be deducted from the FX open position to reach the FX Trading Position. Besides, the circular reintroduced the 1% maximum limit (if the Bank holds concurrently a long open position and a net long trading position) on net trading position and 40% limit on Global position, while cancelling all previously authorized structural/fixed positions and any forbearance limit. The circular states that excesses over set limits at end of December 2023 should be liquidated by 31 December 2024 if long and by 31 December 2025 if short.
- Intermediate Circular 689 issued on 2 February 2024 permitting the full inclusion in Common Equity Tier 1 of gains from Foreign Currency Translation as well as 75% of cumulative fair value gains from FVTOCI instruments. Besides, it allowed a full draw down of the 2.5% capital conservation buffer during years 2023 and 2024, to be reconstituted based on future instructions by the Central Bank of Lebanon.
- Intermediate Circular 690 issued on 2 February 2024 permitting the full inclusion in the regulatory equity of positive balance (gains) of Foreign Currency Translation Reserve noting that this equity is used for the computation of various regulatory ratios other than capital adequacy ratios (FX position, limit of placement with FI, Code of money credit (“CMC”) 153 limit.
- Basic Circular 166 issued on 2 February 2024 defining a new mechanism for the repayment of restricted funds in FCY and de-facto replacing Basic Circular 151, which authorized limited withdrawals in 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 \$150 in cash up to a cumulative amount of \$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 \$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 \$300,000 from LBP proceeds, beneficiaries of Sayrafa transactions above or equal to US\$75,000, corporate clients, etc.).
- Basic Circular 167 issued on 2 February 2024 defining the published rate on BDL’s electronic platform as the FX translation rate for the Bank’s FCY monetary items as well for the non-monetary assets measured at fair value and assets measured as per equity method in line with IAS 21, effective from January 24 monthly reporting.

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank

Exchange rates

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

	2023		2022	
	<i>Rate as at 31 December LL</i>	<i>Average rate for the year ended 31 December LL</i>	<i>Rate as at 31 December LL</i>	<i>Average rate for year ended 31 December LL</i>
US Dollar	15,000	13,875.63	1,507.50	1,507.50
Euro	16,582.5	15,020.83	1,604.28	1,588.61
Swiss Franc	17,582.93	15,508.22	1,622.36	1,580.05
British Pound Sterling	19,074.00	17,301.90	1,815.48	1,865.73
Kuwaiti Dinar	48,796.30	45,109.87	4,921.65	4,921.01
Saudi Riyal	3,998.80	3,698.44	401.04	401.48
Canadian Dollar	11,362.78	10,283.51	1,115.10	1,159.18

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

On 10 May 2021, the Central Bank of Lebanon issued Basic Circular 157 setting the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LL, as well as operations from/to foreign currencies external accounts against LL. Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon. Foreign currency operations were executed on the Sayrafa platform at the following exchange rates:

	2023		2022	
	<i>Rate as at 31 December LL</i>	<i>Average rate for the year ended 31 December LL</i>	<i>Rate as at 31 December LL</i>	<i>Average rate for year ended 31 December LL</i>
US Dollar	89,500	79,117	38,000	26,146

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

- In February 2023, the Central Bank of Lebanon changed the official published exchange rate from LL 1,507.5 to LL 15,000 to the US\$. Sayarfa Rates and parallel market rates remained highly volatile and divergent from the new official published exchange rate official (LL 42,000 and LL 58,200 respectively at 1 February 2023).
- In February 2024, the Central Bank of Lebanon changed the official published exchange rate from LL 15,000 to LL 89,500 to the US\$.

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

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

The financial statements as at and for the year ended 31 December 2023 do not include adjustments from the change in this rate from LL 15,000 to LL 89,500 to the US\$ (The financial statements as at and for the year ended 31 December 2022 do not include adjustments from the change in this rate from LL 1,507.5 to LL 15,000 to the US Dollar). The Bank will use the new rate of LL 89,500 in its subsequent financial information reporting. The carrying amounts of total assets, liabilities and shareholders' equity as at 31 March 2024 were reported at LL 15,625,969 million, LL 12,084,157 million and LL 3,541,812 million, respectively. Foreign currency mismatch is detailed in Note 28.4.2 to these financial statements.

Expected credit losses

As at 31 December 2023, loss allowances on assets held at the Central Bank of Lebanon are recorded in these financial statements at the loss rates mentioned in Central Bank of Lebanon's Intermediate Circular 649. Due to the high levels of uncertainty and to the lack of observable indicators and visibility on the government's plans with respect to the bank's exposure to the Central Bank of Lebanon and Lebanese Sovereign, the Bank is unable to estimate in a reasonable manner expected credit losses on these exposures. Accordingly, these 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 losses model.

The impact is expected to be pervasive and will be reflected in the financial statements once the debt restructuring has been defined conclusively by the government and all uncertainties and constraints are resolved, and once the mechanism for allocating losses by asset class and currency is clear and conclusive. Maximum exposures to the credit risk of the Central Bank of Lebanon and the Lebanese government and the recognized loss allowances, as well as their staging, are detailed in Note 28.2 to these financial statements.

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

Taxes, social security contributions and related provisions

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

Litigations and claims

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

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

Measures by the Bank

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

Once the above uncertainties are resolved, a pro-forma balance sheet of the Bank will be prepared which will include the effects of the revaluation of the assets and liabilities in foreign currencies, the effects of the hyperinflation, the effects of the restructuring of the government debt securities and the effects of the restructuring of the Central Bank of Lebanon balance-sheet.

On 11 February 2021 the Bank received a letter from the Central Bank of Lebanon, referring to Basic Circular 154 and Intermediate Circular 567, and requesting the Bank to submit, by 28 February 2021 a roadmap that sets out the following:

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

The roadmap was submitted to the Central Bank of Lebanon on 22 March 2021 and sets out mainly the matters below. However, a reasonable and credible roadmap can only be achieved once the above uncertainties are resolved, and the amount of recapitalization needs is accurately determinable.

However, a sufficient and a reasonable and credible plan can only be achieved once the uncertainties from the prevailing crisis, the multitude of exchange rates, hyperinflation, as well as the implementation of a clear national fiscal and economic recovery plan are resolved.

Strengthening capitalization and covering capital shortfalls

Banks operating in Lebanon are required to (a) increase the regulatory capital, through contributions in foreign currencies, in an amount equivalent to 20% of the Common Equity Tier 1 as at 31 December 2018 before 31 December 2020 (a capital enhancement measure required by Article 6 bis of decision 6939 (as amended by Central Bank of Lebanon's Intermediate Circular 567) – to be achieved by all banks in Lebanon regardless of whether or not their capital levels are adequate) and (b) to cover the capital shortfall, if any, to meet the minimum required regulatory capital ratios as determined by the circulars of the Central Bank of Lebanon (Refer to Note 30). Negative impact is anticipated from the application of the new official exchange rate of LL 89,500 to the US\$ effective January 2024, upon translation of FCY-denominated risk-weighted assets. Management is awaiting guidance from the regulator for the treatment of the effects of the application of the new official published exchange rate on its capital ratios.

Build up offshore liquidity

The Bank has complied with Article 3 of Central Bank of Lebanon Basic Circular 154 that requires the Bank to have an account with an offshore correspondent bank, free from any obligation (liquidity abroad) and exceeding 3% of the Bank's total deposits in foreign currencies as at 31 July 2022 (which was later amended to foreign currency deposits balance as at 30 September 2022 through Intermediate Circular 645 issued on 7 October 2022).

1 CORPORATE INFORMATION (continued)

1.3 Particular situation of the Bank (continued)

Maintain operating profitability

The Bank has assessed its ability to maintain operating income to cover operating expenses and believes that the Bank will be able within the coming 3 years due to its strategy that focuses mainly on the below:

Managing internal and external liquidity

The Bank has focused on preserving as much as possible its internal and external liquidity. This strategy will be maintained for the coming years with the aim to maintain liquidity, noting the small size of the Bank, and the absence of any external commitments.

Managing loans portfolio

Management will maintain its diligent and attentive strategy in managing its portfolio of loans taking into consideration the internal adverse conditions in Lebanon.

Continuity

The parent Bank, National Bank of Kuwait S.A.K., which has oversight over the Bank and determines its operating strategies, is following a conservative policy with regard to the Bank's activities in Lebanon and is closely monitoring its operations. Management believes that this relationship between the Bank and its Parent provides the Bank with the support to overcome risks and difficulties facing the banking sector in particular and the Lebanese economy in general.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis except for the revaluation of lands and buildings .

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

As of 31 December 2023, and 2022, all conditions have been met for the Bank's financial statements for the years then ended to incorporate the inflation adjustment provided under IAS 29 "Financial Reporting in Hyperinflationary Economies". IFRS requires that financial statements of any entity whose functional currency is the currency of a hyperinflationary economy be restated into the current purchasing power at the end of the reporting period. Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyperinflationary economy to apply the standard at the same date. In order to achieve uniformity as to the identification of an economic environment of this kind, IAS 29 provides certain guidelines: a cumulative three-year inflation rate exceeding 100% is a strong indicator of hyperinflation, but also qualitative factors, such as analysing the behaviour of population, prices, interest rates and wages should also be considered.

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

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

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 also 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 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 financial statements, management is temporarily unable of applying the above mentioned standard nor is it able of quantifying the effect that the application of IAS 29 would have on the presented financial statements. However, management estimates such effects to be significant. This situation must be taken into account when interpreting the information reported by the Bank in the accompanying financial statements including its statement of financial position, income statement, statement of comprehensive income and cash flow statement.

The Bank uses the official exchange rate of 15,000 US\$/LL to translate balance 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 "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 de facto markets. The Bank is translating balances (assets and liabilities) and transactions in foreign currencies at the official published exchange rate (as disclosed in Note 1), which does not represent a reasonable estimate of expected cash flows in Lebanese Lira that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or of the financial statements.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The Bank is currently assessing the date at which it will apply IAS 29. The application of IAS 29 is very complex and requires the Bank to develop new accounting software and processes, internal controls and governance framework. Based on the Bank'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 Bank has postponed the application of IAS 29 and incurring costs for developing accounting processes and a governance framework until the considerations mentioned above are resolved and the Bank is comfortable that such application would provide the users with more relevant information.

Statement of compliance

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

Presentation of financial statements

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

Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously - in all of the following circumstances: a) the normal course of business, b) the event of default, and c) the event of insolvency or bankruptcy of the Bank and/or its counterparties. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements; therefore, the related assets and liabilities are presented gross in the statement of financial position. Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank. The effect of netting arrangements is disclosed in Note 9.

2.2 New and amended standards and interpretations

The Bank applied for the first time, certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2023. The nature and the impact of each amendment is described below:

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

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

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

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

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments had no impact on the financial statements of the Bank.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations

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

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments had no impact on the financial statements of the Bank.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply. The Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Definition of Accounting Estimates - Amendments to IAS 8

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

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

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

2.3 Standards issued but not yet effective

New and amended standards and interpretations that are issued but not yet effective will not have a material impact on the Bank's financial statements.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

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

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

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

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

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

Lack of exchangeability – Amendments to IAS 21

In August 2023, the Board issued Lack of Exchangeability (Amendments to IAS 21). The amendment to IAS 21 specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking.

When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency, it discloses information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information. The amendments are not expected to have a material impact on the Bank's financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

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

IFRS 18 Presentation and Disclosure in Financial Statements

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

The new requirements include:

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

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

IFRS 18 is effective for reporting periods beginning on or after 1 January 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies

Foreign currency translation

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

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

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

Financial instruments –initial recognition

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(ii) Initial measurement of financial instruments

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

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

(iii) Day 1 profit or loss

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

Financial instruments - classification and measurement

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

A debt instrument is measured at amortised cost if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Financial instruments - classification and measurement (continued)

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

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

Business model

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to Management. However, in some circumstances, it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models. Thus, an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets. Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under "net gain on sale of financial assets at amortised cost" in the income statement.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The SPPI test

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

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

The SPPI test (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit and loss.

Financial assets at amortised cost

Balances with the Central Bank of Lebanon, Due from Banks and Financial Institutions, Due from Head Office, Branches and Affiliates, and Loans and Advances to Customers and Related Parties at Amortised Cost.

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

Financial assets at fair value through profit or loss

Included in this category are those debt instruments that do not meet the conditions in “Debt instruments at amortized cost” above, and debt instruments designated at fair value through profit or loss upon initial recognition.

Management only designates a financial asset at fair value through profit and loss upon initial recognition when the designation eliminates, significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognising gains and losses on them on a different basis.

Financial Liabilities (other than financial guarantees and undrawn credit lines) – Classification and Measurement

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

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

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;

Due to the Central Bank of Lebanon, due to head office, branches and affiliates, and customers' deposits and related parties' deposits at amortized cost

After initial measurement, these financial liabilities are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

Derivatives recorded at fair value through profit or loss

The Bank uses derivatives such as interest rate swaps and forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognized in “net gain on financial assets at fair value through profit and loss” in the income statement.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Embedded derivatives

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

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

- (a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
- (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (d) the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss

Financial guarantees, and undrawn credit lines

The Bank issues financial guarantees and undrawn credit lines.

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

Undrawn credit lines are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements. The nominal contractual value of financial guarantees and undrawn credit lines, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in the notes.

Reclassification of financial assets

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

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

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

De-recognition of financial assets and financial liabilities

Financial assets

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

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

De-recognition of financial assets and financial liabilities (continued)

Financial assets (continued)

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

Any fees received as part of the modification are accounted for as follows:

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

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

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

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

(ii) *Derecognition other than for substantial modification*

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

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

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

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

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients;

The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

De-recognition of financial assets and financial liabilities (continued)

Financial assets (continued)

(ii) Derecognition other than for substantial modification (continued)

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

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

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

Financial liabilities

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

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

Impairment of financial assets

The Bank computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances;
- letters of credit and financial guarantee contracts including commitments;
- investment in debt securities measured at amortised cost;
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of credit facilities

Credit facilities granted by the Bank consists of loans and advances, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the statement of financial position at an amount equal to the ECL under IFRS 9.

Impairment of financial assets other than credit facilities

The Bank recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Impairment of financial assets (continued)

Expected credit losses

The Bank applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12-month ECL

The Bank measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit-impaired

The Bank measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit-impaired.

Stage 3: Lifetime ECL – credit-impaired

The Bank measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECLs and 12-month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of Expected Credit Loss

At each reporting date, the Bank assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are generally deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk unless this is rebutted.

At each reporting date, the Bank also assesses whether a financial asset or group of financial assets is credit-impaired. The Bank considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit-impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

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

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not become credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Impairment of financial assets (continued)

Expected credit losses (continued)

Measurement of ECLs (continued)

The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macroeconomic scenarios, etc.

Incorporation of forward-looking information

The Bank considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

Modification of loans

Under certain circumstances, the Bank seeks to restructure loans rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When loans have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the Bank's various credit enhancements are disclosed in the risk management notes.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Impairment of financial assets (continued)

Expected credit losses (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Bank is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

Fair value measurement

The Bank measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

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

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

The principal or the most advantageous market must be accessible by the Bank. 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 Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

Management determines the policies and procedures for both recurring and non-recurring fair value measurement. At each reporting date, Management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories:

- (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability;
and
- (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the income statement.

In relation to cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity to the extent that the hedge is effective and either transferred to the income statement in the period in which the hedged transaction impacts the income statement or included as part of the cost of the related asset or liability.

For those derivatives which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. For fair value hedges, if the relationship does not meet the hedge effectiveness criteria, the Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge by recalculating the EIR. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in shareholders' equity and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

Offsetting

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

Revenue recognition

The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense

The effective interest rate

Interest income and expense are recognized in the income statement applying the EIR method for all financial instruments measured at amortised cost.

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

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Revenue recognition (continued)

(i) Interest and similar income and expense (continued)

Interest income and interest expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss includes interest on financial assets at amortised cost.

Interest expense presented in the statement of profit or loss includes financial liabilities measured at amortised cost.

Interest income or expense on financial instruments measured at amortized cost are presented in the income statement under "Interest and similar income."

(ii) Fee and commission income

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise of those balances whose original maturities are three months or less from the date of acquisition: cash and balances with the Central Bank of Lebanon, due from banks and other financial institutions, deposits with head office, branches and affiliates, due to the Central Bank of Lebanon, and deposits due to head office, branches and affiliates.

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Property and equipment

Property and equipment are stated at cost. Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Furniture, fixtures and equipment	From 4 to 12.5 years
Leasehold improvements and decorations	5 years
Vehicles	4 years
Computer equipment	5 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

Fixed assets taken in recovery of debt

The Bank occasionally acquires real estate in settlement of certain loans and advances. Such real estate is stated at the lower of the amount of the related loans and advances and the current fair value of such assets based on the instructions of the Control Authorities. Gains or losses on disposal, and revaluation losses, are recognized in the income statement for the year.

Customers' deposits

All customer deposits are carried at the fair value of the consideration received, less amounts repaid.

Taxation

(i) Current tax

Taxation is provided for in accordance with the fiscal regulations in Lebanon.

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

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Retirement benefits obligations

The retirement benefits obligations are provided for based on 8.5% of the employees' salaries. The benefits are calculated upon completion of 20 years of services, or when the employee reaches retirement age, or resigns permanently, on the basis of the last salary multiplied by years of service. The Bank is obliged to pay the difference between the paid contribution (calculated at 8% basis) and the provision for retirements benefits payable to the National Social Security Fund. The Bank provides for employees' retirement benefit obligations on this basis.

Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank and are recorded as off financial position items.

2.5 Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgement and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position, cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values.

Revaluation of property and equipment

The Bank carries its lands and buildings at fair value, with changes in fair value being recognised in other comprehensive income. These are valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The Bank engaged an independent valuation specialist to assess fair values for property and equipment. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 14.

Impairment losses on financial instruments

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

Business model

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

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

Contractual cash flows of financial assets

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

3 INTEREST AND SIMILAR INCOME

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Due from head office, branches and affiliates	38,735	419
Loans and advances to customers at amortized cost	7,552	1,603
Due from banks and financial institutions	6,390	1,196
Financial assets at amortized cost	1,560	170
Balances with the Central Bank of Lebanon	1,207	1,432
	<u>55,444</u>	<u>4,820</u>

Withholding taxes amounting to LL 91 million were deducted from interest and similar income for the year ended 31 December 2023 (2022: LL 146 million).

4 INTEREST AND SIMILAR EXPENSE

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Deposits from customers and other credit balances at amortized cost	394	355
	<u>394</u>	<u>355</u>

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

5 NET FEE AND COMMISSION INCOME

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Commission income		
Letters of credit, guarantees and acceptances	130	23
Loans and advances to customers	100	57
Credit cards	85	43
Commissions on real estate	30	12
Other services	19,621	2,164
	<u>19,966</u>	<u>2,299</u>
Commission expenses		
Commission of clearance room and accounts management	(1,255)	(195)
Commissions and other fees	(895)	(111)
Credit cards	(279)	(47)
	<u>(2,429)</u>	<u>(353)</u>
Net commission income	<u>17,537</u>	<u>1,946</u>

6 PERSONNEL EXPENSES

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Salaries and wages	19,796	6,290
Provision for retirement benefits obligation (Note 18)	15,796	2,403
Social security contribution	2,803	1,103
Contractual employees' salaries	588	330
Other employees' benefits	11,294	4,321
	<u>50,277</u>	<u>14,447</u>

7 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	<i>2023</i>	<i>2022</i>
	<i>LL million</i>	<i>LL million</i>
Taxes and fees	7,501	653
Professional fees	4,161	379
Electricity, fuel and telecommunication expenses	3,451	489
Expenses and computer services	3,197	695
Building expenses	1,502	215
Maintenance and repairs	1,137	411
Cleaning	1,054	223
Subscriptions	1,010	189
Guarding fees	706	110
Insurance fees	363	79
Office supplies	283	40
Travel, transport and similar expenses	224	42
Guarantee of deposits fee	176	176
Rent	26	26
Other expenses	2,146	118
	<u>26,937</u>	<u>3,845</u>

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

8 INCOME TAX EXPENSE

The movement of income tax expense is as follows:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Balance at 1 January	32	32
Tax paid during the year	-	-
Balance at 31 December	<u>32</u>	<u>32</u>

The relationship between income tax expense and the accounting profit (loss) is as follows:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Net profit (loss) before income tax	481,022	(7,132)
<i>Non-deductible expenses and non-taxable income in determining taxable profit:</i>		
Other non-deductible taxes	20,234	181
Write-back of provisions previously taxable	(38)	(199)
Other expenses non- tax deductible	3,854	286
Write-back of impairment loss on financial assets, net	(10,212)	(5,120)
	<u>13,838</u>	<u>(4,852)</u>
	494,860	(11,984)
Deduct: brought forward losses	(28,267)	(16,283)
Taxable profit (loss)	<u>466,593</u>	<u>(28,267)</u>
Effective income tax rate	<u>17%</u>	<u>17%</u>
Income tax expense	<u>79,321</u>	<u>-</u>

9 CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Cash on hand	123,140	8,833
Balances due from the Central Bank of Lebanon		
Current accounts	842,948	87,875
Time deposits	480,264	76,701
	<u>1,323,212</u>	<u>164,576</u>
Less: Allowance for expected credit losses (Note 25)	(24,712)	(2,314)
	<u>1,298,500</u>	<u>162,262</u>
	<u>1,421,640</u>	<u>171,095</u>
Balances due to the Central Bank of Lebanon		
Subsidized loan	-	754

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

9 CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON (continued)

Current accounts at the Central Bank of Lebanon include an amount of LL 15,378 million (2022: LL 12,753 million) to cover the monetary regulatory reserve requirement on Lebanese Lira deposits, according to Lebanese banking laws and regulations.

Time deposits at the Central Bank of Lebanon include one placement of US\$ 31 million with zero interest rate to cover the regulatory reserve of 14% on foreign currency deposits and amounting to LL 260,889 million. The placement matures on 5 January 2024 (2022: placement of US\$ 31 million with zero interest rates to cover the regulatory reserve of 14% on foreign currency deposits and amounting to LL 27,357 million. The placement matures on 4 January 2023).

Subsidized Loan

Subsidized loan consists of utilised amount on a facility granted by the Central Bank of Lebanon for the purpose of lending to a customer at subsidized rate in accordance with Decision No. 6116 dated 7 March 1996. Principals are repayable on monthly basis and based on the amounts withdrawn by the customer.

10 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Current accounts	17,034	7,179
Time deposits	45,034	69,146
	<u>62,068</u>	<u>76,325</u>
Less: Allowance for expected credit losses (Note 25)	(320)	(125)
	<u>61,748</u>	<u>76,200</u>

11 HEAD OFFICE, BRANCHES AND AFFILIATES

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Due from head office, branches and affiliates		
Current accounts	33,711	2,894
Time deposits	804,555	23,378
	<u>838,266</u>	<u>26,272</u>
Less: Allowance for expected credit losses (Note 25)	(1,335)	(39)
	<u>836,931</u>	<u>26,233</u>
Due to head office, branches and affiliates		
Current accounts	485	55

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

12 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2023	2022
	LL million	LL million
Gross commercial loans	57,373	16,343
Gross consumer loans	36,823	5,101
	<u>94,196</u>	<u>21,444</u>
Less: Allowance for expected credit losses (Note 25)	(30,086)	(3,050)
	<u>64,110</u>	<u>18,394</u>

13 FINANCIAL ASSETS AT AMORTIZED COST

	2023	2022
	LL million	LL million
Lebanese sovereign		
Lebanese eurobonds – quoted	315,000	31,658
Other sovereign		
US treasury bills – quoted	30,019	3,006
	<u>(150,069)</u>	<u>(14,247)</u>
Less: Allowance for expected credit losses (Note 25)	(150,069)	(14,247)
	<u>194,950</u>	<u>20,417</u>

14 PROPERTY AND EQUIPMENT

	<i>Land</i>	<i>Buildings</i>	<i>Equipment</i>	<i>Leasehold</i>	<i>Vehicles</i>	<i>Computer</i>	<i>Total</i>
	<i>LL</i>	<i>LL</i>	<i>Furniture,</i>	<i>improvements</i>	<i>LL</i>	<i>equipment</i>	<i>LL</i>
	<i>million</i>	<i>million</i>	<i>fixtures and</i>	<i>and</i>	<i>million</i>	<i>LL million</i>	<i>million</i>
			<i>LL million</i>	<i>decorations</i>			
				<i>LL million</i>			
Cost:							
At 1 January 2023	1,478	15,394	2,746	921	209	2,952	23,700
Additions	-	-	1,959	158	-	547	2,664
Revaluation recognized in OCI	-	393,723	-	-	-	-	393,723
At 31 December 2023	<u>1,478</u>	<u>409,117</u>	<u>4,705</u>	<u>1,079</u>	<u>209</u>	<u>3,499</u>	<u>420,087</u>
Depreciation:							
At 1 January 2023	-	7,692	2,701	910	209	2,573	14,085
Charge for the year	-	308	25	10	-	241	584
At 31 December 2023	<u>-</u>	<u>8,000</u>	<u>2,726</u>	<u>920</u>	<u>209</u>	<u>2,814</u>	<u>14,669</u>
Net carrying amount:							
At 31 December 2023	<u>1,478</u>	<u>401,117</u>	<u>1,979</u>	<u>159</u>	<u>-</u>	<u>685</u>	<u>405,418</u>

Revaluation differences reflected net of tax as revaluation reserve of lands and buildings in equity amounted to LL 374,086 million as at 31 December 2023.

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

14 PROPERTY AND EQUIPMENT (continued)

Revaluation of lands and buildings

In accordance with the Central Bank of Lebanon's Intermediary Circular 659 issued on 20 January 2023, banks may revalue their properties in US Dollars and translate the revalued amount to LL at the Sayrafa rate at 31 December.

Fair value of the lands and buildings was determined using the market comparable method. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated. Gain from Level 3 revaluation of LL 393,723 million in 2023 was recognized in other comprehensive income using a Sayrafa rate at the beginning of the reporting period of LL 38,000 to the US Dollar compared to a Sayrafa rate at 31 December 2023 of LL 89,500 to the US Dollar.

	<i>Advances on purchase of fixed assets LL million</i>	<i>Land LL million</i>	<i>Buildings LL million</i>	<i>Equipment Furniture, fixtures and LL million</i>	<i>Leasehold improvements and decorations LL million</i>	<i>Vehicles LL million</i>	<i>Computer equipment LL million</i>	<i>Total LL million</i>
Cost:								
At 1 January 2022	33	1,478	15,394	2,791	918	209	3,423	24,246
Additions	-	-	-	-	3	-	28	31
Disposals	(33)	-	-	(45)	-	-	(499)	(577)
At 31 December 2022	-	1,478	15,394	2,746	921	209	2,952	23,700
Depreciation:								
At 1 January 2022	-	-	7,384	2,721	903	209	2,871	14,088
Charge for the year	-	-	308	25	7	-	201	541
Relating to disposals	-	-	-	(45)	-	-	(499)	(544)
At 31 December 2022	-	-	7,692	2,701	910	209	2,573	14,085
Net carrying amount:								
At 31 December 2022	-	1,478	7,702	45	11	-	379	9,615

15 OTHER ASSETS

	2023 LL million	2022 LL million
Prepaid expenses	754	250
Staff receivables	734	525
Deferred expenses	354	117
Stamps	233	14
Exchange difference on structural foreign exchange position	156	156
Sundry debtors	1,784	512
	4,015	1,574
Less: Allowance for expected credit losses (Note 25)	(114)	(48)
	3,901	1,526

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

16 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Current accounts	1,665,897	193,298
Saving accounts	328,463	52,355
Time deposits	7,421	2,883
Accrued interest payable	99	219
	<u>2,001,880</u>	<u>248,755</u>

Customers' deposit accounts include blocked accounts amounting to LL 5,655 million (2022: LL 2,222 million) representing cash collateral pledged in favor of the Bank as a guarantee for the credit facilities and guarantees issued in favor of the customers.

17 OTHER LIABILITIES

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Sundry creditors	8,782	865
Accrued expenses	6,457	2,186
National Social Security Fund	442	154
Other taxes	857	58
	<u>16,538</u>	<u>3,263</u>

18 PROVISIONS FOR RISKS AND CHARGES

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Retirement benefits obligation	24,215	3,845
Provision for risks and charges	2,740	1,525
	<u>26,955</u>	<u>5,370</u>

The movement in the provision of retirement benefits obligation included in the statement of financial position is as follows:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Provision at 1 January	3,845	1,502
Provided during the year (Note 6)	15,796	2,403
Difference of exchange	4,634	-
Paid during the year	(60)	(60)
Provision at 31 December	<u>24,215</u>	<u>3,845</u>

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

18 PROVISIONS FOR RISKS AND CHARGES (continued)

The movement of the provisions for risks and charges included in the statement of financial position is as follows:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Provision at 1 January	1,525	1,532
Difference of exchange	1,215	-
Other movements	-	(7)
Provision at 31 December	<u>2,740</u>	<u>1,525</u>

19 SHARE CAPITAL

a Common shares

The authorized, issued and fully paid share capital as of 31 December 2023 comprised of 5,800,000 shares of nominal value LL 6,900 per share (2022: the same).

b Cash contribution by a shareholder

On 4 November 2019, the Central Bank of Lebanon issued Intermediary Circular 532 requiring Lebanese banks to increase its regulatory capital by 20% of the Common Equity Tier 1 capital as at 31 December 2018 through cash contributions in US Dollars, as follows:

- a) 10% by 31 December 2019
- b) Another 10% by 30 June 2020

On 20 December 2019, the General Assembly approved the cash contribution contract with the major shareholder by which the Bank increased its regulatory capital by 20% through obtaining cash contribution from the major shareholder of the Bank amounting to US\$ 11,820,000 (equivalent to LL 17,819 million) paid in two equal installments by 24 December 2019 and 22 June 2020 respectively, in accordance with the following conditions:

- The shareholder is committed to retain the contribution during the lifetime of the Bank;
- The shareholder commits to cover any loss using his contribution according to the provisions of article 134 of the Money and Credit Act;
- The shareholder has the option to use this contribution in case of a capital increase; and
- The interest on contribution is based on one-year Libor, and subject to the approval of the general assembly of shareholders. The interest payment is to be made from the profits and subject to the approval of the Banking Control Commission.

The Banking Control Commission ascertained the payment of the first instalment totaling US\$ 5,910,000 (equivalent to LL 8,909 million) made during 2019, and the Central Bank of Lebanon gave its final approval on this contribution. The second installment totaling US\$ 5,910,000 (equivalent to LL 8,910 million), was approved by the Banking Control Commission and the Central Bank of Lebanon on 19 August 2020.

On 19 June 2023, the Ordinary General Assembly of Shareholders resolved to approve the proposed amendment by the Board of Directors from their meeting on 23 May 2023 to the cash contribution contract with the major shareholder. This amendment stipulated that both, the shareholder and the Bank agreed to cease charging interest on the cash contribution starting from 1 January 2023 until they mutually agree otherwise. On 29 November 2023, the Bank obtained the final approval of the Central Bank of Lebanon.

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

20 NON-DISTRIBUTABLE RESERVES

1. Statutory reserve

As required by Article 132 of the Lebanese Code of Money and Credit, 10% of the net profit after tax should be transferred to a statutory reserve. This reserve is not distributable.

2. General reserves

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

21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows consist of the following:

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Cash and balances with the Central Bank of Lebanon	1,431,352	158,409
Due from banks and financial institutions	62,068	76,325
Due from head office, branches and affiliates	838,266	26,272
Due to head office, branches and affiliates	(485)	(55)
	<u>2,331,201</u>	<u>260,951</u>

Cash and balances with the Central Bank of Lebanon up to LL 260,889 million at 31 December 2023 (2022: LL 27,357 million) are in coverage of mandatory reserve deposits and balances.

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

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Balances with the Central Bank of Lebanon	1,292,570	121,854

22 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Bank include subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

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

Entities under common directorship are defined as those entities over which the Bank's key management personnel have similar authority and responsibility to those they have in the Bank.

Terms and conditions of transactions with related parties

The Bank enters into transactions with related parties in the ordinary course of business at commercial interest and commission rates.

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

	2023	
	<i>Outstanding balance LL million</i>	<i>Interest income (expense) LL million</i>
<i>Loans and advances to related parties at amortized cost</i>		
Key management personnel and their family members	8	-
<i>Due from head office, branches and affiliates</i>		
Shareholders	838,266	38,735
Banks under common directorships*	824,896	15,453
	13,370	23,282
<i>Due to head office, branches and affiliates</i>		
<i>Banks under common directorships</i>		
Credit balances	485	-
<i>Related parties' deposits at amortized cost</i>		
Key management personnel and their family members	25,278	-
Shareholders	8,478	-
Other related parties	15,808	-
Board members	922	-
	70	-
2022		
<i>Loans and advances to related parties at amortized cost</i>		
Key management personnel and their family members	17	-
<i>Due from head office, branches and affiliates</i>		
Shareholders	26,272	419
Banks under common directorships*	13,832	25
	12,440	394
<i>Due to head office, branches and affiliates</i>		
<i>Banks under common directorships</i>		
Credit balances	55	-
<i>Related parties' deposits at amortized cost</i>		
Key management personnel and their family members	2,838	-
Shareholders	968	-
Other related parties	1,756	-
Board members	93	-
	21	-
<i>Guarantees received</i>		
Shareholders	8,291	-

* Including the accrued interest receivable amounting to LL 555 million as at 31 December 2023 (2022: LL 12 million).

Key management remunerations amounted to LL 6,295 million for the year ended 31 December 2023 (2022: LL 2,292 million).

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

23 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. The letters of credit and guarantees (including the enhanced credits) and acceptances commit the Bank payments on behalf of customers if the customer fails to meet its obligations in accordance with the terms of the contract. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities.

	<i>2023</i>	<i>2022</i>
	<i>Customers</i>	<i>Customers</i>
	<i>LL million</i>	<i>LL million</i>
Guarantees and contingent liabilities		
Financial guarantees	3,031	656
Commitments		
Undrawn credit lines (revocable)	82,597	11,875
Other commitments	300	30
	82,897	11,905
	85,928	12,561

Guarantees

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Non financial guarantees provided include mainly performance guarantees and retention guarantees.

Undrawn credit lines

Undrawn credit lines are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such claims, many of which are beyond its control. The extent of the impact of these matters cannot always be predicted but may materially impact the Bank's operations, financial results, condition and prospects. However, once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on advice from legal counsel, and despite the novelty of certain claims and the uncertainties inherent in their unique situation, Management believes that legal claims will not result in any material financial loss to the Bank, except as provided for in the financial statements, however they may have an impact on the offshore liquidity of the Bank, its foreign assets, and its foreign currency exposure.

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

23 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Other contingencies

Certain areas of the Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books are still subject to review by the Department of Income Tax for the years from 2017 to 2023 (inclusive). The Bank's books have been reviewed by the National Social Security Fund for the period from 1 January 2002 to 31 December 2023 (inclusive). Subsequent to year end, the review resulted in additional taxes of LL 2,092 million and additional penalties that will be determined upon payment. Management believes that the effect of any such review will not have a material effect on the Bank's financial statements.

24 ASSETS UNDER MANAGEMENT

	<i>2023</i> <i>LL million</i>	<i>2022</i> <i>LL million</i>
Lebanese eurobonds	104,250	10,477
Lebanese treasury bills denominated in LL	115	235
Other securities	21,326	1,119
	<u>125,691</u>	<u>11,831</u>

The above Lebanese treasury bills, eurobonds and other securities are stated at nominal value.

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

25 EXPECTED CREDIT LOSSES

	2023						
	Balances with the Central Bank of Lebanon LL million	Due from banks and financial institutions LL million	Due from head office, branches and affiliates LL million	Loans and advances to customers at amortised cost LL million	Financial assets at amortised cost LL million	Other assets LL million	Total LL million
Balance as of 1 January	2,314	125	39	3,050	14,247	48	19,823
Impairment loss (write-back), net	1,674	(930)	944	214	8,310	-	10,212
Foreign exchange movement	20,724	1,125	352	25,657	127,512	66	175,436
Other movements	-	-	-	1,165	-	-	1,165
Balance as at 31 December	24,712	320	1,335	30,086	150,069	114	206,636

	2022						
	Balances with the Central Bank of Lebanon LL million	Due from banks and financial institutions LL million	Due from head office, branches and affiliates LL million	Loans and advances to customers at amortised cost LL million	Financial assets at amortised cost LL million	Other assets LL million	Total LL million
Balance as of 1 January	2,202	223	57	8,470	14,250	48	25,250
(Write-back) impairment loss, net	33	(96)	(18)	(5,036)	(3)	-	(5,120)
Other movements	79	(2)	-	(384)	-	-	(307)
Balance as at 31 December	2,314	125	39	3,050	14,247	48	19,823

As at 31 December 2023, expected credit losses on Lebanese government bonds in foreign currency amounting to LL 86,181 million (2022: 9,496 million) will be recorded in the coming three years to reach 75% of the exposure, as permitted by Intermediate Circular 649 issued on 24 November 2022.

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

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

26.1 FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The Bank does not carry financial assets or financial liabilities at fair value as at 31 December 2023 and 2022.

26.2 FAIR VALUE OF FINANCIAL INSTRUMENTS NOT HELD AT FAIR VALUE

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

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

The carrying value of the other Bank's financial instruments not measured at fair value is a reasonable approximation of their fair value.

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

31 December 2023

	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with the Central Bank of Lebanon	1,421,640	-	1,421,640
Due from banks and financial institutions	61,748	-	61,748
Due from head office, branches and affiliates	836,931	-	836,931
Loans and advances to customers at amortized cost	10,006	54,104	64,110
Loans and advances to related parties at amortized cost	-	8	8
Financial assets at amortized cost	164,931	30,019	194,950
Property and equipment	-	405,418	405,418
Other assets	3,901	-	3,901
TOTAL ASSETS	2,499,157	489,549	2,988,706

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

27 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2023

	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
LIABILITIES			
Due to head office, branches and affiliates	485	-	485
Customers' deposits at amortized cost	2,001,105	775	2,001,880
Related parties' deposits at amortized cost	25,278	-	25,278
Other liabilities	16,538	-	16,538
Provisions for risks and charges	-	26,955	26,955
TOTAL LIABILITIES	2,043,406	27,730	2,071,136
NET	455,760	461,810	917,570

31 December 2022

	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with the Central Bank of Lebanon	156,095	15,000	171,095
Due from banks and financial institutions	76,200	-	76,200
Due from head office, branches and affiliates	26,233	-	26,233
Loans and advances to customers at amortized cost	14,810	3,584	18,394
Loans and advances to related parties at amortized cost	-	17	17
Financial assets at amortized cost	-	20,417	20,417
Property and equipment	-	9,615	9,615
Other assets	1,526	-	1,526
TOTAL ASSETS	274,864	48,633	323,497
LIABILITIES			
Due to the Central Bank of Lebanon	-	754	754
Due to head office, branches and affiliates	55	-	55
Customers' deposits at amortized cost	248,555	200	248,755
Related parties' deposits at amortized cost	2,838	-	2,838
Other liabilities	3,263	-	3,263
Provisions for risks and charges	-	5,370	5,370
TOTAL LIABILITIES	254,711	6,324	261,035
NET	20,153	42,309	62,462

28 RISK MANAGEMENT

28.1 INTRODUCTION

The Bank manages its business activities within risk management guidelines as set by the board of directors. The Bank recognizes the role of the board of directors and executive management in the risk management process. In particular, it is recognized that the ultimate responsibility for establishment of an effective risk management culture and practices lies within the Board of Directors as does the setting up of Bank's risk appetite and tolerance levels. The Board of Directors delegates through its Country Risk Committee the day-to-day responsibility for establishment and monitoring of risk management process across the Bank to the head of risk management, who is directly appointed by the board of directors, in coordination with executive management at the Bank.

28 RISK MANAGEMENT (continued)

28.1 INTRODUCTION (continued)

The Bank is exposed to credit risk, liquidity risk, market risk, operational risks and other risks such as concentration risk, reputation risk, political risk and business/strategic risk.

The Country Risk Committee has the mission to periodically (1) review and assess the risk management function of the Bank, (2) review the adequacy of the Bank's capital and its allocation and (3) review risk limits and reports and make recommendations to the board of directors.

The Country Risk Committee undertakes its responsibilities and helps executive management in controlling and actively managing the Bank overall risk. The Committee mainly ensures that:

- Risk policies and methodologies are consistent with Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank "Risk Management Policy". Any discrepancies, breaches or deviations are escalated to executive management in a timely manner for appropriate action.

In respect of Basel 2 capital adequacy ratio calculations, risk management started, since December 2004, to issue internal reports to executive management and the board revealing multiple scenarios of capital adequacy calculations for credit and market risks under the standardized approaches and for operational risk under the basic indicator approach.

28.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. In addition, the Bank obtains securities where appropriate.

Credit risk is monitored by the credit risk department of the Bank's Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting.

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

The Bank has also established authorization structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them, which depends on the size of the exposure and the obligor's creditworthiness as measured by his internal rating. Once approved, facilities are disbursed when all the requirements set by the respective approval authority are met and documents intended as security are obtained and verified by the Credit Administration function.

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Assessment of expected credit losses

28.2.1 Definition of default and cure

The Bank considers a financial asset to be in default and therefore Stage 3 (credit-impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank;
- borrower is considered as credit-impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse

Any credit impaired or stressed facility that has been restructured would also be considered in default.

The Bank considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Bank considers externally-rated portfolio with ratings 'D' from S&P and Fitch, and 'C' from Moody's as defaulted.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

The Bank considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Bank considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Bank for consideration for classifying the facility in stage 2/stage 1.

28.2.2 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Bank assesses as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

The Bank considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Bank applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

28.2.3 Measurement of ECLs

ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc. The Bank calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of the value of eligible collaterals after applying applicable haircuts.

28.2.4 The Bank's internal rating and PD estimation process

In managing its portfolio, the Bank utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Bank uses industry-standard rating tools for assessing ratings/ scores that are leveraged for PD estimation process. The tool provides the ability to analyze a business and produce risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Bank also uses external ratings by recognised rating agencies for externally-rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Bank's estimate of the future asset quality. The through the cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Bank converts the TTC PDs to a point-in-time (PIT) PD term structures using appropriate models and techniques.

The Bank assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Central Banks and Sovereigns

For central banks and sovereigns' exposures, ratings from recognised external rating agencies are used and mapped to their corresponding PDs as reported by these agencies. These ratings with their corresponding PDs are monitored and updated on a regular basis. As per BDL Intermediate Circular 649 issued on 24 November 2022, provision coverages on exposures to Lebanese sovereign bonds and Central Bank of Lebanon in foreign currency should reach 75% by December 2026 (up from 45% as per Intermediate Circular 567 dated issued on 26 August 2020) and 1.89% respectively. Regulatory ECLs on exposure to Lebanese sovereign bonds in local currency and exposure to Central Bank of Lebanon in local currency are set to 0%.

Due to the high levels of uncertainties, the lack of observable indicators, and the lack of visibility on the Lebanese government's reform plans with respect to, among other, the exposures to the Central Bank of Lebanon, the Bank was unable to estimate in a reasonable manner ECL on these exposures and accordingly, as applicable, the loss rate mentioned in BDL Intermediate Circular 649 was adopted. As at 31 December 2023, the Bank's ECL on exposures to Lebanese sovereign bonds in foreign currency amounted to LL 150,069 million. The remaining ECL required to reach 75% amounting to LL 86,181 million will be amortized over the coming three years. ECL on exposures to the Central Bank of Lebanon in foreign currency reached 1.89% as at 31 December 2023.

28.2.5 Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Bank at the time of default. The Bank considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate repayment assumptions whereas for credit portfolio, credit conversion factors are applied to estimate the future drawdowns.

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Assessment of expected credit losses (continued)

28.2.6 Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

28.2.7 Incorporation of forward-looking information

The Bank considers various key economic variables which reflect the continuing uncertainties and other emerging risks, which may be expected to have an impact on the credit risk and the ECL when incorporating forward looking information into the ECL models. Key economic variables include, but not limited to gross domestic product, equity price index and oil prices. Together, they provide reasonable indications and forecasts of future macro-economic conditions. The consideration of such factors increases the degree of judgement in determination of ECL. The Bank employs statistical models which incorporate the effect of macro-economic factors to adjust historical TTC PDs to arrive at the PiT PDs. The Bank considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographies and segments, and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The impact of ECL is not material. The Management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Geographical location analysis and industry sector analysis:

The Bank controls credit risk by maintaining close monitoring credit of its assets exposures by geographic location and industry sector. The distribution of assets items by geographic region and industry sector as of 31 December was as follows:

Geographical location analysis

	<i>31 December 2023</i>		
	<i>Lebanon</i>	<i>Overseas</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with Central Bank of Lebanon	1,298,500	-	1,298,500
Due from banks and financial institutions	-	61,748	61,748
Due from head office, branches and affiliates	-	836,931	836,931
Loans and advances to customers at amortized cost	64,110	-	64,110
Financial assets at amortized cost	164,931	30,019	194,950
Total	<u>1,527,541</u>	<u>928,698</u>	<u>2,456,239</u>
	<i>31 December 2022</i>		
	<i>Lebanon</i>	<i>Overseas</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with Central Bank of Lebanon	162,262	-	162,262
Due from banks and financial institutions	-	76,200	76,200
Due from head office, branches and affiliates	-	26,233	26,233
Loans and advances to customers at amortized cost	18,394	-	18,394
Financial assets at amortized cost	17,411	3,006	20,417
Total	<u>198,067</u>	<u>105,439</u>	<u>303,506</u>

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Geographical location analysis and industry sector analysis: (continued)

Industry sector analysis

	<i>31 December 2023</i>				
	<i>Sovereign LL million</i>	<i>Financial service LL million</i>	<i>Consumer loans LL million</i>	<i>Consumer goods trading LL million</i>	<i>Total LL million</i>
Balances with Central Bank of Lebanon	1,298,500	-	-	-	1,298,500
Due from banks and financial institutions	-	61,748	-	-	61,748
Due from head office, branches and affiliates	-	836,931	-	-	836,931
Loans and advances to customers at amortized cost	-	-	16,518	47,592	64,110
Financial assets at amortized cost	194,950	-	-	-	194,950
Total	1,493,450	898,679	16,518	47,592	2,456,239

	<i>31 December 2022</i>				
	<i>Sovereign LL million</i>	<i>Financial service LL million</i>	<i>Consumer loans LL million</i>	<i>Consumer goods trading LL million</i>	<i>Total LL million</i>
Balances with Central Bank of Lebanon	162,262	-	-	-	162,262
Due from banks and financial institutions	-	76,200	-	-	76,200
Due from head office, branches and affiliates	-	26,233	-	-	26,233
Loans and advances to customers at amortized cost	-	-	4,349	14,045	18,394
Financial assets at amortized cost	20,417	-	-	-	20,417
Total	182,679	102,433	4,349	14,045	303,506

Analysis of risk concentrations

Credit quality and maximum exposure to credit risk analysis

In managing its portfolio, the Bank utilizes rating and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as “High” quality are those where the ultimate risk of financial loss from the obligor’s failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as “Standard” quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not “impaired”. The ultimate risk of possible financial loss on “Standard” quality is assessed to be higher than that for the exposures classified within the “High” quality range.

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Analysis of risk concentrations (continued)

Credit quality and maximum exposure to credit risk analysis (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2023				2022			
	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million	Stage 1 LL million	Stage 2 LL million	Stage 3 LL million	Total LL million
Balances with the Central Bank of Lebanon			1,323,212	1,323,212			164,576	164,576
Individually impaired	-	-	1,323,212	1,323,212	-	-	164,576	164,576
Due from banks and financial institutions	62,068	-	-	62,068	76,325	-	-	76,325
High grade	62,068	-	-	62,068	76,325	-	-	76,325
Due from head office, branches and affiliates	838,266	-	-	838,266	26,272	-	-	26,272
High grade	838,266	-	-	838,266	26,272	-	-	26,272
Financial assets at amortised cost	30,019	-	315,000	345,019	3,006	-	31,658	34,664
<i>Lebanese sovereign</i>								
Individually impaired	-	-	315,000	315,000	-	-	31,658	31,658
<i>Other sovereign</i>								
High grade	30,019	-	-	30,019	3,006	-	-	3,006
Loans and advances to customers at amortised cost	20,509	60,773	12,914	94,196	12,250	8,717	477	21,444
<i>Commercial</i>								
Standard grade	73	57,300	-	57,373	8,354	7,989	-	16,343
<i>Consumer</i>								
Standard grade	20,436	124	-	20,560	3,896	728	-	4,624
Individually impaired	-	3,349	12,914	16,263	-	-	477	477
Loans and advances to related parties at amortised cost	-	8	-	8	-	17	-	17
Standard grade	-	8	-	8	-	17	-	17
Financial guarantees and other commitments	-	85,928	-	85,928	-	12,561	-	12,561
<i>Financial guarantees</i>								
Standard grade	-	3,031	-	3,031	-	656	-	656
<i>Undrawn credit lines</i>								
Standard grade	-	82,597	-	82,597	-	11,875	-	11,875
<i>Other commitments</i>								
Standard grade	-	300	-	300	-	30	-	30
Total	950,862	146,709	1,651,126	2,748,697	117,853	21,295	196,711	335,859

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Financial assets and ECLs by stage

The tables below present an analysis of financial assets at amortised cost by gross exposure and impairment allowance by stage allocation as at 31 December 2023 and 2022. The Bank does not hold any material purchased or originated credit-impaired assets as at year-end.

31 December 2023	Gross exposure			Impairment allowance			Net exposure LL million
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
	LL million	LL million	LL million	LL million	LL million	LL million	
Balances with the Central Bank of Lebanon	-	-	1,323,212	-	-	24,712	1,298,500
Due from banks and financial institutions	62,068	-	62,068	320	-	320	61,748
Due from head office, banks and affiliates	838,266	-	838,266	1,335	-	1,335	836,931
Loans and advances to customers at amortized cost	20,509	60,773	94,196	4,026	13,146	12,914	64,110
Commercial	73	57,300	57,373	4	9,777	-	47,592
Consumer	20,436	3,473	36,823	4,022	3,369	12,914	16,518
Loans and advances to related parties at amortized cost	-	8	8	-	-	-	8
Financial assets at amortized cost	30,019	-	345,019	9	-	150,060	194,950
Financial guarantees and other commitments	-	85,928	85,928	-	-	-	85,928
Total	950,862	146,709	1,651,126	5,690	13,146	187,686	2,542,175

31 December 2022	Gross exposure			Impairment allowance			Net exposure LL million
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
	LL million	LL million	LL million	LL million	LL million	LL million	
Balances with the Central Bank of Lebanon	-	-	164,576	-	-	2,314	162,262
Due from banks and financial institutions	76,325	-	76,325	125	-	125	76,200
Due from head office, banks and affiliates	26,272	-	26,272	39	-	39	26,233
Loans and advances to customers at amortized cost	12,250	8,717	21,444	825	1,748	477	18,394
Commercial	8,354	7,989	16,343	790	1,746	-	13,807
Consumer	3,896	728	5,101	35	2	477	4,587
Loans and advances to related parties at amortized cost	-	17	17	-	-	-	17
Financial assets at amortized cost	3,006	-	34,664	-	-	14,247	20,417
Financial guarantees and other commitments	-	12,561	12,561	-	-	-	12,561
Total	117,853	21,295	196,711	989	1,748	17,038	316,084

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

28 RISK MANAGEMENT (continued)

28.2 CREDIT RISK (continued)

Collateral and other credit enhancements

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

Management monitors the market value of collateral in order to request additional collateral in case of a decline in market value and to estimate the recoverable amount during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

Letters of credit / guarantees:

The Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.

Real estate

The Bank holds in some cases a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

Analysis of maximum exposure to credit risk and collateral and other credit enhancements

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

	2023						
	Maximum exposure LL million	Cash collateral and margins LL million	Letters of guarantees LL million	Real estate guarantees LL million	Personal guarantees LL million	Other guarantees LL million	Net credit exposure LL million
Balances with the Central Bank of Lebanon	1,298,500	-	-	-	-	-	1,298,500
Due from banks and financial institutions	61,748	-	-	-	-	-	61,748
Due from head office, branches and affiliates	836,931	-	-	-	-	-	836,931
Loans and advances to customers at amortized cost:	64,110	56	-	13,113	11,025	-	39,916
Commercial loans	50,941	-	-	-	11,025	-	39,916
Consumer loans	13,169	56	-	13,113	-	-	-
Loans and advances to related parties at amortized cost	8	-	-	-	-	-	8
Financial assets at amortized cost	194,950	-	-	-	-	-	194,950
Financial guarantees	3,031	-	-	-	-	-	3,031
Undrawn credit lines	82,597	-	-	-	-	-	82,597
Other commitments	300	-	-	-	-	-	300
Total	2,542,175	56	-	13,113	11,025	-	2,517,981
Utilized collateral	-	56	-	13,113	11,025	-	24,194
Surplus of collateral before undrawn credit lines	-	1,702	-	35,985	41,475	-	79,162
Total collateral	-	1,758	-	49,098	52,500	-	103,356
	2022						
Maximum exposure LL million	Cash collateral and margins LL million	Letters of guarantees LL million	Real estate guarantees LL million	Personal guarantees LL million	Other guarantees LL million	Net credit exposure LL million	
Balances with the Central Bank of Lebanon	162,262	-	-	-	-	162,262	
Due from banks and financial institutions	76,200	-	-	-	-	76,200	
Due from head office, branches and affiliates	26,233	-	-	-	-	26,233	
Loans and advances to customers at amortized cost:	18,394	305	-	3,525	356	14,208	
Commercial loans	14,045	-	-	-	356	13,689	
Consumer loans	4,349	305	-	3,525	-	519	
Loans and advances to related parties at amortized cost	17	-	-	-	-	17	
Financial assets at amortized cost	20,417	-	-	-	-	20,417	
Financial guarantees	656	-	-	-	-	656	
Undrawn credit lines	11,875	-	-	-	-	11,875	
Other commitments	30	-	-	-	-	30	
Total	316,084	305	-	3,525	356	311,898	
Utilized collateral	-	305	-	3,525	356	4,186	
Surplus of collateral before undrawn credit lines	-	2,000	-	1,692	1,357	5,049	
Total collateral	-	2,305	-	5,217	1,713	9,235	

28 RISK MANAGEMENT (continued)

28.3 LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances.

As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Lira, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

Monitoring process

Daily

Due to the economic crisis, it is more important to monitor cash flows and highly liquid assets, specially balances in foreign currencies with banks outside Lebanon, along with the supervisory liquidity ratios, because those will ensure the uninterrupted operation of the Bank's activities. On a daily basis, the Bank's Treasury prepares the report of highly liquid assets showing the change in the position compared to the previous day, and submits it to the management in Lebanon and Kuwait. Also, the Bank Treasury monitors daily the inflows and outflows in the main currencies used by the Bank.

Monthly

The Bank's Treasury prepares a monthly report of expected outflows for the current and next quarter as well as of highly liquid assets held during the reported periods. This report is submitted to the Central Bank of Lebanon. Also, the Financial Controller prepares tables indicating compliance with internal and regulatory liquidity ratios for the Bank and submits them to the management in Lebanon.

Quarterly

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

Periodic

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

Moreover, annually, the bank carries out liquidity stress testing in its ICAAP with the support of the Group Risk in Kuwait.

As part of the Bank's procedures for monitoring and managing liquidity risk, there is a Bank funding crisis contingency plan, which sets out a response in the event of liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a meeting of the management.

Liquidity ratios

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general, and specifically to the Bank. In Lebanon and since October 2019 events, the Bank 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 31 July 2020 (which was later amended to foreign currency deposits balance as at 30 September 2022).

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

28 RISK MANAGEMENT (continued)

28.3 LIQUIDITY RISK (continued)

Sources of funding

Customer deposits were the main funding source of the Bank as at 31 December 2023 and 2022. The distribution of sources and the maturity of deposits are actively monitored in order to avoid concentration of funding maturing at any point in time or from a large number of depositors.

The Bank stresses the importance of customers' deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of client's deposits.

	<i>Loans to Deposits</i>	
	<i>2023</i>	<i>2022</i>
	<i>%</i>	<i>%</i>
Year-end	4.65	8.55
Maximum	8.91	11.97
Minimum	4.61	8.55
Average	5.52	10.21

28.3.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities as of 31 December based on contractual repayment obligations. As the special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities.

Repayments which are subject to notice are treated as if notice were being given immediately. The table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	<i>2023</i>					<i>Total</i>
	<i>Up to 1</i>	<i>1 to 3</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over 5</i>	
	<i>month</i>	<i>months</i>	<i>months</i>	<i>years</i>	<i>years</i>	
	<i>LL</i>	<i>LL</i>	<i>LL</i>	<i>LL</i>	<i>LL</i>	<i>LL</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Financial assets						
Cash and balances with the Central Bank of Lebanon	1,406,640	-	15,000	-	-	1,421,640
Due from banks and financial institutions	16,748	45,000	-	-	-	61,748
Due from head office, branches, and affiliates	836,931	-	-	-	-	836,931
Loans and advances to customers at amortized cost	539	-	9,467	52,228	1,876	64,110
Loans and advances to related parties at amortized cost	-	-	-	8	-	8
Financial assets at amortized cost	164,931	-	-	-	30,019	194,950
Other assets	3,901	-	-	-	-	3,901
Total financial assets	2,429,690	45,000	24,467	52,236	31,895	2,583,288
Financial liabilities						
Due to head office, branches and affiliates	485	-	-	-	-	485
Customer's deposits at amortized cost	1,780,110	118,175	102,820	775	-	2,001,880
Related parties' deposits at amortized cost	25,278	-	-	-	-	25,278
Total financial liabilities	1,805,873	118,175	102,820	775	-	2,027,644

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

28 RISK MANAGEMENT (continued)

28.3 LIQUIDITY RISK (continued)

28.3.1 Analysis of financial assets and liabilities by remaining contractual maturities (continued)

	2022					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with the Central Bank of Lebanon	156,095	-	-	15,000	-	171,095
Due from banks and financial institutions	76,200	-	-	-	-	76,200
Due from head office, branches, and affiliates	26,233	-	-	-	-	26,233
Loans and advances to customers at amortized cost	13,494	1,235	81	1,108	2,476	18,394
Loans and advances to related parties at amortized cost	-	-	-	17	-	17
Financial assets at amortized cost	17,411	-	-	-	3,006	20,417
Other assets	1,526	-	-	-	-	1,526
Total financial assets	290,959	1,235	81	16,125	5,482	313,882
Financial liabilities						
Due to the Central Bank of Lebanon	175	50	226	303	-	754
Due to head office, branches and affiliates	55	-	-	-	-	55
Customer's deposits at amortized cost	211,753	16,220	20,582	200	-	248,755
Related parties' deposits at amortized cost	2,838	-	-	-	-	2,838
Total financial liabilities	214,821	16,270	20,808	503	-	252,402

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	2023						Total LL million
	On demand LL million	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Guarantees given to customers	35	54	84	3,158	-	-	3,331
Undrawn credit lines	82,597	-	-	-	-	-	82,597
Total	82,632	54	84	3,158	-	-	85,928
	2022						Total LL million
	On demand LL million	Up to 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Guarantees given to customers	41	18	20	607	-	-	686
Undrawn credit lines	11,875	-	-	-	-	-	11,875
Total	11,916	18	20	607	-	-	12,561

The Bank expects that not all of the contingent liabilities or commitments will be demanded before maturity.

28.4 MARKET RISK

Market risk arises from fluctuations in interest rates and foreign exchanges rates. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a monthly basis by the Assets and Liabilities Committee in Kuwait.

National Bank of Kuwait (Lebanon) SAL

NOTES TO THE FINANCIAL STATEMENTS

31 December 2023

28 RISK MANAGEMENT (continued)

28.4 MARKET RISK (continued)

28.4.1 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets, liabilities and financial instruments presented as off-financial position items. The Bank has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The Bank employs hedging activities, utilising derivative instruments to ensure positions are maintained within the established limits.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

Interest rate sensitivity

The table below shows the sensitivity of interest income to 1% parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates. Given the prolonged nature of the Lebanese crisis and related high level of uncertainties, the Bank expects the low interest rates environment to potentially prevail in Lebanon during 2023. The Bank is also unable to determine what would be a reasonably possible change in interest rates. The Central Bank of Lebanon has already decreased interest rates through its various Intermediate Circulars. The change in interest income is calculated over a 1-year period.

Currency	Changes in basis points	2023 Net profit (loss) LL million	2022 Net profit (loss) LL million
Lebanese Lira	-100	(121)	(190)
US Dollars	-100	(10,233)	(1,240)

The table below analyses the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing maturity dates.

31 December 2023

	Up to 3 months LL million	3 to 6 months LL million	6 months to 1 year LL million	1 to 3 years LL million	Over 3 years LL million	Non- interest bearing Items LL million	Total LL million
ASSETS							
Cash and balances with the Central Bank of Lebanon	-	-	15,000	-	-	1,406,640	1,421,640
Due from banks and financial institutions	44,714	-	-	-	-	17,034	61,748
Due from head office, branches and affiliates	803,220	-	-	-	-	33,711	836,931
Loans and advances to customers at amortized cost	139	-	9,467	48,782	5,322	400	64,110
Loans and advances to related parties at amortized cost	-	-	-	8	-	-	8
Financial assets at amortized cost	164,931	-	-	-	30,019	-	194,950
Property and equipment	-	-	-	-	-	405,418	405,418
Other assets	-	-	-	-	-	3,901	3,901
TOTAL	1,013,004	-	24,467	48,790	35,341	1,867,104	2,988,706
LIABILITIES							
Due to head office, branches and affiliates	-	-	-	-	-	485	485
Customers' deposits at amortized cost	369,320	53,591	49,229	775	-	1,528,965	2,001,880
Related parties' deposits at amortized cost	5,401	-	-	-	-	19,877	25,278
Other liabilities	-	-	-	-	-	16,538	16,538
Provisions for risks and charges	-	-	-	-	-	26,955	26,955
Equity	-	-	-	-	-	917,570	917,570
TOTAL	374,721	53,591	49,229	775	-	2,510,390	2,988,706
Total interest rate sensitivity gap	638,292	(53,591)	(24,762)	48,015	35,332	(643,286)	-
Accumulated total interest rate sensitivity gap	638,292	584,701	559,939	607,954	643,286	-	-

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

28 RISK MANAGEMENT (continued)

28.4 MARKET RISK (continued)

28.4.1 INTEREST RATE RISK (continued)

31 December 2022

	Up to 3 months LL million	3 to 6 months LL million	6 months to 1 year LL million	1 to 3 years LL million	Over 3 years LL million	Non interest bearing Items LL million	Total LL million
ASSETS							
Cash and balances with the Central Bank of Lebanon	14,700	-	-	15,000	-	141,395	171,095
Due from banks and financial institutions	69,021	-	-	-	-	7,179	76,200
Due from head office, branches and affiliates	23,339	-	-	-	-	2,894	26,233
Loans and advances to customers at amortized cost	14,730	17	64	1,044	2,539	-	18,394
Loans and advances to related parties at amortized cost	-	-	-	17	-	-	17
Financial assets at amortized cost	17,411	-	-	-	3,006	-	20,417
Property and equipment	-	-	-	-	-	9,615	9,615
Other assets	-	-	-	-	-	1,526	1,526
TOTAL	139,201	17	64	16,061	5,545	162,609	323,497
LIABILITIES							
Due to the Central Bank of Lebanon	-	-	-	-	-	754	754
Due to head office, branches and affiliates	-	-	-	-	-	55	55
Customers' deposits at amortized cost	35,462	10,492	10,090	200	-	192,511	248,755
Related parties' deposits at amortized cost	542	-	-	-	-	2,296	2,838
Other liabilities	-	-	-	-	-	3,263	3,263
Provisions for risks and charges	-	-	-	-	-	5,370	5,370
Equity	-	-	-	-	-	62,462	62,462
TOTAL	36,004	10,492	10,090	200	-	266,711	323,497
Total interest rate sensitivity gap	103,197	(10,475)	(10,026)	15,861	5,545	(104,102)	-
Accumulated total interest rate sensitivity gap	103,197	92,722	82,696	98,557	104,102	-	-

28.4.2 CURRENCY RISK

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

The Bank views itself as a Lebanese entity with the Lebanese Lira as its functional currency.

As disclosed in Note 1, the Bank's assets and liabilities in foreign currencies are valued at the official published exchange rate. Due to the high volatility and the significant variance in exchange rates between the multiple currency markets, this does not always represent a reasonable estimate of expected cash flows in Lebanese Lira that would have to be generated/used from the realisation of such assets or the payment of such liabilities at the date of the transaction or at the date of the financial statements. As disclosed in Note 1, in February 2023, the Central Bank of Lebanon changed the official published exchange rate from LL 1,507.5 to LL 15,000 to the US Dollars. The financial statements as at 31 December 2023 include adjustments from the change in this rate from LL 1,507.5 to LL 15,000 to the US Dollar. The difference that resulted from the change in the rate amounted to LL 476,616 million as was recorded by the Bank in the income statement for the year 2023 under "Net gain from foreign exchange". During January 2024, BDL issued Basic Circular 167 requiring banks to value specific assets and liabilities based on the exchange rate quoted on the electronic platform (which stood LL 89,500 to the US Dollar). This derivative aligns with efforts toward exchange rate unification.

The Bank will use the new rates as quoted on the electronic platform in its subsequent financial information reporting, with the first period being the quarterly reporting as of 31 March 2024. The carrying amounts of total assets, liabilities and shareholders' equity as at 31 March 2024 were reported at LL 15,625,969 million, LL 12,084,157 million and LL 3,541,812 million, respectively.

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

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

28 RISK MANAGEMENT (continued)

28.4 MARKET RISK (continued)

28.4.2 CURRENCY RISK (continued)

The following statement of financial position tables as of 31 December are detailed in Lebanese Lira (LL) and foreign currencies (mainly in US dollars). Impairment allowances are reflected in the tables below in the currency in which they were recorded, which might differ from the original currency of the impaired asset:

31 December 2023

	<i>Lebanese Lira</i>	<i>Foreign currencies</i>		<i>Total in LL million</i>
	<i>LL million</i>	<i>In US Dollars (000)</i>	<i>Equivalent to LL million</i>	
ASSETS				
Cash and balances with the Central Bank of Lebanon	58,425	90,881	1,363,215	1,421,640
Due from banks and financial institutions	-	4,117	61,748	61,748
Due from head office, branches and affiliates	-	55,795	836,931	836,931
Loans and advances to customers at amortized cost	181	4,262	63,929	64,110
Loans and advances to related parties at amortized cost	8	-	-	8
Financial assets at amortized cost	-	12,997	194,950	194,950
Property and equipment	405,418	-	-	405,418
Other assets	3,199	47	702	3,901
TOTAL ASSETS	467,231	168,099	2,521,475	2,988,706

LIABILITIES AND SHAREHOLDERS' EQUITY

Due to head office, branches and affiliates	-	32	485	485
Customers' deposits at amortized cost	50,275	130,107	1,951,605	2,001,880
Related parties' deposits at amortized cost	94	1,679	25,184	25,278
Other liabilities	7,963	572	8,575	16,538
Provisions for risks and charges	20,205	450	6,750	26,955
Share capital – common shares	40,020	-	-	40,020
Cash contribution by a shareholder	-	11,820	17,819	17,819
Non-distributable reserves (legal and obligatory)	10,543	-	-	10,543
Distributable reserves	34,328	-	-	34,328
Accumulated losses	(40,248)	-	-	(40,248)
Revaluation reserve of lands and buildings	374,086	-	-	374,086
Net results of the financial year - gain	481,022	-	-	481,022
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	978,288	144,660	2,010,418	2,988,706

31 December 2022

	<i>Lebanese Lira</i>	<i>Foreign currencies</i>		<i>Total in LL million</i>
	<i>LL million</i>	<i>In US Dollars (000)</i>	<i>Equivalent to LL million</i>	
ASSETS				
Cash and balances with the Central Bank of Lebanon	48,942	81,030	122,153	171,095
Due from banks and financial institutions	-	50,547	76,200	76,200
Due from head office, branches and affiliates	-	17,402	26,233	26,233
Loans and advances to customers at amortized cost	1,823	10,992	16,571	18,394
Loans and advances to related parties at amortized cost	17	-	-	17
Financial assets at amortized cost	-	13,544	20,417	20,417
Property and equipment	9,615	-	-	9,615
Other assets	1,473	35	53	1,526
TOTAL ASSETS	61,870	173,550	261,627	323,497

LIABILITIES AND SHAREHOLDERS' EQUITY

Due to the Central Bank of Lebanon	-	500	754	754
Due to head office, branches and affiliates	-	36	55	55
Customers' deposits at amortized cost	46,073	134,449	202,682	248,755
Related parties' deposits at amortized cost	17	1,871	2,821	2,838
Other liabilities	1,893	909	1,370	3,263
Provisions for risks and charges	4,718	432	652	5,370
Share capital – common shares	40,020	-	-	40,020
Cash contribution by a shareholder	-	11,820	17,819	17,819
Non-distributable reserves (legal and obligatory)	10,543	-	-	10,543
Distributable reserves	34,328	-	-	34,328
Accumulated losses	(33,116)	-	-	(33,116)
Net results of the financial year - loss	(7,132)	-	-	(7,132)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	97,344	150,017	226,153	323,497

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

28 RISK MANAGEMENT (continued)

28.4 MARKET RISK (continued)

28.4.2 CURRENCY RISK (continued)

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

	2023		
	US\$ LL million	Others LL million	Total LL million
ASSETS			
Cash and balances with the Central Bank of Lebanon	1,251,591	16,267	1,267,858
Loans and advances to customers at amortized cost	63,929	-	63,929
Financial assets at amortized cost	164,931	-	164,931
Other assets	416	286	702
TOTAL ASSETS	1,480,867	16,553	1,497,420
LIABILITIES AND SHAREHOLDERS' EQUITY			
Customers' deposits at amortized cost	1,910,753	40,852	1,951,605
Related parties' deposits at amortized cost	17,873	7,311	25,184
Other liabilities	8,560	15	8,575
Provisions for risks and charges	6,750	-	6,750
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,943,936	48,178	1,992,114
2022			
	US\$ LL million	Others LL million	Total LL million
ASSETS			
Cash and balances with the Central Bank of Lebanon	120,495	1,658	122,153
Loans and advances to customers at amortized cost	16,571	-	16,571
Financial assets at amortized cost	17,411	-	17,411
Other assets	53	-	53
TOTAL ASSETS	154,530	1,658	156,188
LIABILITIES AND SHAREHOLDERS' EQUITY			
Due to the Central Bank of Lebanon	754	-	754
Customers' deposits at amortized cost	190,392	3,911	194,303
Related parties' deposits at amortized cost	1,801	798	2,599
Other liabilities	1,370	-	1,370
Provisions for risks and charges	652	-	652
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	194,969	4,709	199,678

28 RISK MANAGEMENT (continued)

28.4 MARKET RISK (continued)

28.4.3 PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rate falls. The fixed rate assets of the Bank are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income is not material after taking into account the effect of any prepayment penalties.

28.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

28.6 LITIGATION RISK

The Bank may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal claims against the Bank and in the event that legal issues are not properly dealt with by the Bank. Since 17 October 2019, the Bank has been subject to an increased litigation risk level as a result of the restrictive measures adopted by Lebanese banks. Management has carefully considered the impact of existing litigation and claims against the Bank in relation to these restrictive measures. There are still uncertainties related to the consequences of these restrictive measures, based on the current available information and the prevailing laws and local banking practices.

28.7 POLITICAL RISK

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

29 CAPITAL MANAGEMENT

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

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

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

National Bank of Kuwait (Lebanon) SAL
 NOTES TO THE FINANCIAL STATEMENTS
 31 December 2023

29 CAPITAL MANAGEMENT (continued)

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

The Bank is gradually recording expected credit losses on Lebanese government securities in foreign currency to reach the loss rate of 75% by 31 December 2026 as permissible by the circular. The remaining balance of LL 86,181 million will be amortized in the coming three years.

- Requesting banks to increase their own funds (capital) by an amount equivalent to 20% of their Common Equity Tier 1 capital as of 31 December 2018, through issuing new foreign currency capital instruments, as well as other approaches that meet the criteria for inclusion as regulatory capital. The deadline for raising capital was initially set at 31 December 2020, but was later extended for the banking sector to 28 February 2021. The Central Bank of Lebanon's Central Council may exceptionally approve a bank's completion of 50% of the 20% required capital increase through the transfer of real estate assets owned by the shareholders to the concerned bank. However, these real estate assets must be liquidated during a 5-year period following regulatory approval date on this transaction.
- Inclusion of gains from Foreign Currency Translation Adjustments in Common Equity Tier 1, effective from 2023, whereas regulation prior to amendments brought by Intermediate Circular 689 included only losses from Foreign Currency Translation Adjustments in Common Equity Tier 1 and 50% of gains in Tier 2 Capital.
- Inclusion of 75% of cumulative change in the fair value of financial instruments classified at FVTOCI in Common Equity Tier 1, instead of 50% of the gain in Tier 2 and losses in Common Equity Tier 1, as was the case previously.
- Inclusion of 75% (2022: 50%) of revaluations gain (net of tax) of owned real estate properties (excluding ones acquired in settlement of bad debt as per Article 154 of the Code of Money & Credit) in Common Equity Tier 1, instead of 50%. The regulatory deadline for completing the reappraisal process for such properties was set on 31 December 2023. During 2023, the Bank revalued real estate properties and recorded a revaluation gain of LL 393,723 million using a Sayrafa rate at the beginning of the reporting period of LL 38,000 to the US Dollar compared to a Sayrafa rate at 31 December 2023 of LL 89,500 to the US Dollar, which is required for use by the Central Bank of Lebanon Intermediate Circular 659. As a result, CET 1 increased by LL 280,564 million at 31 December 2023 compared to 31 December 2022. The eligibility of inclusion is dependent on obtaining the approval of the Central Bank of Lebanon on the revaluation. No such approval was obtained as of 31 December 2023 and up to the date of the approval of these interim condensed financial statements.
- Exceptionally during 2023 and 2024, allowing banks to draw down the 2.5% capital conservation buffer on condition of rebuilding based on future instructions by the Central Bank of Lebanon.
- Prohibiting banks from distributing dividends if capital adequacy ratios drop below 7% for Common Equity Tier 1, 10% for Tier 1 and 12% for total capital (compared to the regulatory minimum limits of 7%, 8.5% and 10.5% respectively, including a 2.5% capital conservation buffer).
- Exceptionally for 2020 and 2021, allowing banks to include provisions for expected credit losses on Stage 1 and 2 exposures, excluding those relating to Lebanese sovereign and the Central Bank of Lebanon, under regulatory Common Equity Tier 1 (previously only stage 1 allowances were included in Tier 2 capital, subject to a 1.25% cap relative to credit risk-weighted assets). Such provisions included under CET 1 should be amortised over a period of 3 years starting 2022 and ending in 2024 by 25% yearly. Amounts included as at 31 December 2023 were LL 7,801 million (2022: LL 1,926 million). The increase resulted from the change in the official published exchange rate from LL 1,507.5 to the US Dollar to LL 15,000 to the US Dollar.

National Bank of Kuwait (Lebanon) SAL
NOTES TO THE FINANCIAL STATEMENTS
31 December 2023

29 CAPITAL MANAGEMENT (continued)

- Exceptionally for 2022 and 2023, allowing banks to include CET 1 part of the losses resulting from the purchase of local dollars from the Central Bank of Lebanon against Lebanese Lira for the purpose of reducing open net FX short positions prior to 17 November 2022. In 2022, 66% of these losses can be included under CET 1, while in 2023, a maximum of 33% level applies.

The following table shows the applicable regulatory capital ratios:

	<i>Common Tier 1 Capital Ratio</i>	<i>Tier 1 Capital Ratio</i>	<i>Total Capital Ratio</i>
31 December 2023			
Minimum required capital ratios (including 1.5% applicable capital conservation buffer)	4.50%	6.00%	8.00%
With the full capital conservation buffer of 2.5% (applicable after 2024)	7.00%	8.50%	10.50%
31 December 2022			
Minimum required capital ratios (including 0.75% applicable capital conservation buffer)	5.25%	6.75%	8.75%
With the full capital conservation buffer of 2.5% (applicable after 2024)	7.00%	8.50%	10.50%
		2023	2022
		<i>LL million</i>	<i>LL million</i>
Total capital		834,714	64,601
Risk weighted assets			
Credit risk		1,551,596	137,087
Market risk		351,575	108
Operational risk		420,551	12,299
Total risk weighted assets		2,323,722	149,494

The regulatory capital as of 31 December 2023 and 31 December 2022 is as follows:

	2023	2022
	<i>LL million</i>	<i>LL million</i>
Tier 1 capital	831,849	64,389
<i>Of which: common Tier 1</i>	831,849	46,570
Tier 2 capital	2,865	212
Total capital	834,714	64,601

The capital adequacy ratio as of 31 December 2023 and 31 December 2022 is as follows:

	2023	2022
	%	%
Capital adequacy – Common Tier 1	35.80	31.15
Capital adequacy – Tier 1	35.80	43.07
Capital adequacy – Total capital	35.92	43.21

29 CAPITAL MANAGEMENT (continued)

The capital adequacy ratios as at 31 December 2023 and 31 December 2022 were calculated based on the recorded figures and do not take into consideration the adjustments that may result from the resolution of the uncertainties reflected in Note 1. Due to the high levels of uncertainties, the lack of observable reliable indicators, the high gap between the currency parallel market rates, the Sayrafa Rate and the official exchange rate and the lack of visibility on the government's plans with respect to: (a) the high exposures of Lebanese banks with the Central Bank of Lebanon, (b) the Lebanese sovereign securities, and (c) the currency exchange mechanisms and currency exchange rates that will be applied, Management is unable to estimate in a reasonable manner the impact of these matters on the Bank's capital adequacy. Management has concerns about the effects that the above matters will have on the capital of the Bank and the recapitalisation needs that may arise once the necessary adjustments are determined and recorded.

30 SUBSEQUENT EVENTS

Effective 31 January 2024, the official published exchange rate was changed from LBP 15,000 to the US Dollar to LBP 89,500 to the US Dollar. As a result, the carrying amounts of total assets, total liabilities and shareholders' equity as at 31 March 2024 were reported at LL 15,625,969 million, LL 12,084,157 million and LL 3,541,812 million, respectively. This change impacted the capital adequacy ratios of the Bank from translation of FCY-denominated risk-weighted assets.