

**LIBANK SAL
(LEVANT INVESTMENT BANK)**

FINANCIAL STATEMENTS

31 DECEMBER 2014



Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LIBANK SAL (LEVANT INVESTMENT BANK)

We have audited the accompanying financial statements of LiBank SAL (Levant Investment Bank) (the Bank), which comprise the statement of financial position as at 31 December 2014 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), 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.

Auditors' Responsibility

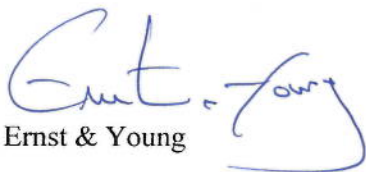
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

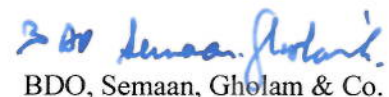
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young

15 April 2015
Beirut, Lebanon



BDO, Semaan, Gholam & Co.

LiBank SAL (LEVANT INVESTMENT BANK)

INCOME STATEMENT

For the year ended 31 December 2014

	<i>Notes</i>	<i>2014 LL (000)</i>	<i>2013 LL (000)</i>
Interest and similar income	3	3,396,767	2,529,395
Interest and similar expense	4	(4,866,829)	(400,222)
Net interest (expense) income		(1,470,062)	2,129,173
Fees and commission income		812,757	958,808
Fees and commission expense		(143,623)	(93,790)
Net fee and commission income	5	669,134	865,018
Net gain on financial assets designated at fair value through profit or loss	6	7,090,436	921,483
Net gain on financial assets designated at fair value through other comprehensive income	14	12,294	-
Share of profit from investment in an associate	13	175,631	-
		7,278,361	921,483
Net operating income		6,477,433	3,915,674
Personnel expenses	7	(2,509,286)	(1,583,990)
Depreciation of property and equipment	17	(142,510)	(90,478)
Amortization of intangible assets	18	(80,143)	(63,383)
Other operating expenses	8	(2,866,316)	(1,471,161)
Total operating expenses		(5,598,255)	(3,209,012)
PROFIT FOR THE YEAR		879,178	706,662

The accompanying notes 1 to 32 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	2013
	<i>LL (000)</i>	<i>LL (000)</i>
PROFIT FOR THE YEAR	879,178	706,662
Other comprehensive (loss) income		
<i>Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:</i>		
Net (loss) gain from financial assets at fair value through other comprehensive income	(524,382)	444,413
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	354,796	1,151,075

The accompanying notes 1 to 32 form part of these financial statements.

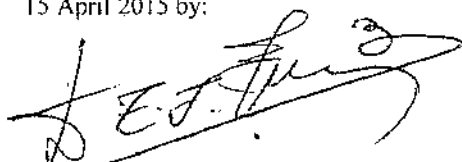
LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	2014 LL (000)	2013 LL (000)
ASSETS			
Cash and balances with the Central Bank	10	15,126,855	9,858,956
Deposits with banks and financial institutions	11	888,467	1,258,268
Financial assets at fair value through profit or loss	12	96,483,569	40,899,056
Financial assets at fair value through other comprehensive income	14	2,025,059	1,476,063
Investment in an associate	13	1,431,312	-
Loans and advances to customers at amortized cost	15	9,053,303	8,304,553
Loans and advances to related parties at amortized cost	28	3,330,617	-
Financial assets at amortized cost	16	39,306,274	39,414,324
Property and equipment	17	1,408,193	798,373
Intangible assets	18	325,996	311,212
Other assets	19	5,066,465	5,129,753
TOTAL ASSETS		174,446,110	107,450,558
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and financial institutions	20	3,030,589	744,765
Customers' deposits at amortized cost	21	15,911,806	4,642,732
Deposits from related parties at amortized cost	22	93,174,654	57,839,140
Other liabilities	23	802,805	321,978
Provision for risks and charges		20,385	11,442
TOTAL LIABILITIES		112,940,239	63,560,057
EQUITY			
Share capital	24	60,000,000	45,000,000
Legal reserve		70,667	-
Reserve for general banking risks		212,005	-
Other reserves		423,990	-
Cumulative changes in fair value of financial assets at fair value through other comprehensive income	26	(79,969)	444,413
Accumulated losses		-	(2,260,574)
Results for the year - profit		879,178	706,662
TOTAL EQUITY		61,505,871	43,890,501
TOTAL LIABILITIES AND EQUITY		174,446,110	107,450,558

The financial statements were authorized for issue in accordance with the resolution of the Board of directors on 15 April 2015 by:



Antonios Hanna Ghorayeb
Chairman and General Manager



Salim Chaar
General Manager

The accompanying notes 1 to 32 form part of these financial statements.

LIBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Non-distributable reserves			Distributable reserves		Cumulative changes in fair value of financial assets at fair value through other comprehensive income LL (000)	Accumulated losses LL (000)	Results for the year profit LL (000)	Total equity LL (000)
	Share capital LL (000)	Legal reserve LL (000)	Reserve for general banking risks LL (000)	Total LL (000)	Other reserves LL (000)				
Balance at 1 January 2013	45,000,000	-	-	-	-	-	-	(2,260,574)	42,739,426
Transfer to accumulated losses	-	-	-	-	-	-	(2,260,574)	2,260,574	-
Total comprehensive income for the year	-	-	-	-	-	444,413	-	706,662	1,151,075
Balance at 31 December 2013	45,000,000	-	-	-	-	444,413	(2,260,574)	706,662	43,890,501
Appropriation of 2013 profits	-	70,667	212,005	282,672	423,990	-	-	(706,662)	-
Increase in capital (Note 24)	17,260,574	-	-	-	-	-	-	-	17,260,574
Extinguishment of accumulated losses (Note 24)	(2,260,574)	-	-	-	-	-	2,260,574	-	-
Total comprehensive income for the year	-	-	-	-	-	(524,382)	-	879,178	354,796
Balance as at 31 December 2014	60,000,000	70,667	212,005	282,672	423,990	(79,969)	-	879,178	61,505,871

The accompanying notes 1 to 32 form part of these financial statements.

LiBank SAL (LEVANT INVESTMENT BANK)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
OPERATING ACTIVITIES			
Profit for the year		879,178	706,662
Adjustments for:			
Depreciation of property and equipment	17	142,510	90,478
Amortization of intangible assets	18	80,143	63,383
Provision for risks and charges		(9,680)	11,442
Loss on disposal of property and equipment		42,946	663
Provision for end of service indemnity		18,623	-
Share of profit from investment in an associate	13	(175,631)	-
		<u>978,089</u>	<u>872,628</u>
Changes in operating assets and liabilities:			
Balances with the Central Bank		(5,268,257)	(9,813,825)
Balances with banks and financial institutions		1,815,532	-
Loans and advances to customers at amortized cost		(748,750)	(8,304,553)
Loans and advances to related parties at amortized cost		(3,330,617)	-
Financial assets at fair value		(56,657,891)	(10,278,955)
Customers' deposits at amortized cost		11,269,074	4,642,732
Deposits from related parties at amortized cost		35,335,514	57,833,442
Other assets		63,288	(459,666)
Other liabilities		480,828	110,030
Net cash (used in) from operating activities		<u>(16,063,190)</u>	<u>34,601,833</u>
INVESTING ACTIVITIES			
Acquisition of property and equipment	17	(800,720)	(453,838)
Acquisition of intangibles	18	(89,483)	(350,451)
Acquisition of shares in associate		(1,255,681)	-
Net proceeds from disposal (purchase) of financial assets at amortized cost		108,050	(39,414,324)
Net cash used in investing activities		<u>(2,037,834)</u>	<u>(40,218,613)</u>
FINANCING ACTIVITIES			
Increase in share capital	24	17,260,574	-
Net cash from financing activities		<u>17,260,574</u>	<u>-</u>
DECREASE IN CASH AND CASH EQUIVALENTS		<u>(840,450)</u>	<u>(5,616,780)</u>
Cash and cash equivalents at beginning of year	29	558,634	6,175,414
CASH AND CASH EQUIVALENTS AT END OF YEAR	29	<u>(281,816)</u>	<u>558,634</u>

The accompanying notes 1 to 32 form part of these financial statements.

1 CORPORATE INFORMATION

LiBank SAL (the "Bank") a Lebanese joint stock company, was incorporated in 2012 and registered under No. 1015811 at the commercial registry of Beirut and under No. 139 on the banks' list published by the Central Bank of Lebanon. The headquarters of the Bank are located in Down Town, Omar Daouk Street, Beirut, Lebanon.

The Bank provides a wide range of medium and long term banking services and is governed by the Lebanese laws especially the Commercial Law, the Money and Credit Act and the Legislative Decree No. 50 dated 15 July 1983 related to investment banks and to medium and long term credit banks in addition to the regulations of Central Bank of Lebanon and the Banking Control Commission.

The Bank is exempt from income taxes on profits as per the provisions of Legislative Decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

The Bank obtained the permit for commencement of activities from the Central Bank of Lebanon on 14 January 2013.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the restatement of financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income which are measured at fair value.

The financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL (000)) except when otherwise indicated.

Statement of compliance

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

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the risk management note.

Financial assets and financial liabilities are offset and the net amount is 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. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 New standards, interpretations and amendments

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2013 except for the adoption of amended standards and interpretations effective as of 1 January 2014, noted below:

- IAS 32, 'Financial instruments; Presentation': This amendment does not change the current offsetting model in IAS 32, which requires an entity to offset a financial asset and financial liability in the statement of financial position only when the entity currently has a legally enforceable right of set-off and intends either to settle the asset and liability on a net basis or to realise the asset and settle the liability simultaneously. The amendment clarifies that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. These amendments also clarifies the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments (continued)

- IAS 39, 'Novation of Derivative and Continuation of Hedge Accounting – Amendments to IAS 39: These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27): These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10, 'Consolidated Financial Statements'. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.
- IAS 36, 'Impairment of assets' (amendment): The IASB has amended IAS 36 to (i) remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment; (ii) to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and (iii) to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. The amendments will impact all preparers who recognize or reverse an impairment loss on non-financial assets.
- IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued.

The adoption of the above amendments did not have a significant impact on the Bank's financial position or performance.

2.3 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- *IFRS 14 Regulatory Deferral Accounts*
- *IAS 19 Defined Benefit Plans: Employee Contributions (Amendments)*
- *IFRS 2 Share-based Payment (improvements)*
- *IFRS 3 Business Combinations (improvements)*
- *IFRS 8 Operating Segments (improvements)*
- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (improvements)*
- *IAS 24 Related Party Disclosures (improvements)*
- *IFRS 3 Business Combinations (improvements)*
- *IFRS 13 Fair Value Measurement (improvements)*
- *IAS 40 Investment Property (improvements)*
- *IFRS 15 Revenue from Contracts with Customers (Amendments)*
- *IFRS 11 Joint Arrangements: Accounting for Acquisitions of interests*
- *IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments)*
- *IAS 27: Equity Method in Separate Financial Statements (Amendments)*

These amendments will not have any impact on the Branch's financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

(1) Foreign currency translation

The financial statements are presented in Lebanese Lira which is the bank's presentation currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income or loss" in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment, at which time they are recognized in the income statement.

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

(2) Financial assets and financial liabilities

(i) Recognition and initial measurement

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

At inception a financial asset is classified as measured at amortized cost or fair value.

Amortized cost

A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal and interest.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Bank makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective 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 these policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus 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 or are sold shortly after acquisition or an extended time before maturity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned or incurred using the effective interest rate, and dividend income is recorded in "Net trading income" when the right to the payment has been established.

Financial assets at fair value through other comprehensive income

Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

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

Dividends on these investments are recognized under "Revenues from financial assets at fair value through other comprehensive income" in the income statement when the entity's right to receive payment of dividend is established in accordance with IAS 18: "Revenue", unless the dividends clearly represent a recovery of part of the cost of the investment.

(iii) Reclassification

Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except when the Bank changes its business model for managing financial assets.

The Bank shall not reclassify any financial liability.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortized cost.

(iv) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from, the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assume) is recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(iv) Derecognition (continued)

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vii) Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructuring and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognized in the income statement.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(vii) Impairment of financial assets (continued)

(i) Financial assets carried at amortized cost (continued)

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense".

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank's and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(viii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(viii) Fair value measurement (continued)

The best of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially obtained from a valuation model subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.

(3) Recognition of income and expenses

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

(i) Interest and similar income and expenses

For all financial instruments measured at amortized cost, and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(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.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(4) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement cash flows comprise balances with original maturities of a period of three months or less.

(5) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Replacements or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(5) Property and equipment (continued)**

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:

Computer equipment	5 years
Office furniture and equipment	12.5 years
Vehicles	10 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial period and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the income statement as an expense.

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net profit from sale or disposal of other assets" in the income statement in the year the asset is derecognized.

(6) Intangible assets

The Bank's other intangible assets include the value of software license. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

Software	5 years
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(7) Asset management

The bank provides asset management services to its clients. The related assets are not recorded on the Bank's statement of financial position but are recorded as off-balance sheet items.

(8) Investment in associates

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

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

The Bank's investments in its associate is accounted for using the equity method

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(9) Retirement benefits obligation

End-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

(10) Provision for risks and charges

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement

2.5 Significant accounting judgments and estimates

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

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Business model

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.

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

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

Contractual cash flows of financial assets

The Bank exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.5 Significant accounting judgments and estimates (continued)***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, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in the notes.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

3 INTEREST AND SIMILAR INCOME

	2014 LL (000)	2013 LL (000)
Debt instruments at amortized cost	2,535,672	2,477,130
Deposits with banks	170,994	29,986
Loans and advances to customers at amortized cost	589,421	22,279
Loans and advances to related parties at amortized cost	100,680	-
	<u>3,396,767</u>	<u>2,529,395</u>

4 INTEREST AND SIMILAR EXPENSE

	2014 LL (000)	2013 LL (000)
Deposits with banks and financial institutions	91,327	1,598
Customers' deposits at amortized cost	488,489	76,186
Related parties' deposits at amortized cost	4,287,013	322,438
	<u>4,866,829</u>	<u>400,222</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

5 NET FEE AND COMMISSION INCOME

	<i>2014</i>	<i>2013</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Commission income	812,757	958,808
Commission expenses	(143,623)	(93,790)
	<u>669,134</u>	<u>865,018</u>

Commission income includes an amount of LL (000) 480,388 representing revenues from advisory services provided by the Bank to different clients for the year ended 31 December 2014 (2013: LL (000) 752,896).

6 NET GAIN ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2014</i>	<i>2013</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Interest and similar income from debt instruments at fair value through profit or loss	4,586,678	165,848
Net (loss) gain on foreign exchange	(156,579)	35,693
Net unrealized revaluation gain on financial assets designated at fair value through profit or loss	953,771	557,120
Net realized gain on financial assets designated at fair value through profit or loss (Note12)	1,706,566	162,822
	<u>7,090,436</u>	<u>921,483</u>

7 PERSONNEL EXPENSES

	<i>2014</i>	<i>2013</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Salaries and wages	1,225,462	823,173
Social security costs	167,553	119,373
Chairman and General Manager remunerations	678,375	527,625
Committee remuneration	226,125	-
Transportation allowances	51,200	33,229
Insurance	58,677	34,651
Other employee benefits	83,271	45,939
End of service indemnity	18,623	-
	<u>2,509,286</u>	<u>1,583,990</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

8 OTHER OPERATING EXPENSES

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Travel expenses	434,301	312,487
Telecommunication charges	37,308	32,848
Professional fees	613,259	397,137
Registration fees	245,780	146,116
Rent expenses	507,399	212,611
Insurance expenses	51,004	41,387
Repair and maintenance	67,827	14,894
Advertising fees	113,393	8,658
Taxes and charges	444,965	106,724
Stationary and office supplies	27,451	37,089
Donations	31,958	1,021
Refreshments and entertainment	104,124	60,562
Other expenses	187,547	99,627
	<u>2,866,316</u>	<u>1,471,161</u>

9 INCOME TAX

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank is exempt from income taxes stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years

10 CASH AND BALANCES WITH THE CENTRAL BANK

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Cash on hand	2,049	2,406
Central Bank of Lebanon:		
- Current accounts	1,858,256	42,725
- Term deposits	13,266,550	9,813,825
	<u>15,126,855</u>	<u>9,858,956</u>

Term deposits at the Central Bank of Lebanon include two placements of US\$ 2 million each and a placement of US\$ 3 million (2013: two placements of US\$ 2 million each and a placement of US\$ 2.51 million) with interest rates ranging between 0.19% and 0.28% (2013: 0.12% and 0.28%) to cover the regulatory reserve required by the Central Bank of Lebanon.

11 DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Banks - current accounts	888,467	1,258,268
	<u>888,467</u>	<u>1,258,268</u>

Deposits with banks and financial institutions consist of balances with an original maturity of less than 3 months.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 LL (000)	2013 LL (000)
Lebanese certificate of deposits	40,692,236	23,260,010
Lebanese treasury bills – denominated in Lebanese Lira	34,818,363	659,138
Lebanese treasury bills - Eurobonds	20,972,970	16,979,908
	<u>96,483,569</u>	<u>40,899,056</u>

*Certificate of deposits – 31 December 2014**Certificate of deposits denominated in US Dollar*

<i>Maturity date</i>	<i>Nominal amount USD</i>	<i>Interest rate</i>	<i>Cost USD</i>	<i>Fair value USD</i>	<i>Unrealized gain (loss) USD</i>
10 December 2023	4,000,000	7.24%	4,000,000	4,249,400	249,400
5 August 2029	20,000,000	7.10%	20,000,000	20,000,000	-
			<u>24,000,000</u>	<u>24,249,400</u>	<u>249,400</u>
			Equivalent in LL (000)	36,555,971 892,406	375,971
Accrued interest receivable				<u>37,448,377</u>	

Certificate of deposits denominated in Lebanese Lira

<i>Maturity date</i>	<i>Nominal amount LL (000)</i>	<i>Interest rate</i>	<i>Cost LL (000)</i>	<i>Fair value LL (000)</i>	<i>Unrealized gain (loss) LL (000)</i>
5 March 2026	3,000,000	8.74%	3,000,000	3,168,945	168,945
				<u>74,914</u>	
Accrued interest receivable				<u>3,243,859</u>	
				<u>40,692,236</u>	

Certificate of deposits – 31 December 2013

<i>Maturity date</i>	<i>Nominal amount USD</i>	<i>Interest rate</i>	<i>Cost USD</i>	<i>Fair value USD</i>	<i>Unrealized gain (loss) USD</i>
10 December 2023	15,000,000	7.24%	15,000,000	15,366,176	366,176
			<u>15,000,000</u>	<u>15,366,176</u>	<u>366,176</u>
			Equivalent in LL (000)	23,164,510 95,500	552,010
Accrued interest receivable				<u>23,260,010</u>	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Lebanese Treasury Bills denominated in Lebanese Lira

<i>31 December 2014</i>					
<i>Maturity date</i>	<i>Nominal amount LL (000)</i>	<i>Coupon rate</i>	<i>Cost LL (000)</i>	<i>Fair Value LL (000)</i>	<i>Unrealized gain (loss) LL (000)</i>
8 September 2022	7,500	8.24%	7,800	7,921	121
13 June 2024	5,500,000	7.98%	5,500,000	5,604,168	104,168
24 October 2024	2,000,000	7.98%	2,000,000	2,033,326	33,326
24 October 2024	15,000,000	7.98%	15,080,160	15,249,946	169,786
11 September 2025	2,000,000	8.74%	2,087,504	2,128,272	40,768
30 October 2025	4,500,000	8.74%	4,568,108	4,778,780	210,672
30 October 2025	1,873,500	8.74%	1,899,085	1,989,565	90,480
30 October 2025	2,500,000	8.74%	2,537,838	2,654,878	117,040
			33,680,495	34,446,856	766,361
Accrued interest receivable				371,507	
				34,818,363	

Lebanese Treasury Bills denominated in Lebanese Lira

<i>31 December 2013</i>					
<i>Maturity date</i>	<i>Nominal amount LL (000)</i>	<i>Coupon rate</i>	<i>Cost LL (000)</i>	<i>Fair Value LL (000)</i>	<i>Unrealized gain (loss) LL (000)</i>
25 May 2023	35,300	8.24%	35,574	35,598	24
11 September 2025	104,500	8.74%	105,721	104,948	(773)
11 September 2025	500,000	8.74%	505,003	504,315	(688)
			646,298	644,861	(1,437)
Accrued interest receivable				14,277	
				659,138	

Lebanese Treasury Bills – Eurobonds

<i>31 December 2014</i>					
<i>Maturity date</i>	<i>Nominal amount USD</i>	<i>Coupon rate</i>	<i>Cost USD</i>	<i>Fair value USD</i>	<i>Unrealized gain (loss) USD</i>
9 March 2020	32,000	6.38%	31,840	33,457	1,617
9 March 2020	15,000	6.38%	15,788	15,683	(105)
9 March 2020	85,000	6.38%	88,400	88,871	471
9 March 2020	77,000	6.38%	80,850	80,507	(343)
4 October 2022	106,000	6.1%	104,410	108,202	3,792
4 October 2022	7,000	6.1%	7,140	7,145	5
27 January 2023	168,000	6%	171,360	169,697	(1,663)
12 June 2025	1,000,000	6.25%	1,000,000	1,006,610	6,610
12 June 2025	85,000	6.25%	85,000	85,562	562
12 June 2025	4,000,000	6.25%	4,000,000	4,026,440	26,440
27 November 2026	2,000,000	6.6%	2,077,500	2,049,620	(27,880)
27 November 2026	4,000,000	6.6%	4,155,000	4,099,240	(55,760)
29 November 2027	2,000,000	6.75%	2,096,000	2,066,420	(29,580)
			13,913,288	13,837,454	(75,834)
			Equivalent in LL (000)	20,859,961	(114,320)
Accrued interest receivable				113,009	
				20,972,970	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)*Lebanese Treasury Bills – Eurobonds*

<i>Maturity date</i>	<i>31 December 2013</i>				
	<i>Nominal amount USD</i>	<i>Coupon rate</i>	<i>Cost USD</i>	<i>Fair value USD</i>	<i>Unrealized gain (loss) USD</i>
28 November 2019	450,000	5.45%	433,125	441,527	8,402
9 March 2020	76,000	6.38%	75,620	77,927	2,307
12 November 2022	288,000	6.10%	283,680	282,378	(1,302)
27 January 2023	10,000,000	6.00%	9,690,000	9,685,300	(4,700)
27 January 2023	16,000	6.00%	15,080	15,496	416
27 November 2026	500,000	6.60%	496,250	495,470	(780)
			10,993,755	10,998,098	4,343
			Equivalent in LL (000)	16,579,633	6,547
Accrued interest receivable				400,275	
				16,979,908	

During the year ended 31 December 2014, The bank sold Treasury bills, Eurobonds and certificate of deposits and realized a net gain of LL(000) 1,706,566 (2013:LL (000) 162,822) that was recorded under net gain on financial assets designated at Fair value through profit or loss (note 6).

13 INVESTMENT IN AN ASSOCIATE

During the year 2014, the Bank acquired 286,504 shares in “Peterhouse Corporated Finance Limited” a company based in the United Kingdom representing 21.19% of the company’s total shares.

The balance of the investment in this associate amounted to LL (000) 1,431,312 as at 31 December 2014 (2013: nil) and the Bank’s share of profits amounted to LL (000) 175,631 for the year ended 31 December 2014 (2013: nil).

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income consists of the following:

<i>Company</i>	<i>2014</i>			<i>2013</i>		
	<i>Carrying amount LL (000)</i>	<i>Cumulative change in fair value LL (000)</i>	<i>Dividend Income LL (000)</i>	<i>Carrying amount LL (000)</i>	<i>Cumulative change in fair value LL (000)</i>	<i>Dividend income LL (000)</i>
Ace Liberty & Stone PLC	1,805,603	(25,205)	12,294	1,476,063	444,413	-
Lot 78 Inc	219,456	(499,177)	-	-	-	-
	2,025,059	(524,382)	12,294	1,476,063	444,413	-

15 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	<i>2014 LL (000)</i>	<i>2013 LL (000)</i>
Term loans	9,053,303	8,304,553

Term loans have maturities exceeding 6 months and generate interest at a rate ranging between 4.50% and 7%.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

16 FINANCIAL ASSETS AT AMORTIZED COST

	2014 LL (000)	2013 LL (000)
Lebanese treasury bills – denominated in Lebanese Lira	19,530,201	19,616,520
Lebanese treasury bills – Eurobonds	19,776,073	19,797,804
	<u>39,306,274</u>	<u>39,414,324</u>

Lebanese Treasury Bills denominated in Lebanese Lira as at 31 December 2014

<i>Maturity date</i>	<i>Nominal amount LL (000)</i>	<i>Coupon rate</i>	<i>Amortized cost LL (000)</i>
2 July 2015	500,000	6.16%	499,117
2 July 2015	500,000	6.16%	499,117
27 August 2015	2,000,000	6.18%	1,993,937
3 September 2015	3,000,000	6.50%	3,001,253
18 December 2017	3,000,000	7.90%	3,103,355
12 April 2018	3,000,000	7.90%	3,096,807
8 October 2020	1,500,000	7.80%	1,520,473
18 October 2020	2,500,000	7.80%	2,500,148
8 September 2022	3,000,000	8.24%	3,005,564
			<u>19,219,771</u>
Accrued interest receivable			<u>310,430</u>
			<u>19,530,201</u>

Lebanese Treasury Bills denominated in Lebanese Lira as at 31 December 2013

<i>Maturity date</i>	<i>Nominal amount LL (000)</i>	<i>Coupon rate</i>	<i>Amortized cost LL (000)</i>
2 July 2015	500,000	6.16%	499,811
2 July 2015	500,000	6.16%	499,811
27 August 2015	2,000,000	6.18%	1,996,010
3 September 2015	3,000,000	6.50%	3,011,028
18 December 2017	3,000,000	7.90%	3,115,960
12 April 2018	3,000,000	7.90%	3,118,938
8 October 2020	1,500,000	7.80%	1,528,163
18 October 2020	2,500,000	7.80%	2,504,587
8 September 2022	3,000,000	8.24%	3,011,592
			<u>19,285,900</u>
Accrued interest receivable			<u>330,620</u>
			<u>19,616,520</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

16 FINANCIAL ASSETS AT AMORTIZED COST (continued)

Lebanese Treasury Bills – Eurobonds as at 31 December 2014

<i>Maturity date</i>	<i>Nominal amount US\$</i>	<i>Coupon rate</i>	<i>Amortized cost US\$</i>
12 October 2017	1,000,000	5.00%	1,001,353
4 October 2022	3,000,000	6.10%	3,043,323
27 January 2023	2,000,000	6.00%	2,048,834
27 November 2026	1,800,000	6.60%	1,826,649
29 November 2027	1,000,000	6.75%	1,008,775
29 November 2027	1,000,000	6.75%	1,006,879
29 November 2027	1,000,000	6.75%	1,006,879
29 November 2027	2,000,000	6.75%	2,044,248
			12,986,940
		Equivalent to LL (000)	19,577,813
Accrued interest receivable			198,260
			19,776,073

Lebanese Treasury Bills – Eurobonds as at 31 December 2013

<i>Maturity date</i>	<i>Nominal amount US\$</i>	<i>Coupon rate</i>	<i>Amortized cost US\$</i>
12 October 2017	1,000,000	5.00%	1,001,515
4 October 2022	3,000,000	6.10%	3,050,056
27 January 2023	2,000,000	6.00%	2,050,020
27 November 2026	1,800,000	6.60%	1,827,693
29 November 2027	1,000,000	6.75%	1,008,897
29 November 2027	1,000,000	6.75%	1,007,211
29 November 2027	1,000,000	6.75%	1,007,158
29 November 2027	2,000,000	6.75%	2,046,769
			12,999,319
		Equivalent to LL (000)	19,596,473
Accrued interest receivable			201,331
			19,797,804

17 PROPERTY AND EQUIPMENT

	<i>Computer hardware LL (000)</i>	<i>Motor vehicle LL (000)</i>	<i>Furniture and fixture LL (000)</i>	<i>Equipment LL (000)</i>	<i>Advances on property and equipment LL (000)</i>	<i>Total LL (000)</i>
Cost :						
At 1 January 2014	362,545	65,441	411,188	46,881	5,444	891,499
Additions	67,342	-	449,462	33,527	250,389	800,720
Transfers	-	-	-	-	(5,444)	(5,444)
Disposals	(535)	-	(44,249)	-	-	(44,784)
At 31 December 2014	429,352	65,441	816,401	80,408	250,389	1,641,991
Depreciation:						
As at 1 January 2014	(61,760)	(8,135)	(20,214)	(3,017)	-	(93,126)
Charge for the year	(80,134)	(6,545)	(51,109)	(4,722)	-	(142,510)
Relating to disposals	-	-	1,838	-	-	1,838
At 31 December 2014	(141,894)	(14,680)	(69,485)	(7,739)	-	(233,798)
Net carrying amount:						
At 31 December 2014	287,458	50,761	746,916	72,669	250,389	1,408,193

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For the year ended 31 December 2014

17 PROPERTY AND EQUIPMENT (continued)

	Computer hardware LL (000)	Motor vehicle LL (000)	Furniture and fixture LL (000)	Equipment LL (000)	Advances on property and equipment LL (000)	Total LL (000)
Cost:						
At 1 January 2013	199	65,441	45,053	13,631	314,000	438,324
Additions	70,500	-	366,798	13,239	3,301	453,838
Transfers	291,846	-	-	20,011	(311,857)	-
Disposals	-	-	(663)	-	-	(663)
At 31 December 2013	362,545	65,441	411,188	46,881	5,444	891,499
Depreciation:						
As at 1 January 2013	(1)	(1,609)	(942)	(96)	-	(2,648)
Charge for the year	(61,759)	(6,526)	(19,292)	(2,921)	-	(90,498)
Relating to disposals	-	-	20	-	-	20
At 31 December 2013	(61,760)	(8,135)	(20,214)	(3,017)	-	(93,126)
Net carrying amount:						
At 31 December 2013	300,785	57,306	390,974	43,864	5,444	798,373

Advances on property and equipment represents mainly advances against computer software amounting to LL (000) 250,389 (2013: LL (000) 5,444) as at 31 December 2014. During the year ended 31 December 2014 an amount of LL (000) 5,444 were transferred to intangible assets.

18 INTANGIBLE ASSETS

	Software	
	2014 LL (000)	2013 LL (000)
Cost:		
Balance as at 1 January	374,595	24,144
Additions during the year	89,483	350,451
Transfers	5,444	-
At 31 December	469,522	374,595
Amortization:		
Balance as at 1 January	(63,383)	-
Charge for the year	(80,143)	(63,383)
At 31 December	(143,526)	(63,383)
Net carrying amount:		
At 31 December	325,996	311,212

19 OTHER ASSETS

	2014 LL (000)	2013 LL (000)
Mandatory deposit with the Lebanese Treasury (a)	4,500,100	4,500,000
Receivables from advisory services	242,684	401,050
Prepayments	195,660	138,756
Advances on wages and salaries	89,698	12,762
Due from shareholders (note 28)	-	70,099
Others	38,323	7,086
	5,066,465	5,129,753

(a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution date (according to paragraph b of Article 132 of the Code of Money and Credit) which will only be recovered upon the Bank's liquidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

20 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Sight deposits	3,030,589	744,765

21 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Current accounts	1,778,916	480,550
Term deposits	13,979,707	4,135,244
Accrued interest	153,183	26,938
	<u>15,911,806</u>	<u>4,642,732</u>

22 DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Current accounts	1,445,316	9,070
Term deposits	90,376,708	57,547,776
Accrued interest	1,352,630	282,294
	<u>93,174,654</u>	<u>57,839,140</u>

23 OTHER LIABILITIES

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Due to the National Social Security Fund	4,894	26,825
Taxes on salaries and remunerations	69,405	39,421
Payable to committee	135,675	-
Subscriptions and other payables	323,728	75,028
Other taxes payable	147,584	24,025
Accrued charges	121,519	156,679
	<u>802,805</u>	<u>321,978</u>

24 SHARE CAPITAL

	<i>Authorized, issued and fully paid</i>	
	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
600,000 shares of a nominal value of LL (000) 100 each (2013:450,000 shares of nominal value LL (000) 100 each)	60,000,000	45,000,000

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For the year ended 31 December 2014

24 SHARE CAPITAL (continued)

The extraordinary general assembly meeting held on 3 April 2014 resolved to reconstitute the bank's capital to cover the losses incurred during the year 2012 by first decreasing it from LL (000) 45,000,000 to LL (000) 42,739,426 and then increasing it back to LL (000) 45,000,000. The increase and decrease is considered as a single operation taking place simultaneously on an undivided basis.

The Bank of Lebanon approved the reconstitution transaction on 25 June 2014.

The extraordinary general assembly further approved, the increase of the bank's share capital from LL (000) 45,000,000 to LL (000) 60,000,000 through issuing 150,000 shares of a nominal value of LL (000) 100 each.

As at 31 December 2014, the additional shares were issued and fully paid.

25 RESERVES

- Non-Distributable reserves

a) Reserve for general banking risks

According to the Central Bank of Lebanon regulations, banks in Lebanon are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25 percent of these risks at the end of year ten (2017) and 2 percent at the end of year twenty (2027). This reserve is part of the Bank's equity and cannot be distributed as dividends. This reserve amounted to LL (000) 212,005 as at 31 December 2014 (2013: nil).

b) Legal reserve

As required by the Lebanese Code of Commerce and the Bank's articles of association, 10% of the net profit for the year has to be transferred to legal reserve. An amount of LL (000) 70,667 was transferred to legal reserve for the year ended 31 December 2014 (2013: nil). This reserve is not available for distribution.

- Distributable reserve

c) General reserve

In accordance with the General Assembly decisions, the Bank appropriated general reserve from profits of previous years. This reserve amounting to LL (000) 423,990 as at 31 December 2014 (2013: nil) is available for distribution.

26 CUMULATIVE CHANGES IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2014</i>	<i>2013</i>
	<i>LL (000)</i>	<i>LL (000)</i>
Balance at 1 January	444,413	-
Net unrealized (loss) gain on financial assets at fair value through other comprehensive income	(524,382)	444,413
Balance at 31 December	<u>(79,969)</u>	<u>444,413</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Fiduciary deposits	16,689,829	25,922,041
Checks for collection	-	124,368
Financial instruments under custody	43,670,797	19,198,846
	<u>60,360,626</u>	<u>45,245,255</u>

28 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled or significantly influenced by such parties.

Transactions with related parties included in the statement of comprehensive income are as follows:

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Chairman and General Manager remuneration (note 7)	(678,375)	(527,625)
Interest expense on related parties deposits (note 4)	(4,287,013)	(322,438)
Commission income on shareholders transactions	-	140,576
Interest income on related parties loans (note 3)	100,680	-

Balances with related parties included in the statement of financial position are as follows:

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Commission income due from shareholders (note 19)	-	70,099
Deposits from related parties at amortized cost (note 22)	93,174,654	57,839,140
Loans and advances to related parties at amortized cost	3,330,617	-

29 CASH AND CASH EQUIVALENTS

	<i>2014</i> <i>LL (000)</i>	<i>2013</i> <i>LL (000)</i>
Cash	2,049	2,407
Deposits with banks with original maturity less than 3 months	2,746,724	1,300,992
Due to banks with original maturity less than 3 months	(3,030,589)	(744,765)
	<u>(281,816)</u>	<u>558,634</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

30 COMMITMENTS AND CONTINGENCIES

	2014 LL (000)	2013 LL (000)
Future minimum lease payments:		
Within one year	270,900	220,834
After one year but not more than five years	284,031	263,681
Total operating lease contracted for at the statement of financial position date	<u>554,931</u>	<u>484,515</u>

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2014		
	Level 1 LL (000)	Level 2 LL (000)	Total LL (000)
Financials assets at fair value through profit or loss:			
Lebanese treasury bills – Eurobonds	20,972,970	-	20,972,970
Lebanese treasury bills denominated in Lebanese Lira	-	34,818,363	34,818,363
Lebanese certificate of deposits	-	40,692,236	40,692,236
	<u>20,972,970</u>	<u>75,510,599</u>	<u>96,483,569</u>
	2013		
	Level 1 LL (000)	Level 2 LL (000)	Total LL (000)
Financials assets at fair value through profit or loss:			
Lebanese treasury bills – Eurobonds	16,979,908	-	16,979,908
Lebanese treasury bills denominated in Lebanese Lira	-	659,138	659,138
Lebanese certificate of deposits	-	23,260,010	23,260,010
	<u>16,979,908</u>	<u>23,919,148</u>	<u>40,899,056</u>

The following table shows an analysis of financial instruments not carried at fair value by the level of fair value hierarchy:

	2014		
	Level 1 LL (000)	Level 2 LL (000)	Total LL (000)
Assets for which fair values are disclosed			
Cash and balances with the Central Bank	2,049	15,124,806	15,126,855
Deposits with banks and financial institutions	-	888,467	888,467
Financial assets at amortized cost	19,776,073	19,530,201	39,306,274
Investment in an associate	-	1,431,312	1,431,312
Loans and advances to customers at amortized cost	-	9,053,303	9,053,303
Loans and advances to related parties at amortized cost	-	3,330,617	3,330,617
Liabilities for which fair values are disclosed			
Due to banks and financial institutions	-	3,030,589	3,030,589
Customers' deposits at amortized cost	-	15,911,806	15,911,806
Deposits from related parties at amortized cost	-	93,174,654	93,174,654

NOTES TO THE FINANCIAL STATEMENTS

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Determination of fair value and fair value hierarchy (continued)**

	2013		
	Level 1 LL (000)	Level 2 LL (000)	Total LL (000)
Assets for which fair values are disclosed			
Cash and balances with the Central Bank	2,406	9,856,550	9,858,956
Deposits with banks and financial institutions	-	1,258,268	1,258,268
Financial assets at amortized cost	19,797,804	19,616,520	39,414,324
Loans and advances to customers at amortized cost	-	8,304,553	8,304,553
Liabilities for which fair values are disclosed			
Due to banks and financial institutions	-	744,765	744,765
Customers' deposits at amortized cost	-	4,642,732	4,642,732
Deposits from related parties at amortized cost	-	57,839,140	57,839,140

There were no transfers between levels during 2014 (2013: the same).

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

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

This category includes liquid government and corporate bonds actively traded through an exchange or clearing house, and actively traded listed equities.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market, that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

This category includes liquid government and corporate bonds and certificates of deposit, less actively traded through an exchange or clearing house, non-listed equities and foreign exchange swaps and forwards.

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). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2)**Lebanese government treasury bills**

The Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

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31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2) (continued)*Loans and advances to banks and financial institutions and customers*

The fair value of loans and advances is determined using valuation models which incorporate a range of assumptions. Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of valuation outputs. This approach is used mainly in Retail Banking by applying derived market interest rates on expected cash flows. These valuation techniques also consider expected credit losses and changes to behavioural profiles. For Corporate Banking, the fair value is determined by applying a credit spread for the counterparty. Credit spreads are based on regional and industry segments and take the contractual maturity of the loan facilities into consideration. In the absence of counterparty rating, the average of regional and industry segmental credit spreads are applied to the contractual maturity of the loan.

Deposits by banks and customers' accounts

For the purpose of estimating fair value, deposits by banks and customers are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the financial position date.

Assets and liabilities not carried at fair value, for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

The following table shows the difference between the carrying values and fair values for the financial assets and liabilities in the statement of financial position. This table does not show the fair values of non-financial assets and liabilities.

	2014			2013		
	Carrying value LL (000)	Fair value LL (000)	Difference LL (000)	Carrying value LL (000)	Fair value LL (000)	Difference LL (000)
Financial assets						
Cash and balances with the Central Bank	15,126,855	15,126,855	-	9,858,956	9,858,956	-
Deposits with banks and financial institutions	888,467	888,467	-	1,258,268	1,258,268	-
Financial assets at fair value through profit or loss	96,483,569	96,483,569	-	40,899,056	40,899,056	-
Financial assets at fair value through other comprehensive income	2,025,059	2,025,059	-	1,476,063	1,476,063	-
Investment in associate	1,431,312	1,431,312	-	-	-	-
Loans and advances to customers at amortized cost	9,053,303	9,053,303	-	8,304,553	8,304,553	-
Loans and advances to related parties at amortized cost	3,330,617	3,330,617	-	-	-	-
Financial assets at amortized cost	39,306,274	39,846,979	540,705	39,414,324	38,997,262	(417,062)
Other assets	5,066,465	5,066,465	-	5,129,753	5,129,753	-
	<u>172,711,921</u>	<u>173,252,626</u>	<u>540,705</u>	<u>106,340,973</u>	<u>105,923,911</u>	<u>(417,062)</u>
Financial liabilities						
Due to banks and financial institutions	3,030,589	3,030,589	-	744,765	744,765	-
Customers' deposits at amortized cost	15,911,806	15,911,806	-	4,642,732	4,642,732	-
Deposits from related parties at amortized cost	93,174,654	93,174,654	-	57,839,140	57,839,140	-
Provision for end of service indemnity	18,623	18,623	-	-	-	-
Provision for risks and charges	1,762	1,762	-	11,442	11,442	-
Other liabilities	802,805	802,805	-	321,978	321,978	-
	<u>112,940,239</u>	<u>112,940,239</u>	<u>-</u>	<u>63,560,057</u>	<u>63,560,057</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

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32 RISK MANAGEMENT

32.1 Introduction

Risk is inherent in the Bank's activities. The Bank is exposed to credit risk, liquidity risk, prepayment risk, operating risk and market risk. The Board of Directors is ultimately responsible for identifying and controlling risks.

32.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties.

Risk concentrations, maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The following table shows the maximum exposure to credit risk for the components of the statement of financial position by geography. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

	2014		
	Resident LL (000)	Non resident LL (000)	Gross maximum exposure LL (000)
Balances with the Central Bank	15,124,806	-	15,124,806
Deposits with banks and financial institutions	888,467	-	888,467
Financial assets at fair value through profit or loss	96,483,569	-	96,483,569
Loans and advances to customers at amortized cost	8,285,122	768,181	9,053,303
Loans and advances to related parties at amortized cost	754,692	2,575,925	3,330,617
Financial assets at amortized cost	39,306,274	-	39,306,274
Total credit exposure	160,842,930	3,344,106	164,187,036
	2013		
	Resident LL (000)	Non resident LL (000)	Gross maximum Exposure LL (000)
Balances with the Central Bank	9,856,550	-	9,856,550
Deposits with banks and financial institutions	1,258,268	-	1,258,268
Financial assets at fair value through profit or loss	40,899,056	-	40,899,056
Loans and advances to customers at amortized cost	7,558,019	746,534	8,304,553
Financial assets at amortized cost	39,414,324	-	39,414,324
Total credit exposure	98,986,217	746,534	99,732,751

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal and external credit ratings. The credit quality of loans and advances is managed using internal credit ratings as well as Supervisory ratings in accordance with Central Bank of Lebanon main circular 58.

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For the year ended 31 December 2014

32 RISK MANAGEMENT (continued)**32.2 CREDIT RISK (continued)****Credit quality per class of financial assets (continued)**

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system.

	2014				
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i> LL (000)	<i>Individually impaired</i> LL (000)	<i>Total</i> LL (000)
	<i>High-grade</i> LL (000)	<i>Standard grade</i> LL (000)			
Balances with the central banks	15,124,806	-	-	-	15,124,806
Deposits with banks and financial institutions	-	888,467	-	-	888,467
<i>Financial assets at fair value through profit or loss:</i>					
Lebanese government bonds	55,971,333	-	-	-	55,971,333
Lebanese Certificates of deposit	40,692,236	-	-	-	40,692,236
Loans and advances to customers at amortized cost:		9,053,303	-	-	9,053,303
Loans and advances to related parties at amortized costs	-	3,330,617	-	-	3,330,617
<i>Financial assets at amortized cost:</i>					
Lebanese government bonds	39,306,274	-	-	-	39,306,274
	<u>151,094,649</u>	<u>13,272,387</u>	<u>-</u>	<u>-</u>	<u>164,367,036</u>
	2013				
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i> LL (000)	<i>Individually impaired</i> LL (000)	<i>Total</i> LL (000)
	<i>High-grade</i> LL (000)	<i>Standard grade</i> LL (000)			
Balances with the central banks	9,856,550	-	-	-	9,856,550
Deposits with banks and financial institutions	-	1,258,268	-	-	1,258,268
<i>Financial assets at fair value through profit or loss:</i>					
Lebanese government bonds	17,639,046	-	-	-	17,639,046
Lebanese Certificates of deposit	23,260,010	-	-	-	23,260,010
Loans and advances to customers at amortized cost:		8,304,553	-	-	8,304,553
<i>Financial assets at amortized cost:</i>					
Lebanese government bonds	39,414,324	-	-	-	39,414,324
	<u>90,169,930</u>	<u>9,562,821</u>	<u>-</u>	<u>-</u>	<u>99,732,751</u>

32.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

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. To limit this risk, management has arranged diversified funding sources in addition to its capital base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

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32 RISK MANAGEMENT (continued)

32.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December.

	31 December 2014					
	Up to 1 month LL (000)	1 to 3 months LL (000)	3 to 12 months LL (000)	1 to 5 years LL (000)	Over 5 years LL (000)	Total LL (000)
Financial assets						
Cash and balances with Central Bank	4,574,355	4,522,500	6,030,000	-	-	15,126,855
Deposits with banks and financial institutions	888,467	-	-	-	-	888,467
Financial assets at fair value through profit or loss	1,451,837	-	-	-	95,031,732	96,483,569
Financial assets at fair value through other comprehensive income	-	-	-	-	2,025,059	2,025,059
Investment in an associate	-	-	-	-	1,431,312	1,431,312
Loans and advances to customers and related parties at amortized cost	45,878	-	-	13,175,427	123,615	13,344,920
Financial assets at amortized cost	121,250	282,900	8,232,023	15,717,995	32,947,720	57,301,888
Total undiscounted financial assets	7,081,787	4,805,400	14,262,023	28,893,422	131,559,438	186,602,070
Financial liabilities						
Due to banks and financial institutions	3,030,589	-	-	-	-	3,030,589
Customers' deposits at amortized cost	3,485,057	4,734,665	7,692,084	-	-	15,911,806
Deposits from related parties at amortized cost	31,569,925	57,876,199	3,728,530	-	-	93,174,654
Total undiscounted financial liabilities	38,085,571	62,610,864	11,420,614	-	-	112,117,049
Net undiscounted financial assets	(31,003,784)	(57,805,464)	2,841,409	28,893,422	131,559,438	74,485,021
	31 December 2013					
	Up to 1 month LL (000)	1 to 3 months LL (000)	3 to 12 months LL (000)	1 to 5 years LL (000)	Over 5 years LL (000)	Total LL (000)
Financial assets						
Cash and balances with Central Bank	3,828,956	-	6,030,000	-	-	9,858,956
Deposits with banks and financial institutions	1,258,268	-	-	-	-	1,258,268
Financial assets at fair value through profit or loss	452,974	27,851	2,748,527	10,903,780	54,032,422	68,165,554
Financial assets at fair value through other comprehensive income	-	-	-	-	1,476,063	1,476,063
Loans and advances to customers at amortized cost	-	140,285	420,855	8,843,404	-	9,404,544
Financial assets at amortized cost	-	280,550	2,884,820	22,469,704	34,330,599	59,965,673
Total undiscounted financial assets	5,540,198	448,686	12,084,202	42,216,888	89,839,084	150,129,058
Financial liabilities						
Due to banks and financial institutions	-	745,929	-	-	-	745,929
Customers' deposits at amortized cost	795,552	529,361	3,415,513	-	-	4,740,426
Deposits from related parties at amortized cost	86,140	2,094,356	57,217,570	-	-	59,398,066
Total undiscounted financial liabilities	881,692	3,369,646	60,633,083	-	-	64,884,421
Net undiscounted financial assets	4,658,506	(2,920,960)	(48,548,881)	42,216,888	89,839,084	85,244,637

32.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

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For the year ended 31 December 2014

32 RISK MANAGEMENT (continued)

32.4 MARKET RISK (continued)

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The bank's interest rate sensitivity gap based on the earlier of contractual repricing or maturity date at 31 December was as follows:

	31 December 2014					
	Up to 1 month LL (000)	1 to 3 months LL (000)	3 to 12 months LL (000)	1 to 5 years LL (000)	Over 5 years LL (000)	Total LL (000)
Financial assets						
Cash and balances with the Central Bank	9,096,855	-	6,030,000	-	-	15,126,855
Deposits with banks and financial institutions	888,467	-	-	-	-	888,467
Financial assets at fair value through profit or loss	-	1,451,835	-	329,416	94,702,318	96,483,569
Financial assets at fair value through other comprehensive income	-	-	-	-	2,025,059	2,025,059
Investment in an associate	-	-	-	-	1,431,312	1,431,312
Loans and advances to customers at amortized cost	-	-	8,260,659	732,016	60,628	9,053,303
Loans and advances to related parties at amortized cost	-	-	-	3,330,617	-	3,330,617
Financial assets at amortized cost	7,502,964	508,800	-	10,220,783	21,073,727	39,306,274
Total financial assets	17,488,286	1,960,635	14,290,659	14,612,832	119,293,044	167,645,456
Financial liabilities						
Due to banks and financial institutions	3,030,589	-	-	-	-	3,030,589
Customers' deposits at amortized cost	3,485,060	4,734,658	7,692,088	-	-	15,911,806
Deposits from related parties at amortized cost	31,569,925	57,876,199	3,728,530	-	-	93,174,654
Total financial liabilities	38,085,574	62,610,857	11,420,618	-	-	112,117,049
Net financial assets	(20,597,288)	(60,650,222)	2,870,041	14,612,832	119,293,044	55,528,407
	31 December 2013					
	Up to 1 month LL (000)	1 to 3 months LL (000)	3 to 12 months LL (000)	1 to 5 years LL (000)	Over 5 years LL (000)	Total LL (000)
Financial assets						
Cash and balances with the Central Bank	3,828,956	-	6,030,000	-	-	9,858,956
Deposits with banks and financial institutions	1,258,268	-	-	-	-	1,258,268
Financial assets at fair value through profit or loss	-	-	510,052	-	40,389,004	40,899,056
Financial assets at fair value through other comprehensive income	-	-	-	-	1,476,063	1,476,063
Loans and advances to customers at amortized cost	-	-	-	8,304,553	-	8,304,553
Financial assets at amortized cost	-	-	531,950	13,751,342	25,131,032	39,414,324
Total financial assets	5,087,224	-	7,072,002	22,055,895	66,996,099	101,211,220
Financial liabilities						
Due to banks and financial institutions	-	744,765	-	-	-	744,765
Customers' deposits at amortized cost	794,940	499,264	3,348,533	-	-	4,642,737
Deposits from related parties at amortized cost	85,973	2,078,855	55,674,312	-	-	57,839,140
Total financial liabilities	880,913	3,322,884	59,022,845	-	-	63,226,642
Net financial assets	4,206,311	(3,322,884)	(51,950,843)	22,055,895	66,996,099	37,984,578

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate financial assets and financial liabilities and to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rates, including the effect of hedging instruments.

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For the year ended 31 December 2014

32 RISK MANAGEMENT (continued)

32.4 MARKET RISK (continued)

(a) Interest rate risk (continued)

Interest rate sensitivity (continued)

Currency	Increase in basis points	2014	2013
		Effect on net interest income LL (000)	Effect on net interest income LL (000)
LBP	50 basis point	215,362	124,767
US Dollar	50 basis point	74,458	79,596
Other	50 basis point	17,709	15,139

(b) Currency risk

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

The Central Bank of Lebanon allows the Bank to maintain a net trading position, debit or credit, that does not exceed at any time 1% of net Tier 1 equity on condition that the global position does not exceed 40% of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

The following represents the breakdown of assets and liabilities by currency as at 31 December:

	2014				
	LL LL (000)	USD LL (000)	GBP LL (000)	EUR LL (000)	Total LL (000)
Assets					
Cash and balances with the Central Bank	98,681	15,022,332	3,846	1,996	15,126,855
Deposits with banks and financial institutions	434,926	248,501	-	205,040	888,467
Financial assets at fair value through profit or loss	38,062,222	58,421,347	-	-	96,483,569
Financial assets at fair value through other comprehensive income	-	219,456	1,805,603	-	2,025,059
Investment in an associate	-	-	1,431,312	-	1,431,312
Loans and advances to customers at amortized cost	-	7,863,606	1,189,697	-	9,053,303
Loans and advances to related parties at amortized cost	-	754,692	2,575,925	-	3,330,617
Financial assets at amortized cost	19,530,201	19,776,073	-	-	39,306,274
Property and equipment	1,378,659	29,534	-	-	1,408,193
Intangible assets	325,996	-	-	-	325,996
Other assets	4,190,365	751,987	124,113	-	5,066,465
Total assets	64,021,050	103,087,528	7,130,496	207,036	174,446,110
Liabilities and equity					
Liabilities					
Due to banks and financial institutions	-	271,602	2,759,203	-	3,030,805
Customers' deposits at amortized cost	1,730,533	13,611,329	381,312	188,632	15,911,806
Deposits from related parties at amortized cost	18,986,466	74,140,804	47,384	8	93,174,662
Other liabilities	211,279	172,318	419,208	-	802,805
Provision for risks and charges	20,385	-	-	-	20,385
Total liabilities	20,948,663	88,196,053	3,607,107	188,640	112,940,463
Net exposure	43,072,387	14,891,475	3,523,389	18,396	61,505,647

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For the year ended 31 December 2014

32 RISK MANAGEMENT (continued)**32.4 MARKET RISK (continued)****(b) Currency risk (continued)**

	2013				Total LL (000)
	LL LL (000)	USD LL (000)	GBP LL (000)	EUR LL (000)	
Assets					
Cash and balances with the Central Bank	44,397	9,814,559	-	-	9,858,956
Deposits with banks and financial institutions	126,707	256,560	874,917	84	1,258,268
Financial assets at fair value through profit or loss	659,137	40,239,919	-	-	40,899,056
Financial assets at fair value through other comprehensive income	-	-	1,476,063	-	1,476,063
Loans and advances to customers at amortized cost	-	7,558,019	746,534	-	8,304,553
Financial assets at amortized cost	19,616,520	19,797,804	-	-	39,414,324
Property and equipment	798,373	-	-	-	798,373
Intangible assets	311,212	-	-	-	311,212
Other assets	4,533,059	596,694	-	-	5,129,753
Total assets	26,089,405	78,263,555	3,097,514	84	107,450,558
Liabilities and equity					
Liabilities					
Due to banks and financial institutions	-	744,765	-	-	744,765
Customers' deposits at amortized cost	697,520	3,875,430	69,511	271	4,642,732
Deposits from related parties at amortized cost	213,088	57,626,052	-	-	57,839,140
Other liabilities	223,934	98,044	-	-	321,978
Provision for risks and charges	11,442	-	-	-	11,442
Total liabilities	1,145,984	62,344,291	69,511	271	63,560,057
Net exposure	24,943,421	15,919,264	3,028,003	(187)	43,890,501

The Bank's exposure to currency risk

Balances denominated in US Dollars are not considered to constitute a significant currency risk as the exchange rate of the Lebanese Lira against the US Dollar has remained stable in recent years.

As at 31 December 2014, the Bank's exposure to major currencies comprise the Sterling Pound in the amount equivalent to LL (000) 3,523,389 (2013: LL (000) 3,028,003).

A 5% change in the foreign exchange rate of the Sterling pound against the Lebanese Lira would not have a significant impact on the bank's profit or loss.

32.5 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 it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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For the year ended 31 December 2014

32 RISK MANAGEMENT (continued)

32.6 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Bank's assets and liabilities as at 31 December 2014 was as follows:

<i>As at 31 December 2014</i>	<i>Less than 12 months LL (000)</i>	<i>Over 12 months LL (000)</i>	<i>Total LL (000)</i>
Assets			
Cash and balances with the Central bank	15,126,855	-	15,126,855
Deposits with banks and financial institutions	888,467	-	888,467
Financial assets at fair value through profit or loss	1,451,837	95,031,732	96,483,569
Financial assets at fair value through other comprehensive income	-	2,025,059	2,025,059
Investment in an associate	-	1,431,312	1,431,312
Loans and advances to customers at amortized cost	-	9,053,303	9,053,303
Loans and advances to related parties at amortized cost	-	3,330,617	3,330,617
Financial assets at amortized cost	6,511,443	32,794,831	39,306,274
Property and equipment	-	1,408,193	1,408,193
Intangible assets	-	325,996	325,996
Other assets	566,365	4,500,100	5,066,465
Total assets	24,544,967	149,901,143	174,446,110
Liabilities			
Due to banks and financial institutions	3,030,589	-	3,030,589
Customers' deposits at amortized cost	15,911,806	-	15,911,806
Deposits from related parties at amortized cost	93,174,654	-	93,174,654
Other liabilities	802,805	-	802,805
Provision for risks and charges	-	20,385	20,385
Total liabilities	112,919,854	20,385	112,940,239
Net	(88,374,887)	149,880,758	61,505,871

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32 RISK MANAGEMENT (continued)**32.6 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

<i>As at 31 December 2013</i>	<i>Less than 12 months LL (000)</i>	<i>Over 12 months LL (000)</i>	<i>Total LL (000)</i>
Assets			
Cash and balances with the Central bank	45,131	9,813,825	9,858,956
Deposits with banks and financial institutions	1,258,268	-	1,258,268
Financial assets at fair value through profit or loss	-	40,899,056	40,899,056
Financial assets at fair value through other comprehensive income	-	1,476,063	1,476,063
Loans and advances to customers at amortized cost	-	8,304,553	8,304,553
Financial assets at amortized cost	-	39,414,324	39,414,324
Property and equipment	-	798,373	798,373
Intangible assets	-	311,212	311,212
Other assets	-	5,129,753	5,129,753
Total assets	1,303,399	106,147,159	107,450,558
Liabilities			
Due to banks and financial institutions	744,765	-	744,765
Customers' deposits at amortized cost	-	4,642,732	4,642,732
Deposits from related parties at amortized cost	-	57,839,140	57,839,140
Other liabilities	321,978	-	321,978
Provision for risks and charges	-	11,442	11,442
Total liabilities	1,066,743	62,493,314	63,560,057
Net	236,656	43,653,845	43,890,501

32.7 PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because counterparties repay or request repayment earlier than expected. 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 not material after taking into account the effect of any prepayment penalties.

32.8 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.