ANNUAL REPORT 2014

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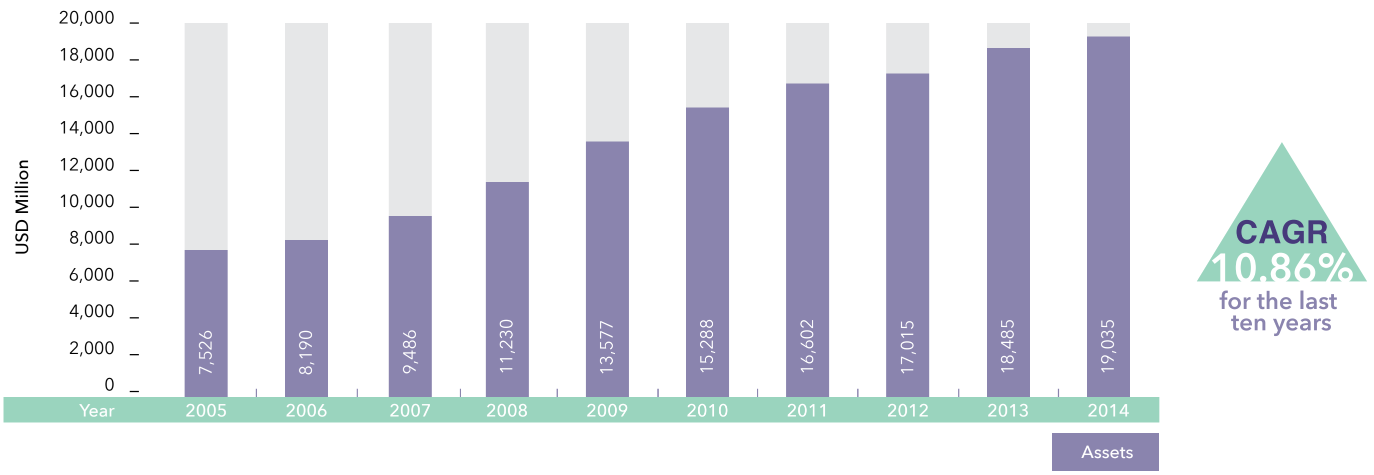

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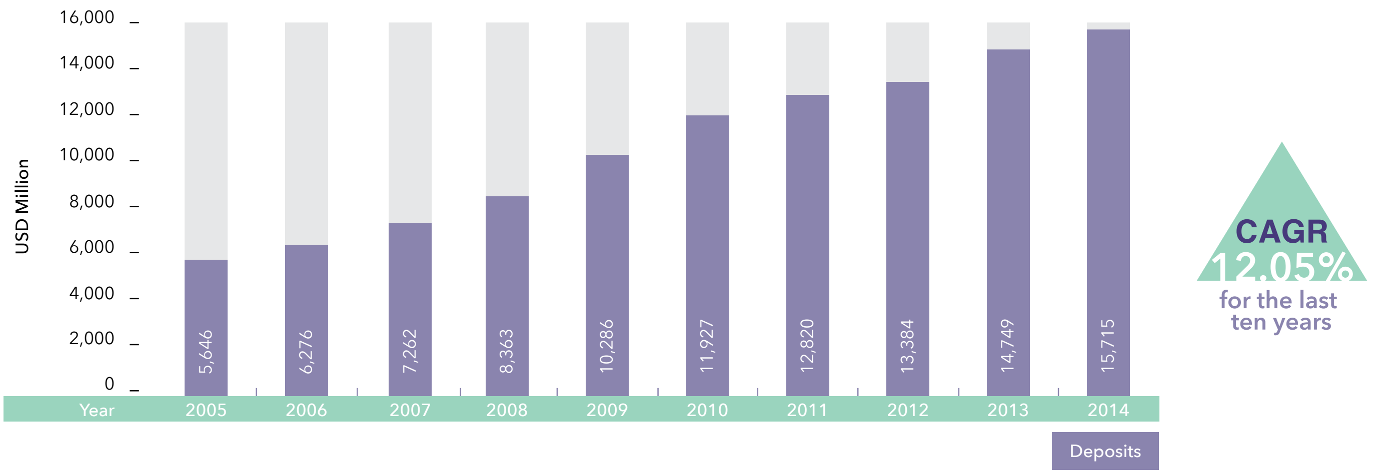

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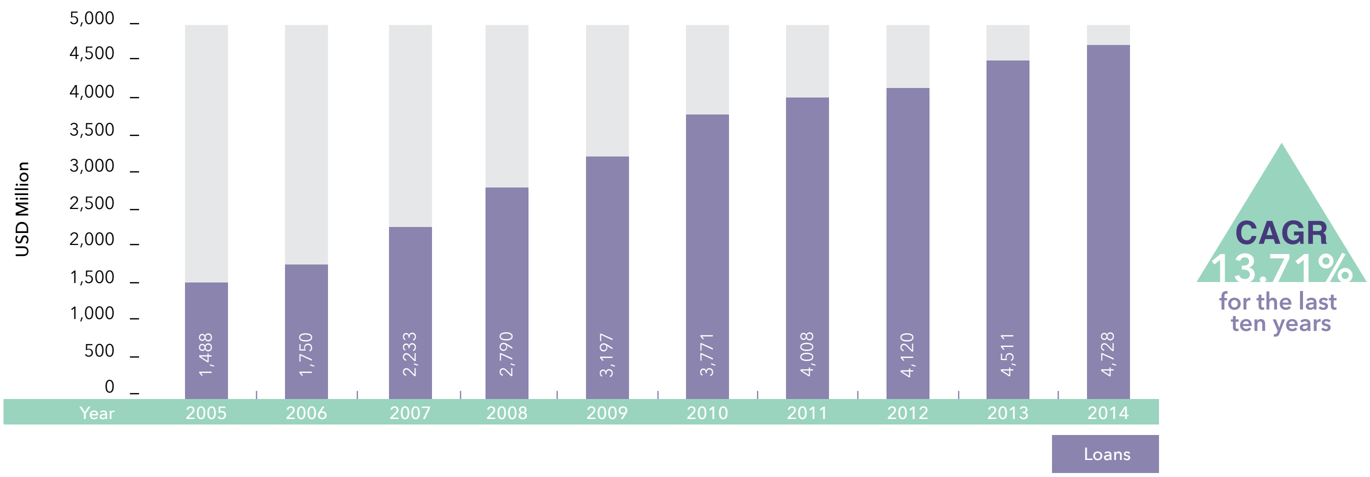

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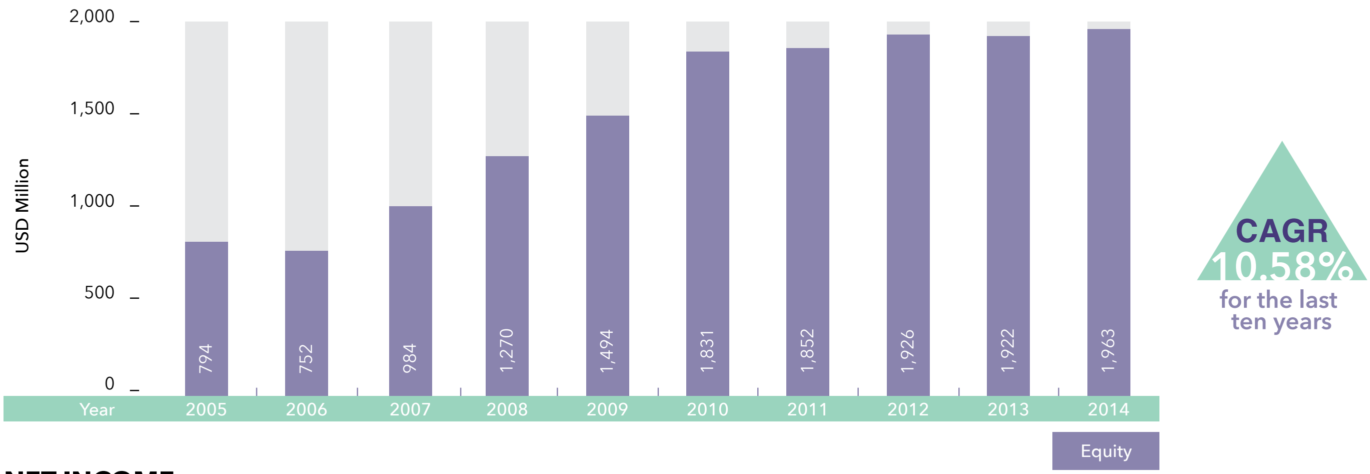

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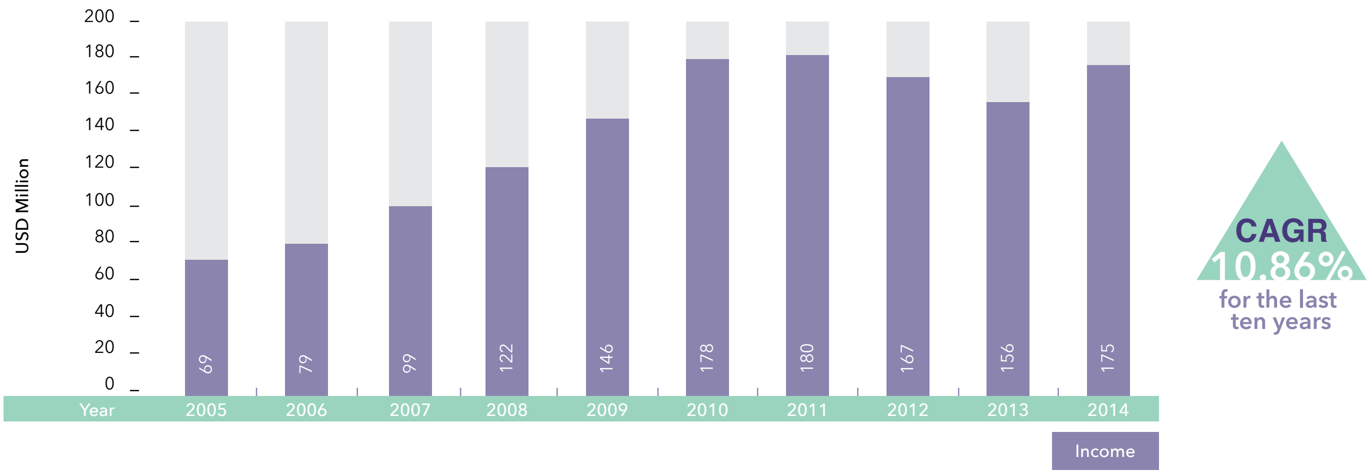

A MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

It is both my pleasure and my honor to share with you the 2014 Annual Report of Byblos Bank. Once again I do so with considerable satisfaction, for during a fourth consecutive year of challenging local, regional, and international circumstances, our business model has re-stated its ability to find opportunities amid all manner of difficulty – social, political, and economic.

Despite these unhelpful conditions, the Bank posted solid numbers by all headline measures: total assets, loans, deposits and profits were all up substantially from 2013.

This performance was backed, too, by the sound asset quality that has made Byblos Bank what it is today: a rock of stability for customers, employees, and shareholders alike. Tending assiduously to our capital base has long been a hallmark of the Bank's success, ensuring as it does our ability to withstand pressures and/or seize opportunities, retain the confidence of all stakeholders, and lay the groundwork for similar levels of performance in the future.

This approach means that when it comes to specific and collective provisions against credit losses, we tend to allocate more than is strictly necessary to guard against the unforeseen. The Bank's results were also bolstered by strong credit quality, with both our ratio of non-performing loans to net loans and our NPL coverage ratio standing at very comfortable levels as of year-end. Byblos Bank also continued its long tradition of meeting or even exceeding the most demanding international standards, and of doing so ahead of time.

In addition to their direct role in strengthening multiple aspects of our operations, these and other measures are why Byblos Bank enjoys the trust and confidence of its customers, strategic partners, and other stakeholders. Chief among these partners are the International Finance Corporation, private sector arm of the World Bank Group; the Agence Française de Développement (AFD), the French government's overseas development agency; and the Société de Promotion et Participation pour la Coopération Economique (PROPARCO), the AFD's investment subsidiary. The presence of such highly regarded partner institutions among our shareholders is an unmistakable vote of confidence in the Bank.

Byblos Bank's reputation for solidity is the product of good habits, and in 2014 , we continued to bolster the mechanisms by which we remain in compliance with global banking standards, international sanctions against governments in countries where we do business, and programs to combat money laundering and the financing of terrorism. Regulatory and sanctions environments have become more complex and therefore more expensive in recent years, but Byblos Bank's reputation may be its most valuable asset, and strong corporate governance is the best way to protect and even enhance it. This is not to mention the obvious moral responsibility, so our vigilance will only increase in the coming years.

A MESSAGE FROM THE CHAIRMAN

There are no secrets as to how Byblos Bank has achieved such results in the face of adverse conditions. It starts with prudent management, adherence to international best practice, and a commitment to promoting growth by supporting the private sector wherever we operate. Our success also owes much to unmatched experience and expertise, proven controls and systems to guide and monitor all aspects of our operations, and the adoption of safe and secure technologies that help us reach more customers than ever before. It stems, too, from a never-ending quest to develop and refine products and services, particularly in the retail segment.

In the final analysis, however, even these principles, tools, and processes are of little use unless they are backed by superbly trained and dedicated professionals. We have precisely such people at Byblos Bank, and that is no accident either. The Bank goes to considerable lengths to recruit and retain high-achievers, using the latest techniques to help expand their skill-sets and build their careers so that they can provide even better banking to our customers.

The short-term outlook indicates more headwinds, but there are opportunities, especially if Lebanon's political establishment can finally separate partisan disputes from national interests. The failure to implement long-overdue reforms, and to improve public finances, only makes it more difficult for anyone to govern – and for many Lebanese to earn their livelihoods – so this should be a powerful motivator if the politicians have their priorities in order.

In particular, there is great need for public-private partnerships (PPPs) that would accomplish numerous goals while alleviating the burden on the state. Improving Lebanon's power supply, roads, and other transport links would remove impediments to the small- and medium-sized enterprises that provide so many jobs, making them – and the economy as a whole – more competitive on several fronts. The banking industry stands ready to contribute, but the public sector needs to make itself a viable partner, starting with the passage in Parliament of the draft law on PPPs.

For Byblos Bank's part, we look forward to the coming years as a time to further refine our systems and practices, to plan for vigorous expansion when conditions improve, and to help members of the communities we serve to live fuller, happier, and more productive lives. We will do so not just as a forward-looking bank that supports productive ventures, but also as a good corporate citizen devoted to the humanization of capital.

We are in position to make such plans because of the men and women who make Byblos Bank what it is – the same people who have achieved so much in the past year by overcoming adversity to post surprisingly good results across the board. Please join me in congratulating them for another job well done.

Sincerely,

François S. Bassil
Chairman and General Manager

THE LEBANESE ECONOMY IN 2014

ECONOMIC ACTIVITY

Economic activity in Lebanon improved slightly in 2014 due to relatively better security conditions, a generally less confrontational political environment, and a modest rise in disposable incomes, which led to a pick-up in consumer confidence, particularly in the fourth quarter of the year. However, economic activity remained subdued and below potential in 2014 due to the prevailing high level of political polarization, the presidential vacuum, and paralyzed decision making within public institutions, in addition to chronic security breaches and the ongoing direct and indirect spillovers from the Syrian conflict. Also, the lack of any credible attempt at implementing reforms, the weak rule of law, and the rising burden of the public sector on the private sector took their tolls on economic activity.

The Lebanese economy benefited from the Central Bank's USD 800 million stimulus package for 2014, which supported activity in several key sectors. In addition, several factors supported private consumption throughout the year. The inflow of remittances from the Diaspora, estimated at a record high of USD 9 billion in 2014, equivalent to 18% of GDP, sustained household spending on day-to-day needs. Also, the pass-through to local consumers of the 50% drop in global oil prices in the second half of the year, the Telecommunications Ministry's decision in July to reduce tariffs by 30%, and subdued inflation raised the disposable income of households.

Still, the economy performed at a sub-par level in 2014, with consumption, trade, tourism, capital flows and investment indicators all pointing to continuing anemic economic activity. As a result, both consumer confidence and investor sentiment remained at low levels throughout the year despite modest improvements. The economy expanded by 1.2% in real terms year-on-year in the first quarter of the year, grew by 1.5% in the second quarter, accelerated by 1.9% in the third quarter, and picked up by 2% in the fourth quarter. As such, real GDP grew by 1.7% in 2014 compared to 1.4% in 2013.

REAL SECTORS

The Central Bank's Coincident Indicator, a proxy for overall economic activity in Lebanon, averaged 273.2 in 2014 compared to 264.7 in 2013, an increase of 3.2% year-on-year, which reflects modest economic growth in real terms.

Consumer sentiment recovered during 2014 from a record-low level in 2013. The Byblos Bank/AUB Consumer Confidence Index averaged 34.1 in 2014, reflecting a rise of 17.6% for the year and constituting the first annual rise since 2009. In comparison, the Index posted declines of 10.7% in 2013 and 37.1% in 2012. The increase in consumer sentiment in 2014 is due in part to low-base effects and does not denote a reversal of trends, as the Index started from a record low in 2013, while the 2014 results still constitute a drop of 65% from the peak year of 2009. Indeed, the full-year results constituted the Index's third-lowest level since its inception, and they remained consistent with the ongoing trend of low consumer sentiment in the country that has prevailed since the first quarter of 2012.

The main factors that had a positive effect on the confidence of Lebanese households during the year were the formation of a new Cabinet in mid-February after more than 10 months of political deadlock; the relative improvement in security conditions; the rise in the purchasing power of households due to external and domestic factors; the announcement of dialogues among rival political parties; and the launch of a food safety campaign by the Ministry of Public Health.

In contrast, the main factors that had a negative impact on consumer sentiment in 2014 were the failure of the Lebanese Parliament to elect a President by the 25 May constitutional deadline; the ensuing presidential vacuum and resulting institutional paralysis; the persisting high level of political uncertainties in the country; the ongoing direct and indirect spillovers from the Syrian conflict; security breaches in various parts of the country; and the abduction of military and security personnel by terrorist groups.

The Byblos Bank/AUB Present Situation Index was consistently higher than the Byblos Bank/AUB Expectations Index during 2014, which shows that consumers were relatively more pessimistic about the future than about present circumstances. Overall, political uncertainties and security-related issues dominated consumers' concerns during the year. But other persisting issues such as the inability of authorities to satisfy citizens' basic needs, decaying public services, the weak rule of law, job insecurity, and economic stagnation resonated strongly among consumers.

REAL ESTATE SECTOR

The real estate market, which contributes nearly 14% of economic output in the country, continued to be affected by the prevailing uncertainties and economic slowdown, despite anecdotal data that suggest a slight improvement in the sector's activity.

Byblos Bank's real estate indices point to a generalized slowdown in activity in the sector. The Byblos Bank Real Estate Demand Index, which reflects Lebanese residents' plans to buy or build a home over the near term, regressed by 30% in 2014 to its lowest level on record. But the Central Bank's

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stimulus package and a multitude of ongoing subsidy programs for housing loans prevented demand from sliding further, as outstanding mortgages increased by USD 1.34 billion during the year to reach USD 9.9 billion at the end of 2014. Also, the Byblos Bank Real Estate Supply Index, which reflects Lebanese residents' plans to sell real estate over the near term, regressed by 25% in 2014, posting its lowest level since the Index's inception. In parallel, the average value of real estate transactions was USD 126,387 in 2014, down by 1.4% from USD 128,201 in 2013.

TOURISM SECTOR

The tourism sector, a main driver of economic activity in the country, recovered slightly in 2014, but continued to suffer from domestic security breaches and regional turmoil. The number of incoming tourists to Lebanon totaled 1.35 million in 2014, an increase of 6.3% from about 1.27 million in 2013, but constituting a decline of 37% from the peak of 2.13 million in 2010. The increase in 2014 was mainly due to low-base effects, Iraqi nationals escaping deteriorating security conditions in their country, and an improvement of security conditions in the fourth quarter of the year.

Arab tourists accounted for 34% of total visitors in 2014, followed by those from European countries (33%), the Americas (16.6%), Asia (8.4%), Africa (4.1%), and Oceania (3.8%). The number of visitors from Arab countries increased by 14.6% in 2014, followed by those from Oceania (+12.7%), the Americas (+7.2%), and Europe (+3.2%); the number of tourists from African countries decreased by 14.2% year-on-year, while the figure for Asian countries fell by 3.5%. On a country basis, visitors from Iraq accounted for 14% of the total in 2014, followed by those from France (8.9%), the United States (8.4%), Canada (5.8%), Jordan (5.4%) and Egypt (5.1%). Also, the number of tourists from Iraq rose by 33%, followed by visitors from the UAE (+14.2%), Saudi Arabia (+11.8%), Germany (+11.2%), Italy (+11.1%), and the United States (+10.2%); the number of visitors from Turkey declined by 32.3% year-on-year, followed by those from Venezuela (-23.5%) and Jordan (-5.4%).

Also, the average occupancy rate at hotels in Beirut was 52% in 2014, unchanged from 2013 and constituting the fourth lowest rate among Arab markets. The average rate per room at Beirut hotels was USD 165 in 2014, ranking the capital's hotels as the third least expensive in the region. The average rate per room at Beirut hotels decreased by 2.7% year-on-year, the second steepest decrease among all markets in the region. Further, revenues per available room reached USD 86 in Beirut in 2014, falling by 2.8% year-on-year, the second steepest decrease among Arab markets. Overall, the travel and tourism's sector's total contribution to GDP in Lebanon rose by 6.9% in real terms in 2014, following declines of 6% in 2013, 3.7% in 2012 and of 15.1% in 2011.

EXTERNAL SECTOR

The balance of payments posted a deficit of USD 1.4 billion in 2014, constituting the fourth consecutive annual deficit. The cumulative deficit in 2014 was caused by a deficit of USD 5.2 billion in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of USD 3.8 billion in those of the Central Bank. The persistent deficit in the balance of payments reflects slowing capital inflows and increasing external financing needs.

The current account deficit narrowed from 26% of GDP in 2013 to 22% of GDP in 2014. Imports declined due to subdued domestic demand, lower commodity prices, and a stronger US Dollar that reduced the import bills from the Eurozone and other countries whose currencies weakened against the dollar. The service balance improved, driven by financial services and by spending from a significant number of unregistered refugees, mainly Syrians and Iraqis who are treated as non-residents.

The trade deficit reached USD 17.2 billion in 2014, a decrease of 0.6% year-on-year, as the value of imports decreased by 3.5% to USD 20.5 billion, and the value of exports fell by 15.8% to USD 3.3 billion. Imports of oil and mineral fuels fell by 4.4% year-on-year to USD 4.9 billion, while non-hydrocarbon imports regressed by 3.2% to USD 15.6 billion. Also, the volume of imports reached 15.5 million tons in 2014, constituting a drop of 2.6% from 2013, while exports posted a 19.5% decrease to 2.2 million tons in the covered period.

FISCAL SITUATION

Lebanon's public finance imbalances persisted in 2014 despite the narrowing of the fiscal deficit by 2.8 percentage points of GDP. Budget and Treasury expenditures increased by 2.3% to USD 14 billion in 2014, while total revenues rose by 15.5% to USD 10.9 billion, which narrowed the fiscal deficit by 27.2% to USD 3.1 billion in 2014. The deficit was equivalent to 22% of total budget and Treasury expenditures compared to 31% of overall spending in 2013. As such, the deficit narrowed from 9.3% of GDP in 2013 to 6.5% of GDP in 2014, driven by one-time factors rather than by policy actions.

Tax revenues grew by 2.7% to USD 6.9 billion, or 14.5% of GDP, in 2014, due to a slight improvement in tax administration, given that receipts from the value-added tax remained flat year-on-year on the back of subdued economic activity, and that customs revenues fell by 5.4% to USD 1.4 billion. However, non-tax budgetary receipts rose by USD 720 million, or 33.2%, to USD 2.9 billion, or 6% of GDP, due to the collection of arrears from previous years, which consisted of receipts from the Telecommunications Ministry that had

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been withheld by previous ministers. Indeed, the ministry transferred USD 853 million in telecom arrears and USD 1.16 billion in realized telecom surplus in 2014. In addition, Treasury receipts grew from 1.1% of GDP in 2013 to 2.3% of GDP in 2014, given that the Finance Ministry collected telecom revenues on behalf of municipalities.

Further, current expenditures accounted for more than 90% of aggregate public spending, and consisted mainly of wages and salaries, debt servicing, and subsidies to the money-losing Electricité du Liban. Debt servicing increased by 10% year-on-year to USD 4.4 billion, or 9.3% of GDP, accounting for 31.4% of total expenditures and for 35.7% of budgetary spending. It absorbed 40.3% of overall revenues and 44.8% of budgetary receipts. The rise in debt servicing costs in 2014 reflects the increase in the cost of financing the portion of the debt denominated in Lebanese Pounds. Also, Treasury transfers to Electricité du Liban rose by 3.3% to USD 2.1 billion, equivalent to 4.4% of GDP. Excluding debt servicing, public spending fell by 0.9% to USD 9.6 billion in 2014.

The primary fiscal balance was equivalent to 2.8% of GDP in 2014 compared to a deficit equal to 0.5% of GDP in 2013, constituting the first such surplus since 2011. When excluding telecom arrears, public revenues rose by 6.4% to USD 10 billion, while the fiscal deficit narrowed by 7% to USD 3.9 billion in 2014, which is equivalent to 28.1% of expenditures. Excluding telecom arrears, the fiscal deficit reached 8.4% of GDP, while the primary surplus narrowed to 1% of GDP.

In parallel, Lebanon's public debt dynamics deteriorated slightly in 2014, as the debt level increased from 139.9% of GDP in 2013 to 140.1% of GDP in 2014, constituting the ratio's third consecutive annual increase. The gross public debt reached USD 66.6 billion at the end of 2014, reflecting an increase of 4.9% from end-2013 and compared to increases of 10% in 2013 and 7.5% in 2012. In nominal terms, the gross public debt grew by USD 3.1 billion in 2014 relative to increases of USD 5.8 billion in 2013 and USD 4 billion in 2012. Domestic debt increased by 9.7% to USD 41 billion, while debt in foreign currency decreased by 2% to USD 25.6 billion at the end of the year. Foreign currency-denominated debt represented 38.5% of gross public debt at the end of 2014, relative to 41.1% at the end of 2013.

Commercial banks accounted for 51% of the local public debt at the end of 2014 compared to 53.1% a year earlier. They were followed by the Central Bank with 32.2%, up from 30.5% at end-2013, while public agencies, financial institutions and the public accounted for 16.9% of local debt compared to 16.4% at the end of 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.8% of the external debt, followed by foreign governments with 4.8%; multilateral institutions with 4.2%; and Paris II loans with 0.3%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 7.7% to USD 57.3 billion at end-2014. Also, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II- and Paris III-related debt.

CAPITAL MARKETS

EQUITIES

The Beirut stock market continued to suffer from low liquidity and a lack of interest from privately held firms in listing their shares. But it was the ninth best performer among 20 markets in the Arab world, with the Banque du Liban Stock Market Index rising by 3.8% compared to a 3.2% rise for Arab markets overall. Further, its market capitalization was equivalent to 23.6% of GDP, third lowest among 13 markets in the region, and accounted for about 1% of the aggregate market capitalization of Arab equity markets. Total trading volume on the Beirut Stock Exchange reached 96.8 million shares in 2014, constituting an increase of 88.3% from 2013, while aggregate turnover amounted to USD 661.4 million, up 76.3% from a turnover of USD 375.2 million in the preceding year. Market capitalization increased by 6.4% from end-2013 to USD 11.2 billion, of which 80.1% was in banking stocks and 16.7% in real estate stocks. The market liquidity ratio was 5.9% compared to 3.6% in 2013.

Bank stocks accounted for 92.3% of aggregate trading volume in 2014, followed by real estate stocks with 7.5%. In terms of the value of shares traded, banking stocks accounted for 82.6% of the aggregate value, followed by real estate stocks with 13.7%. The average daily traded volume for 2014 was 396,682 shares for an average daily value of USD 2.7 million. The figures reflect increases of 84.4% in volume and 72.7% in value year-on-year.

FIXED INCOME

Lebanon's external debt posted a return of 8.8% in 2014, constituting the 16th highest return among 41 markets in the Central, Eastern Europe, the Middle East and Africa (CEEMEA) region, as well as the 39th highest return among the 73 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets return of 7.8% in 2014, and posted the 10th highest returns among 23 countries in the Middle East and Africa region.

In April 2014 the Lebanese Republic executed a voluntary debt exchange offer of Eurobonds maturing in 2014 for new and longer-dated notes, while also issuing additional notes for the reopening and increasing of an already-existing issue for cash. The exchange offer and additional notes resulted in aggregate new issues of USD 1.4 billion. Foreign investors represented about 25% of total subscribers on both tranches.

Also, the Lebanese Parliament ratified a law on 5 November

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2014 that allows the government to issue up to USD 2.5 billion in foreign currency debt. The Parliament had to raise the ceiling on foreign currency borrowing in order for the government to borrow externally after it reached its limit, and to reduce the government's reliance on the Central Bank for its financing needs.

RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2014 at 397 basis points, almost unchanged from 395bps at the end of 2013. But the spreads fluctuated during the year, as they narrowed by 9.7bps in the first quarter and by 36.8bps in the second quarter, and widened by 15.2bps in the third quarter and by 33.4bps in the fourth quarter. Lebanon's five-year CDS spreads were the eighth widest among 73 developed and emerging countries at the end of 2014. Moreover, Lebanon ended 2014 with a five-year cumulative probability of default (CPD) of 25.3%, nearly unchanged from 25.15% at the end of 2013. Lebanon's CPD at end-2014 indicated that Lebanese debt was the ninth riskiest in the world.

Rating agencies took actions following mounting political risks, but they remain confident in the resiliency of the banking sector. On 16 December 2014, Moody's Investors Service downgraded Lebanon's government bond ratings to 'B2' from 'B1' and kept the outlook at 'negative'. Moody's attributed the downgrade to a rise in Lebanon's public debt level and to the effects of spillovers from the Syrian conflict on political stability, on economic activity and on public finances. It stated that it would revise the outlook to 'stable' if the debt metrics stopped their deterioration, and if the risks of political spillovers from the Syrian conflict receded.

On 12 December 2014, Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the issue ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the long-term IDRs at 'negative'. Further, it affirmed the Country Ceiling at 'B'. The agency said that Lebanon's ratings reflect the high and rising public debt level, elevated political and geopolitical risks, as well as a credible exchange rate policy, a well-managed banking system, and high levels of human development and GDP per capita. The agency added that it could revise the outlook to 'stable' if confidence in the sustainability of the domestic political situation improved, overall security risks associated with the Syrian conflict decreased, or economic performance ameliorated.

On 11 April 2014, Standard & Poor's revised the outlook on Lebanon's long-term sovereign credit ratings to 'stable' from 'negative' and affirmed the long-term foreign and local currency sovereign credit ratings at 'B-' and the short-term foreign and local currency sovereign credit ratings at 'B'. It also maintained the country's transfer and convertibility assessment at 'B+', senior unsecured debt rating at 'B-', and short-term debt at 'B'. The agency attributed the change in outlook to the sustained deposit inflows into the Lebanese financial system that would allow the government to meet its financing needs in 2014 despite the difficult internal and external political environments.

MONETARY SITUATION

The Central Bank's gross foreign currency reserves reached USD 32.4 billion at the end of 2014, constituting an increase of USD 0.7 billion, or 2.2%, from USD 31.7 billion a year earlier. They were equivalent to about 66.5% of money supply (M2) and to about 11 months' worth of imports, well above the four-month reference and a high level by emerging market standards. As in previous years, large capital inflows, mostly bank-related, have more than financed the current account deficit, leading to further accumulation of official reserves. Further, the Central Bank's overall assets in foreign currency increased by USD 2.6 billion in 2014 to reach USD 37.9 billion at the end of the year. The value of the Central Bank's gold reserves reached USD 10.95 billion at the end of 2014, constituting a decrease of 1.4% from end-2013. The Central Bank's combined assets in gold and foreign currencies at the end of the year were equivalent to about 102.8% of GDP.

INFLATION

The inflation rate averaged 1.9% in 2014 compared to 4.8% in 2013, according to the Central Administration of Statistics. The deceleration of inflation was due to the 30% decline in tariffs on mobile phone and internet services, and to the decline in transportation costs from the drop in global oil prices. But even when excluding telecommunication and transportation, the annual inflation rate was still -0.4% in 2014. This reflects weak domestic demand, which contained local inflation, as well as the strengthening of the US Dollar, which reduced imported inflation.

BANKING SECTOR

The banking sector continued to face a challenging operating environment in 2014 due to several converging factors, including the slow economic activity in Lebanon, domestic political uncertainties, the Syrian crisis and its direct spillovers in Lebanon, tight margins, fewer lending opportunities domestically and abroad, historic-low global interest rates, and the still-elevated borrowing needs of the Lebanese government.

THE LEBANESE ECONOMY IN 2014

Commercial bank assets reached USD 175.7 billion at the end of 2014, constituting an increase of 6.6% from end-2013 and relative to increases of 8.5% in 2013 and 8% in 2012. The sector's aggregate assets were equivalent to 370% of GDP, one of the highest such ratios in the world, which reflects the continuing ability of the banking sector to meet the borrowing needs of both the private and public sectors, as well as to maintain high levels of liquidity and capitalization. Deposits of the private non-financial sector totaled USD 144.4 billion, an increase of USD 8.2 billion or 6% from end-2013, relative to an increase of USD 11.2 billion or 9% in 2013. Private sector deposits were equivalent to 304% of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 49.5 billion, up 7.4% from end-2013 and compared to an increase of 4.9% in 2013, while deposits in foreign currencies totaled USD 94.9 billion, rising by 5.4% from end-2013 and relative to an increase of 11.2% in 2013. Non-resident foreign currency deposits totaled USD 26.4 billion at end-2014, an increase of 5.3% from end-2013 relative to a rise of 20.9% in 2013. The dollarization rate of deposits reached 65.7% at end-2014, down from 66.1% a year earlier. The average deposit rate in Lebanese Pounds reached 5.52% in 2014, ranging from a low rate of 5.47% to a high of 5.58%. The same rate in US Dollars averaged 3.03% in 2014, with a monthly low rate of 2.95% and a high of 3.13%, compared to 2.92% in 2013. In parallel, deposits of non-resident banks reached USD 5.8 billion, rising 16.4% from end-2013. Broad money supply (M3) grew by 5.9% in 2014, down from a growth rate of 6.9% posted in 2013.

Loans to the private sector totaled USD 50.9 billion at the end of 2014, an increase of USD 3.5 billion, or 7.4%, from end-2013, relative to a rise of USD 3.9 billion, or 9%, in 2013. Lending to the resident private sector grew 9.3% from end-2013 to reach USD 45.36 billion, while credit to the non-resident private sector fell 5.9% to USD 5.53 billion. As such, credit to the resident private sector was equivalent to 95.5% of GDP in 2014. The dollarization rate in private sector lending reached 75.6% at end-2014, down from 76.5% a year earlier. The average lending rate in Lebanese Pounds was 7.27% in 2014, ranging from a low rate of 6.96% and a high of 7.49%, and compared to 7.35% in 2013. The same rate in US Dollars averaged 6.95% in 2014, with a monthly low rate of 6.82% and a high of 7.04%, and compared to an average rate of 6.96% in the preceding year. Claims on the public sector stood at USD 37.4 billion, down 0.9% year-on-year and accounting for about 37% of the banking sector's total claims. Rating agencies continued to restrain banks' ratings to the sovereign ceiling, citing the banks' elevated exposure to the sovereign as their most important risk factor.

The banks' capital base stood at USD 15.73 billion at the end of 2014, up by 10.8% from a year earlier, with core capital rising by 11.9% to USD 14.6 billion. The ratio of private sector loans to deposits in foreign currencies stood at 40.5% at end-2014, well below the Central Bank's limit of 70%, and compared to 40.3% a year earlier. In parallel, the same ratio in Lebanese Pounds was 25.1%, up from 24.1% at end-2013. The ratio of total private sector loans to deposits was 35.2% at end-2014, up from 34.8% a year earlier.

The aggregate net income of the top 14 banks operating in Lebanon was USD 1.87 billion in 2014, up by 9.1% from 2013. Also, the top banks' return on average assets was 1.01% and their return on average equity reached 11.55% in 2014. Further, the banks' cost-to-income ratio was nearly unchanged year-on-year at 50% in 2014.

Unless there is a major breakthrough in the domestic political situation, the operating environment for Lebanese banks is likely to remain challenging over the short-to-medium term due to political instability, weak economic growth, and the slower performance of various economic sectors that are important to the banks' asset quality. However, the sector will remain solid, highly liquid and able to meet the financing needs of the private and public sectors as long as deposits continue to increase.

THE GLOBAL AND REGIONAL ECONOMIES IN 2014

Following several years of subdued growth, the global economy is still struggling to gain momentum as many high-income countries continue to tackle legacies of the global financial crisis, and as emerging economies are less dynamic than they were in the past. The global economy grew by 3.4% in 2014, unchanged from 2013, as a modest recovery in the Eurozone and a pick-up in India helped offset slowdowns in China and Japan. Economic growth in advanced economies improved to a modest 1.8% last year from 1.4% in 2013, partly driven by lower oil prices and accommodative monetary policy stances. In addition, growth in emerging market economies slowed in 2014, due in part to lower commodity prices and exports, weak external demand, domestic policy tightening, political uncertainties, and supply-side constraints. Emerging economies grew by an estimated 4.6% in 2014 relative to a growth rate of 5% in 2013. In parallel, the US Dollar Index appreciated by 12.6% in 2014, reflecting the strengthening of the US Dollar against a basket of currencies. The stronger dollar had a positive impact on the global economy in 2014, as it effectively transferred demand from the US economy to economies around the word.

The economies of both the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions are of particular significance to the Lebanese economy due the latter's strong trade and

THE LEBANESE ECONOMY IN 2014

financial links to Gulf Arab markets in particular, as well as to its dependence on the Diaspora and to the activity of Lebanese banks in the two regions. Following years of turmoil, some economies in the MENA region appear to be stabilizing, although growth was fragile and uneven in 2014. Growth in oil-importing countries was broadly flat in 2014, while activity in oil-exporting economies recovered slightly after contracting in 2013.

Economic growth in the MENA region was moderate at 2.4% in 2014 amid declining oil prices, intensifying conflicts, and continued policy uncertainty. The 50% drop in oil prices in the second half of 2014 weakened the external and fiscal balances of the region's oil exporters. Indeed, the fiscal surplus of the MENA region's oil exporters declined from 5% of GDP in 2013 to 0.3% of GDP in 2014, while the current account surplus regressed from 14.7% of GDP to 10%. In particular, the fiscal surplus of Gulf Cooperation Council (GCC) countries declined from 12.1% of GDP in 2013 to 4.6% of GDP in 2014, and the current account surplus narrowed from 20.6% of GDP to 16.5% of GDP. In contrast, the sharp drop in oil prices provided relief for the region's oil importers. In fact, the fiscal deficit of oil importers narrowed from 10.5% of GDP in 2013 to 9.8% in 2014, while the current account deficit regressed from 7.2% of GDP to 5.5% of GDP.

Since the "Arab Spring" began in 2011, many Arab countries have been in political turmoil, which has disrupted economic activity in the region. There has been progress on the political transition in Tunisia and greater stability in Egypt in 2014. Also, official assistance from the GCC countries helped improve consumption and investor confidence, and increased investment in Jordan and Egypt. The domestic environments in Iraq, Libya and Syria continued to be hindered by violent conflicts, and spillovers from the Syrian crisis negatively affected activity, particularly in Lebanon and Jordan. The capture of large swaths of territory in Iraq and Syria by the Islamic State militant group raised security risks in an already fragile region. Real GDP growth of oil-importing Arab economies was 2.5% in 2014 compared to 2.7% in 2013, well below the historical average growth rate of about 5%. The subdued level of economic activity was mainly due to political uncertainty and security challenges that weighed on key growth drivers.

In parallel, real GDP growth in the economies of the GCC was 3.6% in 2014, unchanged from 2013. Hydrocarbon output grew by 0.8% in 2014 relative to a growth rate of 0.5% in 2013. Activity in the non-hydrocarbon sector expanded by 5.7% in 2014, down from 6.5% in 2013 but still supported by strong private sector activity. Further, economic activity in the region's non-GCC oil exporters grew by 1% in 2014, compared to a growth rate of 0.5% in 2013, as oil production stopped contracting.

Economic growth in SSA was robust at 5% in 2014 relative to 5.2% in 2013, driven by strong private consumption, and by solid investment in mining and infrastructure. Real GDP growth was down slightly from 2013 as SSA's oil exporters began to adjust to the lower global oil prices. Economic activity in Guinea, Liberia, and Sierra Leone declined substantially in 2014 due to the Ebola epidemic, which caused severe disruptions in agriculture and services, and the postponement of mining development projects.

Real GDP growth in SSA's oil exporters accelerated to 5.8% in 2014 from 5.7% in 2013, while activity in oil-importing countries decelerated to 4.4% last year from 4.8% in 2013. Also, the region's low-income countries grew by 6.8% last year relative to 6.6% in 2013, while growth in middle-income economies slowed to 2.7% in 2014 from 3.6% in the preceding year. Most SSA countries have seen their exchange rates depreciate against the US Dollar since August 2014, in line with other emerging markets and developing countries.

BYBLOS BANK S.A.L. ANNUAL REPORT

PROFILE OF THE GROUP

PROFILE OF THE GROUP

Our History

Established in Jbeil (Byblos), Lebanon, in 1950, the Byblos Bank Group is a leading financial institution focused on the domestic and selected overseas markets. After nearly six decades of consistent growth, Byblos Bank now has an extensive network of 79 branches spread evenly across Lebanon. The Group also has expanded to several other countries, including Armenia, Belgium, Cyprus, the Democratic Republic of the Congo, France, Iraq, Nigeria, Sudan, Syria, the United Arab Emirates, and the United Kingdom.

Our Strategic Goals

The focus of Byblos Bank's strategy is to build on our leading position in the Lebanese market while diversifying into foreign ones. To do this, we strive to be a full-service bank providing comprehensive solutions for our customers in consumer banking, commercial banking, capital markets, correspondent banking, and assorted advisory services.

Our Major Lines of Business

- Consumer Banking
- Commercial Banking
- Correspondent Banking
- Financial Markets

Our Values

- Integrity
- Customer Focus
- Teamwork
- Performance

Our Mission

"Byblos Bank Group is a universal institution that is focused on the domestic and regional markets while striving to offer world-class services to its customers, fulfillment to its employees, and economic benefit to the communities it serves."

Our Subsidiaries

Adonis Insurance and Reinsurance Co. S.A.L. (ADIR), Partnership with Natixis Assurances – France

ADIR is a subsidiary of Byblos Bank established in 1983. The company combines financial stability with an ongoing quest for product innovation and an uncompromising commitment to its customers in terms of service, coverage, and proper handling of claims. ADIR provides a comprehensive range of standard and tailored insurance products to both individual and institutional clients, including life, fire, general accident and medical coverage, among others. In 2001, Natixis Assurances, one of the leading bancassurers in France and an affiliate of Banque Populaire et Caisse d'Epargne (BPCE), acquired a 34% stake in ADIR, with Byblos Bank retaining a controlling interest of 64%. The Group believes that the association with the French banking giant will continue to facilitate the offering of bancassurance services to Byblos Bank customers in Lebanon and other selected markets where ADIR seeks to forge local partnerships.

Byblos Bank Europe S.A.

Founded in 1976, Byblos Bank Europe S.A. is headquartered in Brussels and has branches in London and Paris. Byblos Bank S.A.L. holds more than 99% of the shares in Byblos Bank Europe, which specializes in short-term trade finance for selected exporting companies in Europe and offers correspondent banking services in the Middle East and Africa. In addition, the Paris branch provides banking services to customers in French-speaking African countries, while the London branch serves clients in English-speaking countries on the same continent.

PROFILE OF THE GROUP

Byblos Bank Africa

After three decades of prosperous business in Sudan via local banks and a selected customer base, the Group established Byblos Bank Africa in 2003. Operating under Islamic Sharia'a, Byblos Bank Africa's main lines of business are commercial banking and correspondent banking. Following a capital increase in 2012, Byblos Bank S.A.L. remains the largest shareholder in Byblos Bank Africa (56.9%), followed by the OPEC Fund for International Development (17.5%) and the Islamic Corporation for the Development of the Private Sector (8.75%).

Byblos Invest Bank S.A.L.

Byblos Invest Bank was established in 2003 as a means of increasing medium- and long-term investment options for the Group's customers. Under Lebanese law and the regulations of the Central Bank and the Banking Control Commission, Byblos Invest Bank is a specialized institution: its main objectives are to allow customers to benefit from attractive interest rates on term deposits for periods longer than six months, and to provide medium-and long-term loans to new and expanding companies.

Byblos Bank Syria P.J.S.C.

Founded in 2005, Byblos Bank Syria has developed a wide range of commercial, corporate and retail banking services to meet the needs of clients in the Syrian market. In 2011, Byblos Bank Syria successfully completed a capital increase to 6.12 billion Syrian Pounds (SYP), equivalent to 12,240,000 shares. In May 2012, a 5:1 stock split was carried out, increasing the number of shares to 61,200,000 at SYP 100 per share. During 2014, Byblos Bank S.A.L. increased its ownership to 59.81%, while the OPEC Fund for International Development share was reduced to 0.065% and that of Syrian investors stood at 40.125%.

Adonis Insurance Company Syria S.A. (ADIR Syria)

In 2007, the Byblos Bank Group established Adonis Insurance Company Syria S.A. (ADIR Syria), a Syrian insurer with paid-up capital of USD 25 million. The main shareholders are Byblos Invest Bank S.A.L., Byblos Bank Syria P.J.S.C., and Adonis Insurance and Reinsurance Co. S.A.L. (ADIR), together with approximately 20 prominent Syrian businesspeople. The Company operates from its Head Office in Damascus, through offices in Aleppo and Homs, and through the branch network of Byblos Bank Syria. ADIR Syria provides a broad range of insurance products underwritten in a conservative and prudent way.

Byblos Bank Armenia C.J.S.C.

Following the 2007 acquisition of a 100% stake in International Trade Bank, the institution was renamed Byblos Bank Armenia and commenced operations in 2008 as the Group's fourth overseas subsidiary. Byblos Bank S.A.L. holds 65% of Byblos Bank Armenia's shares, while the European Bank for Reconstruction and Development (25%) and the OPEC Fund for International Development (10%) hold the remainder. With four branches – three of them in the capital, Yerevan – Byblos Bank Armenia continues to develop products that address local needs.

Byblos Bank RDC S.A.

On 27 March 2010, Byblos Bank S.A.L. participated in the capital increase of Solidaire Banque Internationale, a bank incorporated in the Democratic Republic of the Congo. Byblos Bank S.A.L. became the major shareholder, with 66.67% of the shares, and acquired management control. Renamed Byblos Bank RDC, the Bank operates as an independent subsidiary of the Byblos Bank Group, with its Head Office in Kinshasa and one branch in the capital's Gombe District. It provides mainly commercial lending, transfers and payments, letters of credit, letters of guarantee, and documentary collection services.

KEY DATES

1950 Establishment of Société Commerciale et Agricole Byblos Bassil Frères & Co., engaged in natural silk and leather tanning and agricultural credit activities.

1961 Company's name changed to Société Bancaire Agricole Byblos Bassil Frères & Co.

1963 Company's name changed to Byblos Bank S.A.L. and registration with Central Bank of Lebanon.

1976 Establishment of Byblos Bank Europe in Brussels (branches in Paris and London).

1983 Establishment of Adonis Insurance and Reinsurance Co. S.A.L. (ADIR).

1997 Acquisition of Banque Beyrouth pour le Commerce (BBC). Listing of 30% of Byblos Bank's shares on the Beirut Stock Exchange.

1998 Full integration of the subsidiary in Europe as Byblos Bank Europe S.A.

1999 Acquisition of Bank of Nova Scotia's Lebanon branch.

2000 Acquisition of Wedge Bank Middle East's Lebanon branch. Acquisition of assets of ING Barings' Lebanon branch.

2002 Acquisition of assets and liabilities of ABN AMRO Bank N.V.'s Lebanon branch.

2003 Opening of Byblos Bank Africa in Khartoum, Sudan.

2005 Opening of a Representative Office in Abu Dhabi, UAE. Opening of Byblos Bank Syria S.A. (now Byblos Bank Syria P.J.S.C.).

2006 Commencement of Byblos Bank S.A.L. operations in Erbil, Iraq.

2007 Acquisition of 100% stake in Armenia's International Trade Bank, renamed Byblos Bank Armenia C.J.S.C. in 2008.

2008 Opening of 75th branch of Byblos Bank S.A.L. in Lebanon. Acquisition of Unicredit Banca Di Roma's Lebanon branch.

2009 Listing on the London Stock Exchange. Opening of a Representative Office in Lagos, Nigeria.

2010 Acquisition of 66.7% stake in Solidaire Banque Internationale, a bank incorporated in the Democratic Republic of the Congo, now renamed as Byblos Bank RDC S.A.

OPERATIONS AND GOVERNANCE

YEAR IN REVIEW

SURPASSING EXPECTATIONS

EXACTING MANAGEMENT YIELDS STRONG RESULTS DESPITE REGIONAL INSTABILITY

Byblos Bank recorded another solid year in 2014, once again demonstrating the power of its business model to find opportunity amid challenging conditions. In a fourth consecutive year of political gridlock at home and multiple crises abroad, the Bank posted strong figures across the board. Increases were achieved in assets, deposits, loans, and profits, and continued to beat both local regulatory requirements and international standards, maintaining healthy ratios for liquidity, capital adequacy, and non-performing loans.

These results are the product of a long-term commitment to prudent management that both delivers steady performance and preserves our capital base. While the Bank was gratified at its achievements in 2014, therefore, it also remained focused on the policies and practices that made them possible – and on doing even better in the future. As such, we continued to achieve the right numbers in terms of critical performance ratios, to identify and implement process improvements, and to increase service quality.

This devotion to constant self-improvement has allowed Byblos Bank to advance the interests of all stakeholders despite multiple forms of adversity. The same diligence gives us confidence in our preparedness to ward off future challenges – and our readiness to seize yet more opportunities when conditions improve.

SERVING OUR CUSTOMERS

RELATIONSHIPS THAT LAST

Byblos Bank added more value than ever to the emphasis we place on customer relationships in 2014, helping our clients to protect and expand their businesses despite adverse conditions affecting Lebanon and other markets we serve. The Consumer Banking Division tends to these relationships with great care and attention to detail, continually developing its processes and practices, updating its technologies, and designing new solutions that help our clients cope with shifting conditions.

Our Customer Service Team operates 24/7 and strives to work proactively, identifying areas of potential difficulty before actual problems affect the quality or convenience of service delivery. We use both Mystery Shoppers and Customer Satisfaction Surveys to ensure consistency of services and find new ways to add value. In addition, we have carried out comprehensive process simplifications, including a streamlined procedure for opening new accounts.

The Division plans to further enhance and refine the quality of its products and services in 2015, meeting or exceeding our clients' expectations and making us an even better bank. To do this, we will continue our policy of providing constant training and other forms of career development support for our employees. Whatever else we do in terms of technologies and partnerships, Byblos Bank knows that in many situations, nothing can replace people – especially ours.

The Consumer Banking Division also knows that the digital revolution opens up whole new avenues for adding value and convenience to customer experiences, so it also will continue to keep pace with rapid technological change. Past innovations like Smart ATMs® have made Byblos Bank a trendsetter for Lebanon and the MENA region, and we remain committed to keeping our clients plugged into the latest technological fixes. Accordingly, 2014 saw us take the lead yet again by introducing the Byblos Bank Mobile Banking Application to round out Azka Banking, our full spread of smart and secure e-banking services. Every element of Azka Banking is designed to help customers exercise more direct control over their finances, and to free up time for our branch personnel to provide one-on-one advisory services.

NEW BEGINNINGS, MORE PARTNERS, ADDED RECOGNITION

The Bank extended its already far-reaching presence in Lebanon to untapped and relatively underserved areas in 2014, strengthening our position in regions with excellent growth potential. This process included the opening of two new branches: one on the main coastal highway in Dbayeh, a booming community just north of Beirut, and another to cover the flourishing region of Zahleh, home to the capital of eastern Lebanon's Bekaa Governorate. Our domestic network now consists of 79 branches, putting our services within easy reach for people across the country. In addition, the Bank also expanded its reach in these and other regions by using new technologies that allow more transactions to be carried out online.

Byblos Bank has long been a leader in forging new ties with trusted partners that help our clients access new benefits, express their individuality, and support worthy charitable causes, and 2014 saw more of the same. The past 12 months saw the Bank team up with MasterCard, tapping the latter's Titanium lineup to offer co-branded affinity cards in partnership with several institutions, including the Tripoli Bar Association, the Order of Physio-Therapists in Lebanon, and Labora, an NGO that helps some of Lebanon's founding communities to resist the pressures that have caused so many of their members to emigrate.

The Bank also further burnished its reputation in March, when it received its second consecutive award for having the fastest-growing portfolio of Visa cards in the Levant region. This was widely hailed as a sign of continued international confidence in Byblos Bank as a reliable partner for some of the world's largest and most reputable corporations.

YEAR IN REVIEW

As debit and credit cards occupy an ever larger place in modern consumer life, Byblos Bank is proud to offer a comprehensive selection of brands and benefits that match the means and needs of all our customers.

BETTER BANKING MEANS BETTER BUSINESS

TAILORED SERVICES FOR SPECIFIC NEEDS

Over the years, Byblos Bank has grown hand-in-hand with the firms that make up Lebanon's famously dynamic and resilient private sector, giving us unique insights into the requirements of individual companies pursuing specialized activities in various regions and industries. This has allowed our Commercial Banking Division to develop high-value products and services that both reflect local realities and meet international standards.

These tools are backed by extensive training and experience, enabling us to provide valuable advice to our customers on how best to use them. We do this through teams of professionals specialized in one or more areas, including agriculture, syndication and project finance, contracting and real estate, manufacturing, and trade.

Faced with a fourth year of poor economic conditions in 2014, the Division followed a conservative strategy based on prudent growth targets and preservation of our leading market position in fields like contracting, manufacturing, and trade. In line with our expectations, this approach proved successful, enabling us to meet our overall goals and each of our key performance indicators.

Although tough conditions are expected to prevail in Lebanon and some of our key foreign markets in 2015, the Division remains confident that it will maintain its leading position. Many years of market experience and sound management policies give us unique capacity to adapt in the face of change, and to help our clients do the same. Our strategy will continue to play to these strengths, helping us to meet all of our growth targets.

CAPITAL MARKETS

A FORCE FOR STABILITY

Byblos Bank exerted its usual steadying influence on Lebanon's capital markets in 2014, accounting for a 9.50% share on the Beirut Stock Exchange and retaining its role as one of the largest providers of liquidity in terms of both Eurobonds and domestic debt issues. Once again, we helped the Lebanese Republic to tap the capital markets with USD 1.5 billion in Eurobond financing.

The Capital Markets and Financial Institutions Division also further increased its market share for brokerage activities, building on its reputation for reliable execution and follow-up 24 hours a day. Our investment professionals help individual and corporate clients alike to navigate both the equity and fixed-income markets, allowing them to invest, trade and hedge numerous financial instruments at competitive prices.

BANKING ACROSS BORDERS

EXPORTING A TRIED AND TESTED FORMULA

Despite political instability and/or economic slowdowns in almost all of the countries where Byblos Bank operates, we managed not just to maintain a solid presence abroad, but even to post strong growth in our business. As a result, net income generated by the Byblos Bank Group's foreign entities in 2014 increased by 11% over the previous year.

This performance was made possible by several factors, including the Bank's long experience in coping with political and economic uncertainties, conservative management practices, and adherence to the highest standards of corporate governance.

Backed by the full support and guidance of Group Compliance, all of Byblos Bank's foreign entities further strengthened their anti-money laundering (AML) techniques and processes in order to further reduce inherent risks in certain overseas markets. AML practices and compliance with both local regulations and international sanctions have been the top priorities for the International Network Division since its establishment in 2010, and will continue to be so in the coming years.

Simultaneously, the Division remained focused on its core functions of managing the flow of business between the foreign entities and Head Office in Lebanon, all within the scope of the Group Function and Service Level Agreements where applicable. Several field visits to branches, representative offices, and subsidiaries were carried out in 2014 in order to
a) ensure continuity in key positions during long absences;
b) prevent, identify and solve problems as early as possible;
c) improve processes to better serve our clients; and d) update employees on newly introduced procedures and practices.

In 2015, Byblos Bank will continue its selective expansion in Iraq by opening a new branch in Sulaymaniah. In addition, the International Network Division will continue to consolidate its position and improve efficiency in order to enhance the profitability of all our foreign entities, and therefore their contribution to the Group.

YEAR IN REVIEW

THE HUMAN ELEMENT

A GREAT PLACE FOR GREAT PEOPLE TO DO GREAT WORK

Byblos Bank knows that it can only be as effective and successful as its people are, so we take great care to supply them with the opportunities, training and support they need to stay happy, healthy, motivated, and productive. The Human Resources Division undertook several initiatives aimed at these and other goals in 2014, including:

- Implementation of our new OnTime attendance system, which gives employees a convenient self-service tool for several tasks, from managing their attendance records to planning, submitting, and monitoring leave requests. OnTime empowers employees by giving them a comprehensive view of where they stand, including the ability to correct bookings and other entries, ensuring greater control over their vacation planning. It also gives managers a powerful tool to keep track of attendance records, leave requests and other data in real time, enabling them to make decisions fairly and quickly while ensuring adequate staffing levels at all times.

- Launch of a partnership with GlobeMed that facilitates the entire healthcare process for our employees, and gives them free access to a 24/7 phone service for medical inquiries. Among other advantages, this relationship makes it easier for our employees to get the medicines they and their dependents need, settle charges for hospital admissions, and access a long list of other healthcare services. It also facilitates the Bank's work to ensure that all employee benefits records are kept accurate and up to date.

- Establishment of an Assessment and Development Center to support the Bank's efforts to recruit, retain, and develop the best talent available. The facility is staffed by Certified Internal Assessors who use the latest tools and a standardized competency-based assessment process to reliably assess potential; accurately identify individual strengths and weakness; and formulate personalized development plans based on scientific methodologies. Among other benefits, the initiative will make recruitment and promotion processes more effective, more objective, and more transparent; systematically align abilities and aptitudes with appropriate and viable career paths; and further our efforts to keep all members of the Byblos Bank team challenged, motivated, and well-equipped to provide superior service.

CORPORATE SOCIAL RESPONSIBILITY

HELPING OTHERS, IMPROVING OURSELVES

Byblos Bank is deeply committed to helping the communities we serve to develop on every level, from art, literature, and culture to education and the environment. In 2014, we became even more focused than ever on our primary avenues of intervention, which allows us to have a greater impact by concentrating our human and financial resources on particular areas.

PHOTOGRAPHY: MOMENTS IN TIME

Byblos Bank's Photography Program aims to support emerging Lebanese photographers by placing them at the heart of the art market and helping them build professional careers. This includes putting their talents in the spotlight by giving them access to the media, gallerists, collectors, and experts in the field. The program entailed several events in 2014, including:

- In January and February, Byblos Bank contributed to bringing Photomed, the Mediterranean region's leading photography festival, to Lebanon, and hosted an exhibition by renowned Italian master photographer Nino Migliori at its headquarters. Our aim was to offer both emerging Lebanese photographers and the general public an opportunity to see some truly great work being done in the world of photography. Photomed was so successful that Byblos Bank decided to become their main sponsor and cooperate in the development of a special Lebanese program, leading to exhibitions in early 2015 that have shed light on past and present glories of our country's rich photographic heritage.

- In March, we launched Purple Lens by Byblos Bank, a Facebook page dedicated to bolstering our Photography Program by engaging with photography lovers, promoting the work of Lebanese photographers in general, and providing exposure for Byblos Bank Award for Photography finalists in particular. By the end of the year, the page had 12,000 fans, and public interest is still growing.

- In April, Byblos Bank Headquarters was proud to host the first solo exhibition by Ghaleb Cabbabé, winner of the 2013 Byblos Bank Award for Photography. Titled "Ahlein" (or "Welcome"), the show consisted of 20 photographs capturing moments in the social activities of foreign expatriates residing in Lebanon. According to BEIRUT ART FAIR Artistic Director Pascal Odille, whose organization is the primary partner of the Byblos Bank Award, Cabbabé's work "is a dive into the daily lives of those who surround us, with no voyeurism and a lot of delicacy".

- Cabbabé's exhibition was accompanied by a free-of-charge seminar, open to all photographers, which delved into the history of photography and the photography market. Raising awareness of the value and history of photography is an integral part of our efforts to establish it as a standalone art in Lebanon.

YEAR IN REVIEW

- In September, we held the third edition of the Byblos Bank Award for Photography in cooperation with BEIRUT ART FAIR, attracting a record 67 emerging talents as participants. Renaud Bergonzo, Co-founder and Director of acte2galerie, a highly regarded Paris gallery specialized in photography, flew in from France to serve as President of the Jury. He also offered invaluable advice to the 10 finalists during the four days of the 2014 BEIRUT ART FAIR, which was visited by more than 21,000 people.

- Following a very close competition, the Jury named Myriam Boulos the winner of the 2014 Byblos Bank Award for Photography, making her the first woman to gain the honor. As in previous years, the centerpiece of the prize package was a solo exhibition to be hosted at Byblos Bank Headquarters in April 2015. To help Ms. Boulos prepare, she was immediately enrolled in a mentoring program tailored for her by BEIRUT ART FAIR Artistic Director Pascal Odille and world-famous photographer Jack Dabaghian. The Bank also will fund publication of a personal catalog for the winner, as well as a full media campaign to promote the exhibition.

HERITAGE: WHERE WE COME FROM

Heritage is a big part of what makes a population a people, so Byblos Bank has long been committed to highlighting and preserving the products of Lebanon's unique past, ensuring that they can also bear witness to a better future. In 2014, we supported several heritage initiatives, including the following:

- Byblos Bank's USD 2 million sponsorship of Phase I of the Jbeil (Byblos) Souks Renovation yielded tremendous results, boosting the tourism trade and improving the quality of life for all residents of the historic coastal city. This gave us even more reason to fund Phase II in 2014 by providing an additional USD 1 million grant to the Jbeil Municipality. Works are expected to be completed in 2015. This project is particularly important for Byblos Bank, not only because it contributes to the preservation of one of the world's oldest cities, but also because its positive economic impact generates more opportunities for local residents, empowering them to build successful lives and stay rooted in their homeland.

- Our activities in 2014 also included sponsorship of "Lebanon on Rail", a book by Eddy Choueiry that uses powerful photography to illustrate both the glorious past of Lebanon's railroads and the deplorable state into which they have fallen.

- The Bank also continued to sponsor "Hayda Lebnen", a daily program carried by LBCI Television that sheds light on the natural wonders and other landmarks that make Lebanon one of the world's most picturesque countries.

EDUCATION: THE MOST VALUABLE GIFT

Byblos Bank fully appreciates the difference education makes, so we have long been committed to helping more Lebanese acquire more learning at every level.

- The year 2014 saw Byblos Bank continue implementation of its University Loans Program (ULP), a partnership with the Agence Française de Développement (AFD). By fully utilizing the total line of credit of EUR 25 million from AFD, the program helped to finance the studies of over 1,500 students at nine private universities in Lebanon since its launch in 2010. ULP loans are disbursed in Lebanese Pounds and carry highly favorable terms and interest rates.

- Throughout the year, the Bank maintained its partnerships with several schools and universities in Lebanon, with special focus on education for youth and securing their access to new ideas.

- In addition, we laid the foundation for a Financial Literacy Program that will be initiated in 2015. This initiative is aimed at educating more Lebanese about finance, banking and economic information, helping to better understand how these areas impact their daily lives – and therefore equipping them to gain more control over their own destinies.

ENVIRONMENT: GREEN TODAY, GREENER TOMORROW

Byblos Bank has been a pioneer in spreading awareness of the need to protect our natural environment, and in actually doing something about it. This kind of work continued on several fronts in 2014:

- On the occasion of World Environment Day in June, we launched the Byblos Bank Shouf Reserve Bio-Corridor Reforestation Initiative, which will help reverse the degradation of Lebanon's forest cover. Carried out in cooperation with the Shouf Biosphere Reserve and the Lebanon Reforestation Initiative (funded by the US Agency for International Development and implemented by the US Forest Service), the project is highly ambitious. The goal is to plant some 10,000 trees (primarily *Cedrus Libani*) over 15 hectares of land that currently has no vegetation. This will not only restore forest cover with Lebanon's famous cedars and other native species, but also connect the cedar forests of Barouk with the oak one above Ammik.

- As an end-year gift, we also sponsored "Shouf Biosphere", a book that explains the importance of the work being done at the largest facility of its kind in Lebanon.

YEAR IN REVIEW

- In November, Byblos Bank's "The Lebanese Are Losing It" video, a call to arms for the defense of Lebanon's cedars, won a Silver Award at the Middle East Effie Awards for Effective Marketing. The spot urged the Lebanese to help retain their own national identity by helping to restore the country's cedar forests to their former glory.

- And on a daily basis throughout 2014, we also continued with the implementation of our Bgreen initiative at Byblos Bank Headquarters in Ashrafieh. Designed to limit and reduce the environmental impact of Head Office operations, this initiative includes specific and measurable actions to save energy and water, recycle paper and plastic bottles, and reduce the usage of paper.

OTHER ACTIVITIES

- In February, we sponsored the Université Saint Joseph's annual Daraj El Yassouiyeh event, three days of art, culture, and sports activities held in 2014 under the banner of Byblos Bank's cedar reforestation campaign.

- May marked the 29th time that the Bank has taken part in Child's Week, an event run by the Association for the Protection of Lebanese Children.

- In December, financial assistance from Byblos Bank helped the Jbeil Municipality to erect a stunning Christmas Tree in the heart of the community that hosts the ancient port town of Byblos. This tree attracted attention from both local and international media, including the Guardian and the Wall Street Journal. At more than 25 meters high, the spectacular symbol of the Christmas spirit helped draw thousands of tourists to the town during the holidays.

- The Bank also took part in fundraising events for a variety of non-governmental organizations (NGOs) to help them carry out their various functions in the community.

ADVOCACY

A VOICE FOR COMMON SENSE

Dr. François S. Bassil, Byblos Bank's Chairman and General Manager, is an elder statesman of Lebanon's banking industry who in June 2015 completed his fourth term as head of the Association of Banks in Lebanon (ABL). As such, his input into many of the debates regarding Lebanon's public finances and other issues carries considerable weight. And as usual, Dr. Bassil made use of his status in 2014 to address some of the country's most pressing challenges:

- In January, as Lebanon's political class bargained over the composition of yet another new Cabinet, Dr. Bassil focused on the more important matter of what policies the incoming government would follow. In particular, he warned that whoever the ministers were, they would have to "take drastic measures" to implement reforms and restore functionality to the mechanism of government.

- In May, Dr. Bassil declared his support for an increased salary scale, but only if it were accompanied by better tax collection, increased emphasis on job performance, and other "radical reforms" required to help the Treasury absorb added costs.

- In the latter part of the year, as preparations intensified for a new USD 1 billion sovereign Eurobond issue by the Lebanese Republic in early 2015, Dr. Bassil continued to champion the need for reform. Lebanon's banks, he explained, remained ready to help the state meet its financing needs – but he also called for decisive measures to be taken to improve the management of the public purse.

CORPORATE GOVERNANCE AND COMPLIANCE

MEETING OR SURPASSING THE MOST STRINGENT REQUIREMENTS

Strong governance and prudent management have allowed Byblos Bank to emerge relatively unscathed from multiple crises in recent years, including the 2007-2009 global financial crisis, ensuing weakness in Europe and other key markets, and ongoing instability in much of the MENA region. Far from prompting a relaxation of standards, however, this experience has only redoubled our faith in the necessity of world-class governance and compliance measures.

Accordingly, the Bank continues to operate a business model whose core principles include strict adherence with all local and international regulations. This stance includes constant reassessment and, as and when necessary, updating of our internal policies and procedures. It also means regular training for our employees, keeping them abreast of changing regulatory requirements and how best to apply these in various situations. Similar importance is placed on the quality of the information we provide, and to how we communicate it, especially to our shareholders. Byblos Bank goes to great lengths to ensure that financial and other material data are always accurate, complete, and up to date. This approach has earned us an industry-wide reputation for transparency, a vote of confidence that creates real-world value for all of our stakeholders, including customers, investors, employees, and business partners.

YEAR IN REVIEW

These practices are particularly helpful when it comes to shielding the Bank and its stakeholders against the effects of money laundering, terrorism financing, and other crimes that affect financial institutions. For this reason, the Byblos Bank Group relies on a wide range of measures and controls to keep it from being misused, whether by individuals or organizations seeking to breach international sanctions and/or otherwise circumvent or violate relevant laws and regulations. These include carefully designed internal organizational policies, timely implementation of supervisory initiatives, and close monitoring of internal processes and procedures. In addition, the Bank complies with all Central Bank of Lebanon rules and guidelines with regard to the establishment of a compliance function for identifying, monitoring, and reporting suspicious transactions and other activities.

In line with Basel Committee recommendations, Financial Action Task Force guidelines, local regulations and international best practice standards, the Group maintains a comprehensive compliance program of policies, procedures and systems to fulfill its commitment to detecting and preventing all forms of money laundering and related activities. This compliance program follows strict principles which we apply in each and every jurisdiction where the Group has a presence, including:

- Conducting all necessary due diligence before establishing a relationship with a prospective client, including verifying his or her identity, ascertaining the legitimacy of sources of funds, identifying third parties who might actually control the disposition of those funds, understanding the customer's business model, and determining the intended purpose of the business relationship. Under Group policy, and under no circumstances do we offer our services to "walk-in" customers not maintaining an account with us.

- Prohibiting or restricting the opening of accounts for certain types of relationships, such as shell banks, non-face-to-face customers, money services businesses (MSBs), numbered or bearer accounts, online casinos and other gambling websites, among others.

- Applying a risk-based approach, when determining whether to accept or reject the initiation of a business relationship, that accounts for factors such as the prospective customer's background, geographic location, nature of business activity, and type of banking products being solicited. The Group strictly denies access to its services whenever due diligence examinations of a customer reveal inconsistency in the facts.

- Exercising enhanced due diligence and increased transaction monitoring for customers believed to pose a higher-than-average risk for money laundering, including, but not limited to, those considered politically or financially exposed.

- Monitoring accounts for changes in transaction patterns that deviate from expected activity or behavior that would be considered normal for that particular customer or category of customers.

- Screening customer data and transaction details against sanction programs administered by local authorities as well as foreign countries and organizations (such as OFAC, the United Nations and the European Union, among others) to ensure that individuals, entities, countries, vessels, goods and services associated directly or indirectly with any transaction are in full compliance with those sanctions.

- Reporting to the Group AML and Legal Compliance Department on any transaction deemed to be unusual or suspicious, and, as and when appropriate, filing a case with the local authorities.

- Providing all staff with continuous training on anti-money laundering measures and techniques, and ensuring awareness of the Group's obligations toward sanctions programs.

The Group uses a vigorous oversight regime over its activities to ensure consistent adherence with all elements of its compliance program. This includes the assignment of a compliance officer to each branch and the presence of a local Compliance Unit for each subsidiary, all under the supervision of a Group AML and Legal Compliance Department located at Byblos Bank Headquarters. The Head of Group Compliance has direct access to Senior Management, the Board of Directors, and the Central Bank of Lebanon's Special Investigation Commission.

These and other activities stem from our unshakeable belief in high standards of governance as the ultimate tool in modern risk management. Accordingly, we use state-of-the-art procedures to control different types of risks, for all lines of business, at the individual, portfolio, and aggregate levels. We take great care to protect client information, maintain lofty ethics in all our business dealings, and provide fully transparent risk disclosure to the Board of Directors, Senior Management, regulators, ratings agencies, and other interested parties.

For decades, this belief has empowered Byblos Bank to generate solid returns, steadily improve its long-term financial position, and build a sterling reputation. Having derived so much value from this approach and the self-improvement and other sound practices it encourages, we look forward to relying on them – and constant refinements – for generations to come.

BOARD OF DIRECTORS MEMBER PROFILES

DR. FRANÇOIS S. BASSIL
CHAIRMAN AND GENERAL MANAGER

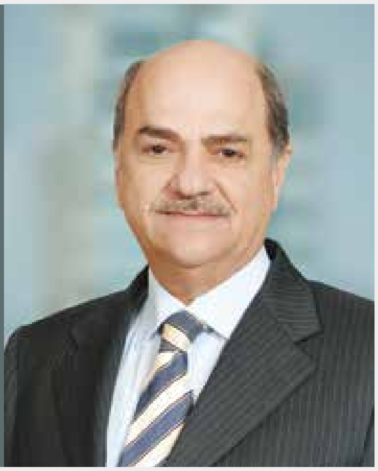
Lebanese, born in 1934. Holder of a PhD in Law from Leuven University in Belgium. Has been working in the banking sector since 1962. Was a co-founder of Byblos Bank S.A.L., which he has helped transform into Lebanon's third-largest bank and where he currently holds the positions of Chairman of the Board of Directors and General Manager. Is also Chairman of the Board of Directors of Byblos Bank Africa. Also sits on the Boards of Byblos Bank Europe, Byblos Bank Syria, and Byblos Bank Armenia. In addition, serves as Chairman of the Board of Directors and General Manager of Byblos Invest Holding Luxembourg. In June 2015 completed a fourth term as Chairman of the Board of the Association of Banks in Lebanon.

MR. SEMAAN BASSIL
VICE-CHAIRMAN AND GENERAL MANAGER

Lebanese, born in 1965. Holder of a Bachelor's Degree from Boston University in the US and an MBA from Cambridge University in the UK. Has been working in the banking sector since 1990. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 1992, and Vice-Chairman of the Board and General Manager since 2000. Also serves as Chairman of the Board of Byblos Bank Syria, Chairman and General Manager of Byblos Invest Bank S.A.L., Vice-Chairman of the Board of Byblos Bank Africa, and Member of the Board of Byblos Bank Europe.

H.E. MR. ARTHUR G. NAZARIAN
DIRECTOR

Lebanese, born in 1951. Holder of a Degree in Textile Engineering from Philadelphia University in the US. Has served as Lebanon's Minister of Energy and Water Resources since 2014, as a Member of the Lebanese Parliament since 2009, and is a former Minister of Tourism and of Environment. Is an entrepreneur at the helm of several companies in Lebanon and the Gulf. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2006, and serves as a Member of the Risk, Compliance, Anti-Money-Laundering and Combating the Financing of Terrorism Committee, and of the Human Resources, Compensation, Remuneration, Nomination and Corporate Governance Committee, both of which are affiliated to the Board. Also serves as a Member of the Board of Directors of Byblos Bank Armenia.



BOARD OF DIRECTORS MEMBER PROFILES

BARON DR. GUY L. QUADEN
DIRECTOR

Belgian, born in 1945. Holder of a Master's Degree in Economics from La Sorbonne in France and of a PhD from Liège University in Belgium. Appointed in 1977 as Professor of Economic Policy at Liège University, where he later served as Dean of the Faculty of Economics and Management. Started his career in the banking sector in 1988 when he joined the Board of the National Bank of Belgium (the country's central bank), later serving as Governor (and as a Member of the Governing Council of the European Central Bank) from 1999 until 2011. Has produced numerous economic publications. Received the title of Baron from the King of Belgium and was decorated as an Officer of the Légion d'Honneur by the President of the French Republic. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2012. Also sits on the Board of Byblos Bank Europe.

MR. DES S. O'SHEA
DIRECTOR

Irish, born in 1956. Holder of a Bachelor of Commerce Degree from University College Cork in Ireland, and qualified as a Chartered Accountant in 1980. Has been working in the banking industry since 1981, including eight years as Vice President of GE Capital ending in 2011, and is a current or former holder of banking directorships in 10 countries. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2014.

MR. AHMAD T. TABBARA
DIRECTOR

Lebanese, born in 1940. Holder of a Bachelor's Degree from the American University of Beirut. Worked as a consultant to former Prime Minister Salim el Hoss. Is an entrepreneur with shares in a number of family businesses and social initiatives, including the Toufic Tabbara Cultural Center. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 1999. Also serves as a Member of the Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee affiliated to the Board.

BOARD OF DIRECTORS MEMBER PROFILES

MR. BASSAM A. NASSAR
DIRECTOR

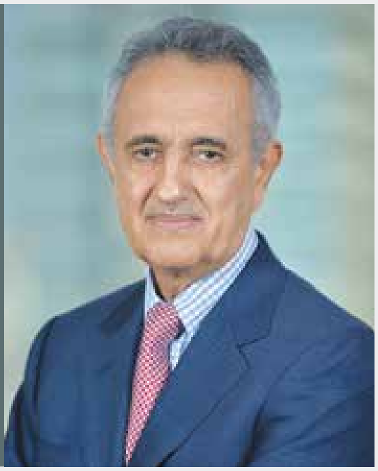
Lebanese, born in 1965. Pursued his higher studies at both the London School of Economics in the UK and Harvard Business School in the US. Is an entrepreneur with major holdings in a number of private companies in Nigeria. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 1992, and serves as a Member of the Audit Committee and the Human Resources, Compensation, Remuneration, Nomination and Corporate Governance Committee, both of which are affiliated to the Board. Also serves as Chairman of the Board of Byblos Bank Europe and as a Member of the Board of Byblos Invest Holding Luxembourg.

MR. FAISAL M. ALI EL TABSH
DIRECTOR

Lebanese, born in 1948. Holder of a Master's Degree in Geology from the American University of Beirut. Is an entrepreneur and owner of M.A. Tabsh Company in Saudi Arabia. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2000. Is also a Member of the Board of Byblos Invest Holding Luxembourg and Vice-Chairman of the Board of Byblos Bank Europe.

MR. ABDULHADI A. SHAYIF*
DIRECTOR

Saudi Arabian, born in 1948. Pursued his studies in Economics at the American University of Beirut. Has been working in the banking sector since 1974, since which time he has assumed several top positions in the financial sectors of various Arab countries, most notably that of General Manager of National Commercial Bank Jeddah. Was a Member of the Board of Directors of Byblos Bank S.A.L. from 2006 until 2015. Also served as Chairman of the Risk, Compliance, Anti-Money-Laundering and Combating the Financing of Terrorism Committee and as a Member of the Audit Committee, both of which are affiliated to the Board.



** The mandate of Mr. Abdulhadi A. Shayif expired on 15 May 2015.*

BOARD OF DIRECTORS MEMBER PROFILES

DR. HENRY T. AZZAM
DIRECTOR

Lebanese, born in 1949. Holder of a PhD in Economics from the University of Southern California in the US. Has been working in the financial sector since 1981. Has assumed key positions with major financial companies in Lebanon and other parts of the Arab world, including Deutsche Bank Dubai. Is well-versed in the money and banking markets and has issued publications and articles revolving around the financial world. Has been on the Board of Directors of Byblos Bank S.A.L. since 2012.

MR. ALAIN C. TOHMÉ
DIRECTOR

Lebanese, born in 1962. Holder of a Bachelor of Commerce Degree from University College Cork in Ireland and an MBA from Boston College in the US. Started working in the banking industry when he joined Byblos Bank Europe in 1985 before moving in 1997 to Byblos Bank S.A.L., where he assumed several positions, the most recent having been Deputy General Manager, until 2011. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2011 and serves as Chairman of the Audit Committee and Member of the Human Resources, Compensation, Remuneration, Nomination and Corporate Governance Committee, both of which are affiliated to the Board. Is also Chairman of the Board of Byblos Bank Armenia, Vice-Chairman of the Board of Byblos Bank Syria, a Member of the Board of Byblos Bank RDC, and a Member of the Board of Byblos Invest Bank S.A.L.

The Ordinary General Assembly of Shareholders elected Mr. Yves R. Jacquot to the Board of Directors on 15 May 2015.

BOARD OF DIRECTORS COMMITTEES

AUDIT COMMITTEE

Chairman	Mr. Alain C. Tohmé
Members	Mr. Abdulhadi A. Shayif
	Mr. Bassam A. Nassar

RISK, COMPLIANCE, ANTI-MONEY-LAUNDERING AND COMBATING THE FINANCING OF TERRORISM COMMITTEE

Chairman	Mr. Abdulhadi A. Shayif
Members	H.E. Mr. Arthur G. Nazarian
	Mr. Ahmad T. Tabbara
	Mr. Des S. O'Shea

HUMAN RESOURCES, COMPENSATION, REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Chairman	Mr. Alain C. Tohmé
Members	H.E. Mr. Arthur G. Nazarian
	Mr. Bassam A. Nassar

MANAGEMENT COMMITTEES

EXECUTIVE COMMITTEE

President	François S. Bassil	Chairman and General Manager
Vice President	Semaan F. Bassil	Vice-Chairman and General Manager
Members	Joumana Chelala	DGM*, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division

CENTRAL CREDIT COMMITTEE

President	Semaan F. Bassil	Vice-Chairman and General Manager
Vice President	Marwan Moharram	DGM, Head of Group Risk Management Division
Members	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
	Fouad Ferneiné	Head of Corporate Banking Department

INTERNAL AUDIT MANAGEMENT COMMITTEE

President	Fadi Abou Abdallah	Head of Group Internal Audit Division
Vice President	Marwan Moharram	DGM, Head of Group Risk Management Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Joseph Nasr	AGM**, Head of Distribution Network Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

ASSETS AND LIABILITIES COMMITTEE

President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
Vice President	Fadi Nassar	DGM, Head of Group Commercial Banking Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

BANKING TECHNOLOGY COMMITTEE

President	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division
Vice President	Ziad El Zoghbi	Head of Group Finance and Administration Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Walid Kazan	AGM, Head of International Network Division
	Elie Bassil	Head of Group Banking Technology Division

** DGM – Deputy General Manager.* *** AGM – Assistant General Manager.*

MANAGEMENT COMMITTEES

HUMAN RESOURCES COMMITTEE

President	Semaan F. Bassil	Vice-Chairman and General Manager
Vice President	Fadi Hayek	Head of Group Human Resources Division
Members	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division

RISK MANAGEMENT COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division
	Pascale Maksoud Dahrouge	Head of Group Financial and Operational Risk Management Department

INTERNATIONAL COMMITTEE

President	Semaan F. Bassil	Vice-Chairman and General Manager
Vice President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
Members	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Walid Kazan	AGM, Head of International Network Division
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division
	Gilbert Zouein	AGM, Head of Group Products, Segments and Marketing Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

COMPLIANCE AND ANTI-MONEY-LAUNDERING COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Joumana Chelala	DGM, Head of Consumer Banking Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
	Walid Kazan	AGM, Head of International Network Division
	Joseph Nasr	AGM, Head of Distribution Network Division
	Fadi Abou Abdallah	Head of Group Internal Audit Division
	Paul Chammas	Head of Group Operations Division
	Sharif Hachem	Head of Group Anti-Money-Laundering and Regulatory Compliance Department

MANAGEMENT COMMITTEES

LOAN RECOVERY COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Fadi Nassar	DGM, Head of Group Commercial Banking Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Samir Hélou	Head of Loan Recovery Department

OPERATIONAL RISK COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Raffoul Raffoul	Head of Group Organization Development, Information Systems and Operational Support Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Joseph Nasr	AGM, Head of Distribution Network Division
	Paul Chammas	Head of Group Operations Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division
	Pascale Maksoud Dahrouge	Head of Group Financial and Operational Risk Management Department

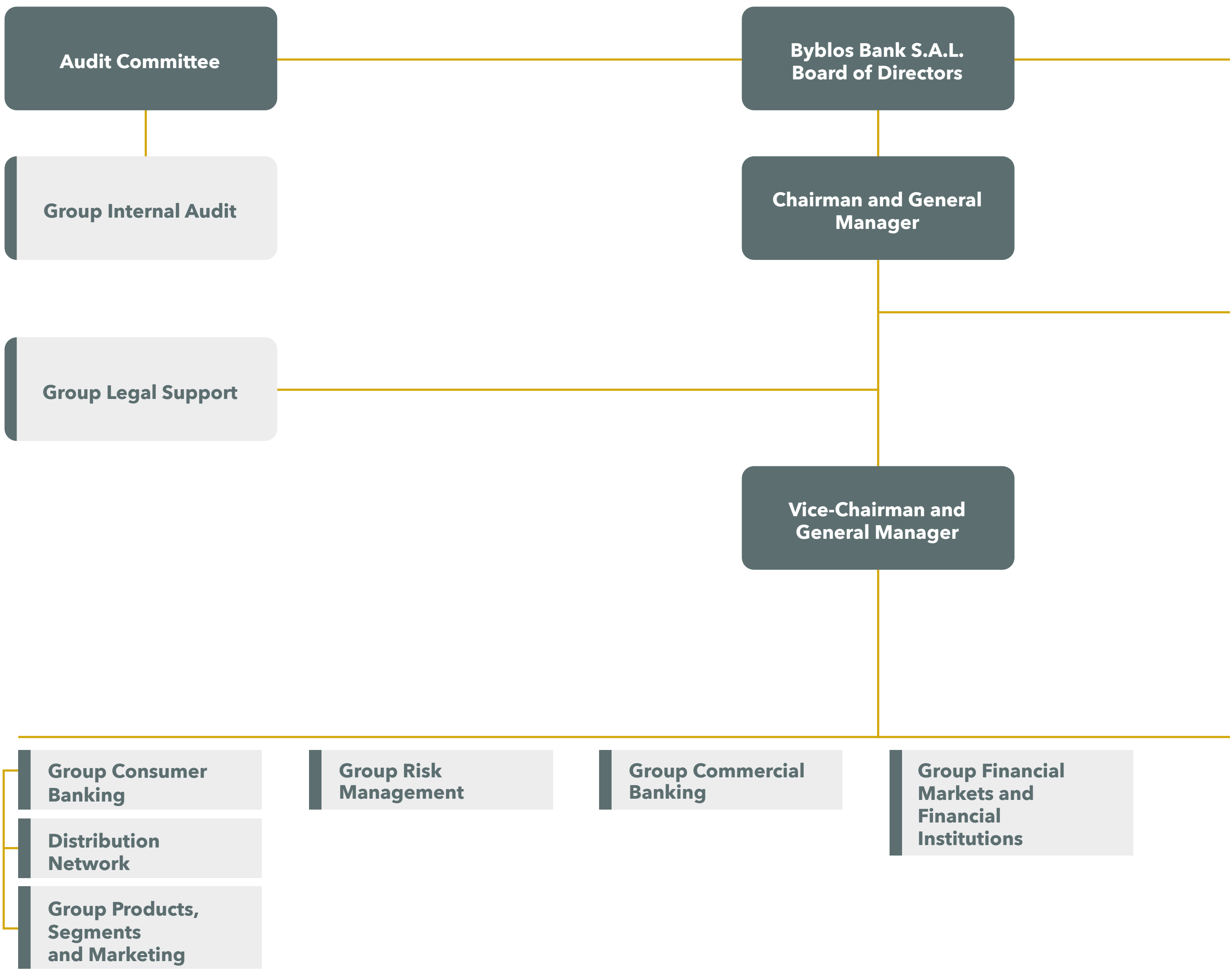
INFORMATION SECURITY COMMITTEE

President	Raffoul Raffoul	Head of Group Organization Development, Information Systems and Operational Support Division
Vice President	Marwan Moharram	DGM, Head of Group Risk Management Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Walid Kazan	AGM, Head of International Network Division
	Elie Bassil	Head of Group Banking Technology Division

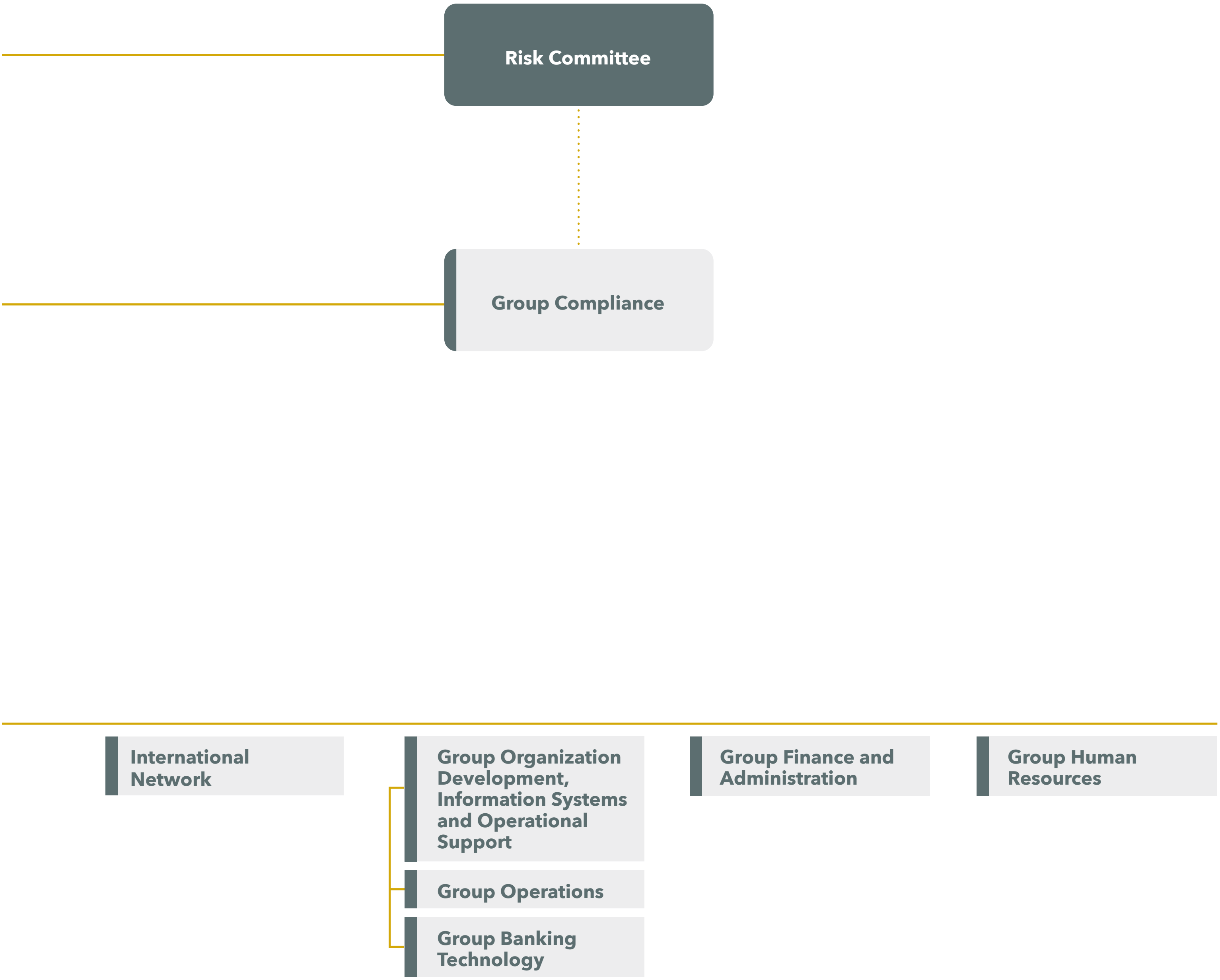
PURCHASING COMMITTEE

President	Ziad El Zoghbi	Head of Group Finance and Administration Division
Vice President	Joumana Chelala	DGM, Head of Group Consumer Banking Division
Members	Semaan F. Bassil	Vice-Chairman and General Manager
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division
	Antoine Keldany	Head of Administration Department

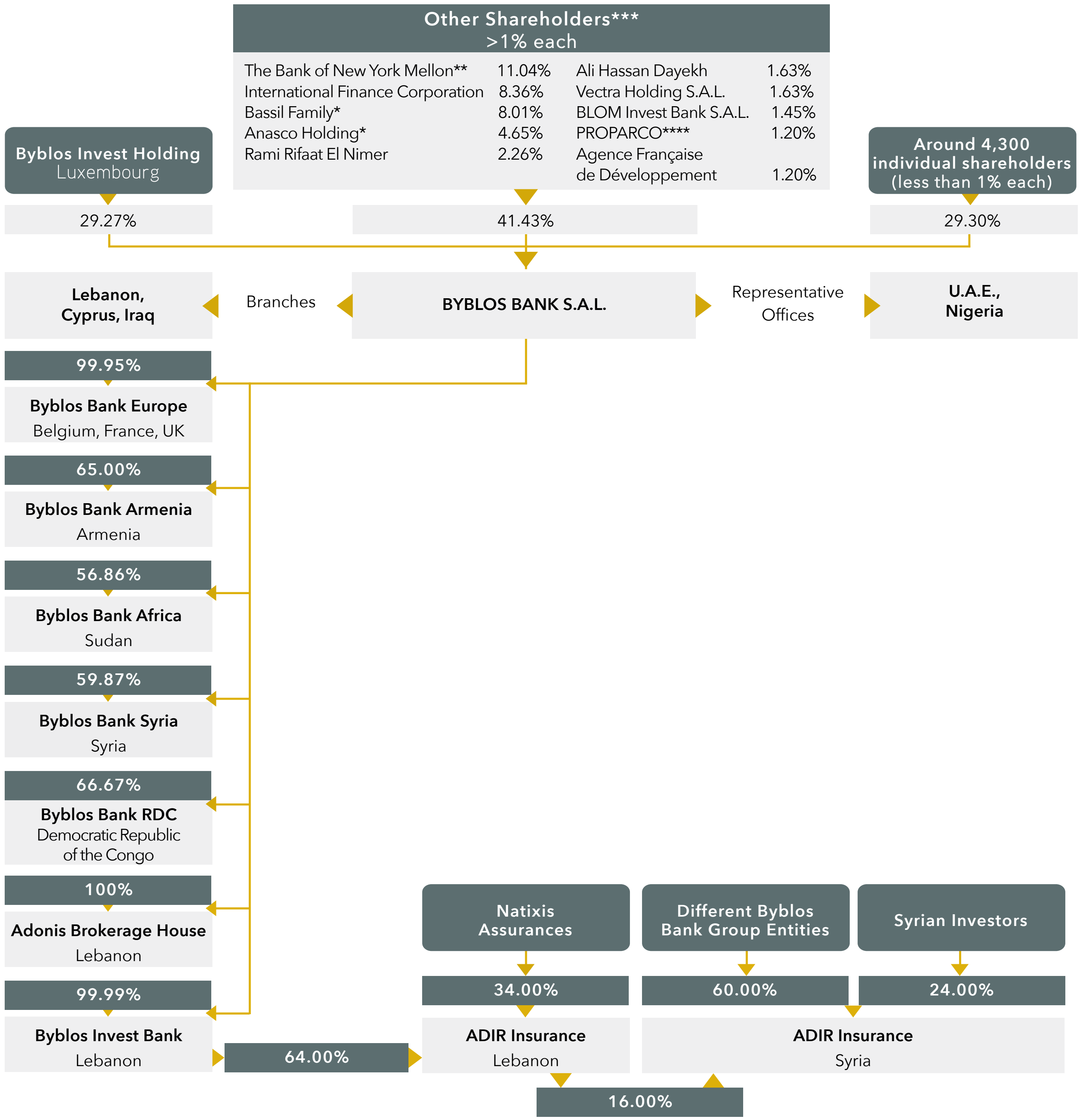
ORGANIZATIONAL CHART



ORGANIZATIONAL CHART



GROUP CHART



* Major shareholders in Byblos Invest Holding.

** The Bank of New York Mellon is the depositary bank for the GDR program.

*** Including preferred shares, as at 31 December 2014.

**** Société de Promotion et de Participation pour la Coopération Economique.

PERFORMANCE REVIEW

KEY FINANCIAL DATA

	2005	2006	2007
Total assets	7,526	8,190	9,486
Customers' deposits	5,646	6,276	7,262
Net advances to customers	1,488	1,750	2,233
Cash and due from banks (1)	3,194	3,234	3,884
Total equity	794	752	984
Net book value (2)	555	580	613
Net income	69.4	78.7	99.2
Number of domestic branches	73	73	73
Number of foreign branches and subsidiaries (3)	6	9	16
Number of ATMs	84	85	109
Number of employees	1,520	1,766	2,101
Market Shares (4)			
Market share in assets	9.17%	9.30%	9.67%
Market share in customers' loans	7.18%	8.35%	8.78%
Market share in customers' deposits	9.32%	9.42%	9.55%
Share Data			
Book value per share in USD (5)	1.11	1.17	1.25
Earnings per common share in USD (5)	0.25	0.14	0.18
Earnings per priority share in USD (5)	0.29	0.17	0.22
Net dividend per common share in USD (6)	0.10	0.10	0.10
Net dividend per priority share in USD (6) (7)	0.01	0.13	0.13
Dividend payout ratio	50.63%	78.32%	62.17%
Profitability			
Return on average assets	0.96%	1.00%	1.12%
Return on average common equity	12.03%	11.37%	13.84%
Leverage multiplier	10.87	11.37	12.41
Interest on earning assets	6.32%	7.16%	7.29%
Funding cost	5.02%	5.66%	5.64%
Spread	1.30%	1.49%	1.65%
Net interest margin	1.70%	2.00%	2.10%
Cost-to-income	49.56%	53.41%	51.81%
Operating expenses to average assets	1.37%	1.42%	1.49%
Capital Adequacy			
Capital to assets	10.55%	9.18%	10.37%
Capital adequacy (8)	25.04%	20.17%	11.23%
Liquidity			
Net advances/assets	19.77%	21.36%	23.54%
Net advances/customers' deposits	26.36%	27.88%	30.75%
Customers' deposits/total resources	75.02%	76.63%	76.56%
Liquid assets	76.20%	74.00%	71.63%
Assets Quality			
Loan loss provisions (9)/customers' loans	10.24%	8.73%	5.40%
Non-performing loans/customers' loans	10.47%	8.14%	4.66%
Loan loss provision (9)/non-performing loans	91.30%	100.88%	107.51%

(1) Includes CDs issued by the Central Bank.
(2) Excludes subordinated loans.
(3) Includes branches of Byblos Bank Europe; Byblos Bank Africa; Byblos Bank Syria; Byblos Bank Armenia; Byblos Bank DR Congo; and branches of Byblos Bank S.A.L. in Baghdad, Basra, Erbil and Cyprus.
(4) Market Share is based on all commercial and investment banks operating in Lebanon.
(5) Based on the number of shares outstanding at the end of the period.

Year ended 31 December (in USD million, except for per share data)

KEY FINANCIAL DATA

2008	2009	2010	2011	2012	2013	2014
11,230	13,576	15,288	16,602	17,015	18,485	19,035
8,363	10,286	11,927	12,820	13,384	14,749	15,715
2,790	3,197	3,771	4,008	4,120	4,511	4,728
4,708	6,179	7,802	9,001	8,917	9,298	9,468
1,270	1,494	1,831	1,852	1,926	1,922	1,963
699	827	1,124	1,148	1,181	1,204	1,246
122.0	145.6	177.7	179.7	167.3	156.2	175.5
76	75	77	78	77	76	78
17	19	23	24	25	25	24
114	133	149	165	168	186	203
2,362	2,433	2,719	2,716	2,572	2,526	2,531
9.88%	9.80%	9.97%	10.27%	9.91%	10.00%	9.90%
8.71%	8.51%	8.05%	8.00%	8.15%	8.43%	8.27%
9.48%	9.41%	9.51%	9.66%	9.59%	9.89%	10.01%
0.94	1.06	1.32	1.36	1.42	1.46	1.53
0.21	0.26	0.27	0.25	0.23	0.21	0.24
0.24	0.29	0.30				
0.10	0.13	0.13	0.13	0.13	0.13	0.13
0.13	0.16	0.16				
57.10%	58.71%	63.80%	59.62%	64.04%	68.61%	61.07%
1.18%	1.17%	1.23%	1.13%	1.00%	0.88%	0.94%
14.56%	15.00%	14.03%	12.29%	11.28%	9.80%	11.07%
10.46	10.48	9.38	10.07	10.29	11.21	11.28
6.97%	6.38%	5.84%	5.50%	5.25%	5.08%	5.19%
4.99%	4.65%	4.21%	4.00%	3.98%	4.04%	4.19%
1.98%	1.73%	1.63%	1.49%	1.27%	1.04%	1.00%
2.39%	2.17%	2.04%	1.88%	1.64%	1.40%	1.36%
47.38%	46.28%	45.54%	43.65%	45.89%	46.86%	46.66%
1.77%	1.42%	1.47%	1.29%	1.28%	1.18%	1.15%
11.31%	11.01%	11.97%	11.16%	11.32%	10.40%	10.31%
12.61%	12.62%	14.75%	14.60%	16.74%	16.04%	16.65%
24.85%	23.55%	24.67%	24.14%	24.21%	24.40%	24.84%
33.37%	31.08%	31.62%	31.26%	30.78%	30.59%	30.08%
74.47%	75.77%	78.01%	77.22%	78.66%	79.79%	82.56%
70.69%	72.42%	71.85%	72.48%	72.56%	72.16%	72.29%
4.19%	3.64%	3.45%	4.04%	5.30%	5.82%	6.11%
3.36%	2.63%	2.38%	3.02%	5.28%	4.85%	5.05%
115.64%	134.10%	144.46%	132.77%	99.62%	119.77%	120.67%

(6) Net of income tax (5%).
(7) Representing annual distribution for priority shares calculated at 4% of the nominal value in addition to dividend declared for common shares, noting that as of May 2011, priority shares were converted into common shares.

(8) Capital adequacy is calculated based on Basel II as of December 2007 and Basel III as of December 2011.
(9) Includes specific and collective provisions, as well as reserved interest.

BYBLOS BANK S.A.L.

ANNUAL REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE BANK

Byblos Bank is one of the leading banks in Lebanon, providing a full range of banking services through its extensive branch network. Through its overseas banking and other subsidiaries, as well as representative offices, the Bank also conducts a wide range of commercial banking and other financial activities in Europe and the Middle East and North Africa (MENA) region. As at 31 December 2014, the Bank had 2,531 employees, 78 branches in Lebanon, one branch in Cyprus, and three in Iraq (Erbil, Baghdad, and Basra). As at the same date, Byblos Bank Europe S.A., the Bank's 99.95% owned subsidiary, had its main branch in Brussels, one branch in London and another in Paris; Byblos Bank Africa, the Bank's 56.86% owned subsidiary, had one branch in Khartoum and one branch in Bahri; Byblos Bank Syria P.J.S.C., the Bank's 59.87% owned subsidiary, had four branches in Damascus (Abou Roummaneh, Mazzeh, Hosh Blass, and Abbassiyeen), and one branch in each of Aleppo, Homs, Lattakia, Tartous, Hama, and Swaidaa. Byblos Bank Armenia C.J.S.C., the Bank's 65% owned subsidiary, had three branches in Yerevan (Amirian, Malatia and Komitas) and one branch in Vanadzor. Byblos Bank RDC S.A., the Bank's 66.67% owned subsidiary, had one branch in Kinshasa-Gombe, Democratic Republic of the Congo. The Bank also has a representative office in Abu Dhabi, United Arab Emirates, and another in Lagos, Nigeria, both of which are aimed at better servicing of the Lebanese Diaspora.

The following analysis covers the performance of the Bank during the fiscal year 2014 with a comparative with the previous years where the data are based on the consolidated audited financial statements of the Bank. Data for the sector are extracted from either the Banque du Liban (BDL) quarterly bulletin, Bankdata, or the Alpha Group report, which consists of banks having total deposits greater than USD 2 billion. The analysis starts with a detailed analysis of the Bank's growth, profitability, asset quality, credit risk, dividend distribution and finally an overview of the Bank's ratings.

GROWTH

ASSETS

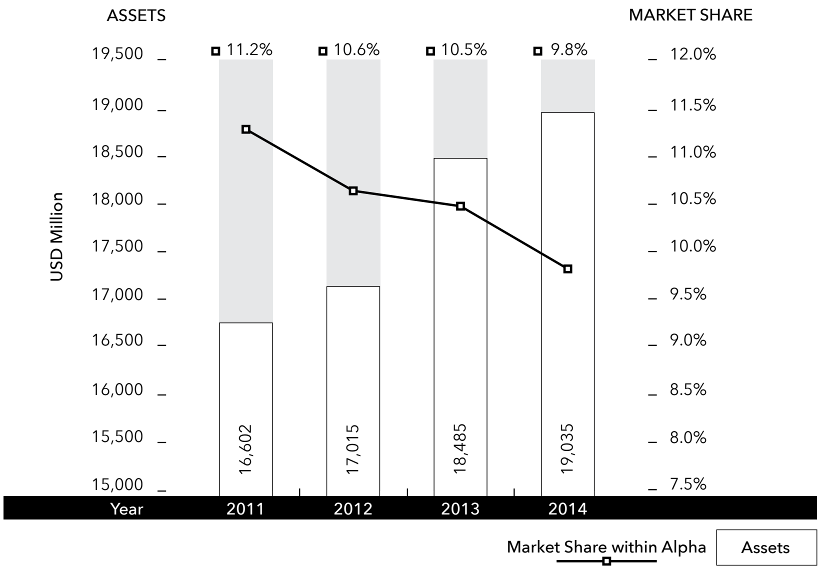
Total assets of the Bank recorded an increase of 3.0% during the year 2014 to reach LBP 28,695 billion (USD 19,035 million) at the end of December 2014 compared to an increase of 8.6% during the year 2013, and compared to an increase of 10.4% in the Alpha Group of top Lebanese banks. Consequently, the Bank's market share in the Alpha Group by total assets stood at 9.8% at the end of 31 December 2014 compared to 10.5% at the end of 31 December 2013.

During the period between 31 December 2011 and 31 December 2014, total assets of the Bank grew at an average annual compounded rate of 4.7% compared to growth of 9.6% in the Alpha Group, which was reflected in the Bank's market share by total assets, which decreased from 11.2% at the end of December 2011 to 9.8% at the end of December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

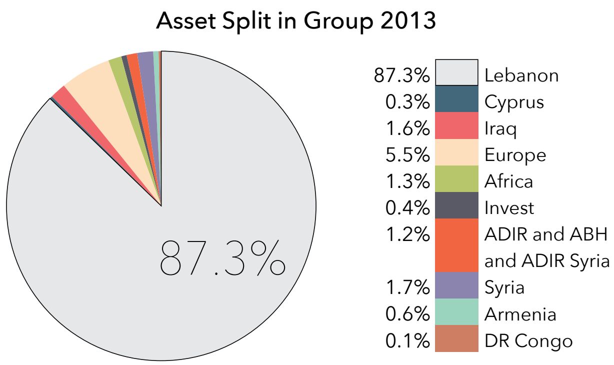
The bar chart below shows the evolution of total assets and market share during the last four years:

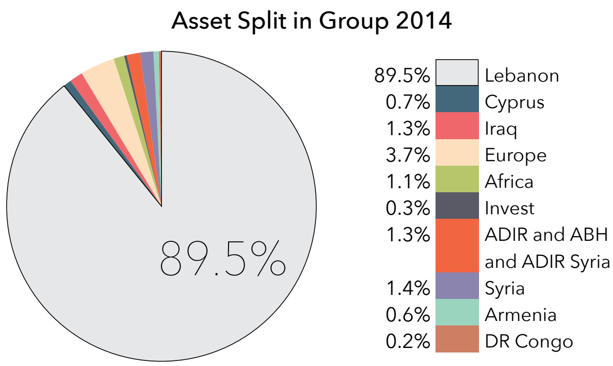
Evolution of Total Assets During Last Four Years



ASSET SPLIT IN THE GROUP

The following pie charts show the breakdown of assets in the Byblos Bank Group as at 31 December 2013 and 31 December 2014:





As illustrated above, total assets of international subsidiary banks and branches represented 9.0% of total assets as at 31 December 2014, lower than 11.1% at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

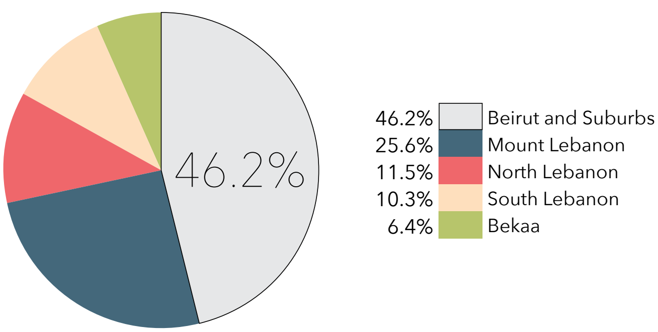
Geographical Distribution of Branches

Byblos Bank's branch network reached 78 branches inside Lebanon at the end of 2014, representing 7.6% of total branches in the Lebanese banking sector. Byblos Bank's branch presence is more concentrated in rural areas as compared to the distribution in the sector as a whole. Byblos Bank branches located in Mount Lebanon, numbering 20, represented 25.6% of total Byblos Bank branches at the end of December 2014 compared to just 19.0% in the Lebanese banking sector, and represented 10.3% of total branches in the Lebanese banking sector operating in Mount Lebanon. On the other hand, branches located in Beirut and its suburbs, 36 branches, represented 46.2% of total Byblos Bank branches at the end of December 2014 compared to 53.7% in the Lebanese banking sector, and represented 6.6% of total branches operating in Beirut and its suburbs.

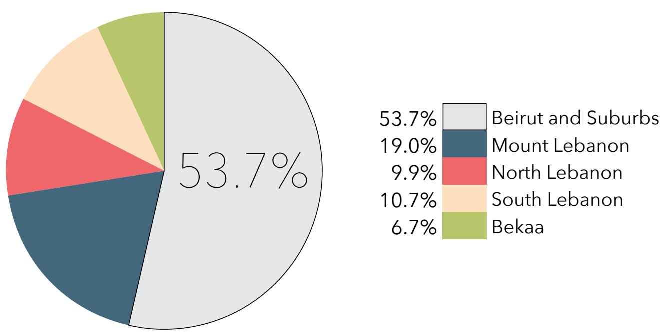
The nine branches located in the North of Lebanon represented 11.5% of total Byblos Bank branches compared to 9.9% in the Lebanese banking sector, and represented 8.9% of total branches of the Lebanese banking sector operating in North Lebanon. In South Lebanon (eight branches) and the Bekaa Valley (five branches), Byblos Bank's presence was almost identical to the Lebanese banking sector, with Byblos Bank branches located in the South and the Bekaa representing 10.3% and 6.4% of total Byblos Bank branches respectively, compared to 10.7% and 6.7% respectively in the Lebanese banking sector.

The pie charts below show the geographical distribution of Byblos Bank branches in Lebanon as compared to the Lebanese banking sector as at 31 December 2014:

Byblos Bank Dec. 2014



Sector Dec. 2014

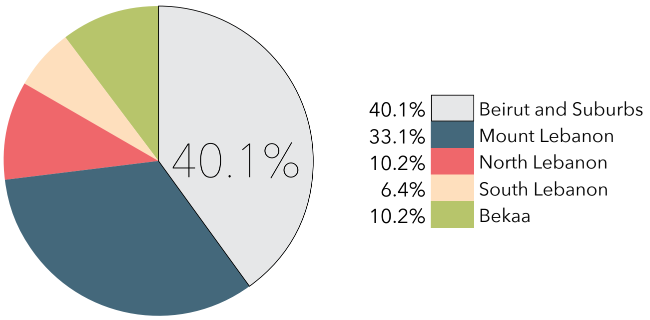


MANAGEMENT DISCUSSION AND ANALYSIS

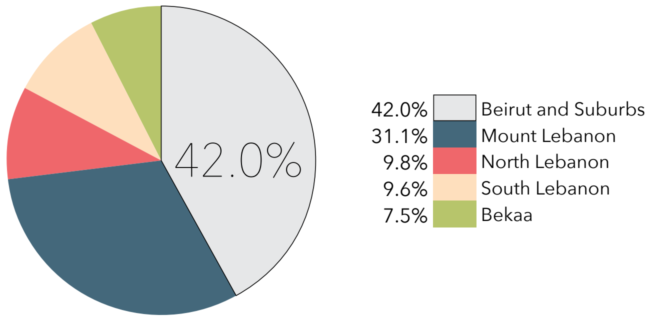
At the end of 2014, the Byblos Bank Group's presence abroad consisted of Cyprus; Erbil, Baghdad and Basra in Iraq (branches of Byblos Bank S.A.L.); Brussels, London, and Paris through our subsidiary Byblos Bank Europe S.A.; Khartoum and Bahri through our subsidiary Byblos Bank Africa (Sudan); Abou Roummaneh, Aleppo, Homs, Lattakia, Mazzeh, Tartous, Hama, Abbassiyeen, Hosh Blass and Swaidaa through our subsidiary Byblos Bank Syria P.J.S.C.; Vanadzor, Malatia, Amirian and Komitas through our subsidiary Byblos Bank Armenia C.J.S.C.; and Kinshasa-Gombe through our subsidiary Byblos Bank RDC S.A.

Geographical Distribution of Automated Teller Machines (ATMs)

Geographical Distribution of ATMs (Byblos Bank Dec. 2014)



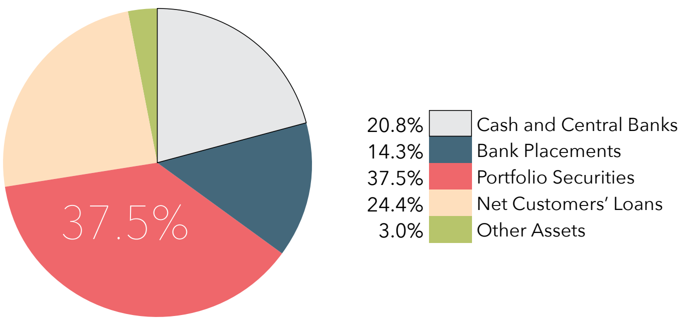
Geographical Distribution of ATMs (Sector Dec. 2014)



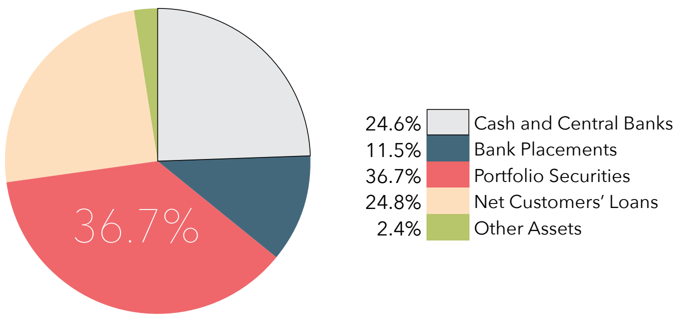
ASSET BREAKDOWN

The pie charts below show the composition of the Bank's assets as at 31 December 2013 and 31 December 2014:

Breakdown of Assets 2013



Breakdown of Assets 2014



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL INSTRUMENTS PORTFOLIO

The Bank's financial instruments portfolio (held at amortized cost, fair value through profit and loss, fair value through OCI) includes Lebanese Treasury bills and other governmental bills, certificates of deposit, bonds and financial instruments with fixed income, and marketable securities and financial instruments with variable income.

The following table sets forth the breakdown of the Bank's securities portfolio by type of instrument and currency as at 31 December 2012, 2013 and 2014:

As at 31 December	2012		2013		2014	
	LBP Million	%	LBP Million	%	LBP Million	%
Lebanese and other governmental treasury bills and bonds						
Lebanese Treasury bills in LBP	2,182,704	22.9	2,624,259	25.1	3,237,470	30.8
Lebanese and other governmental bonds in foreign currencies	2,031,047	21.3	2,802,672	26.8	2,692,128	25.6
Bonds and financial assets with fixed income						
Corporate bonds	797,650	8.4	635,339	6.1	509,044	4.8
Corporate certificates of deposit in foreign currencies	164,122	1.7	33,102	0.3	33,147	0.3
Central Bank certificates of deposit in LBP and foreign currencies	4,259,293	44.7	4,239,371	40.6	3,916,550	37.2
Shares, securities and financial assets with variable income in LBP and foreign currencies	104,791	1.1	119,859	1.1	134,660	1.3
Collective Provisions	(5,487)	-0.1	(5,062)	0.0	(1,574)	0.0
Total	**9,534,121**	**100**	**10,449,540**	**100**	**10,521,425**	**100**

The Bank's portfolio of securities is classified as follows:

Investments by Classification

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

The classification of financial assets depends on the basis of the Bank's business model for managing the financial assets and their respective contractual cash flow characteristics. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or fair value.

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

MANAGEMENT DISCUSSION AND ANALYSIS

- DEBT INSTRUMENTS AT AMORTIZED COST
  Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:
  1. The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
  2. The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- DEBT INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS
  Included in this category are those debt instruments that do not meet the conditions in "Debt instruments at amortized cost" above, and debt instruments designated at fair value through profit or loss upon initial recognition.

- EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS
  Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income (OCI).

- EQUITY INSTRUMENTS 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.

The following tables set forth a breakdown of the Bank's investment securities portfolio, by classification, as at 31 December 2012, 2013 and 2014:

As at 31 December 2012 LBP Million	Equity instruments at fair value through profit or loss	Debt instruments at fair value through profit or loss	Debt instruments at amortized cost	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		10,537	4,165,733		83,024	4,259,293
Lebanese and other governmental treasury bills and bonds		253,890	3,899,640		60,221	4,213,751
Bonds and financial assets with fixed income		7,655	779,037		10,958	797,650
Shares, securities and financial instruments with variable income	26,127			78,664		104,791
Corporate certificates of deposit			163,869		253	164,122
Collective Provisions			(5,487)			(5,487)
Total by category	**26,127**	**272,082**	**9,002,792**	**78,664**	**154,456**	**9,534,121**

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2013 LBP Million	Equity instruments at fair value through profit or loss	Debt instruments at fair value through profit or loss	Debt instruments at amortized cost	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		322	4,159,115		79,932	4,239,371
Lebanese and other governmental treasury bills and bonds		104,024	5,252,132		70,773	5,426,931
Bonds and financial assets with fixed income		19,066	608,696		7,577	635,339
Shares, securities and financial instruments with variable income	32,964			86,895		119,859
Corporate certificates of deposit			33,013		87	33,102
Collective Provisions			(5,062)			(5,062)
Total by category	**32,964**	**123,414**	**10,047,896**	**86,895**	**158,371**	**10,449,540**

As at 31 December 2014 LBP Million	Equity instruments at fair value through profit or loss	Debt instruments at fair value through profit or loss	Debt instruments at amortized cost	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		3,085	3,849,688		63,777	3,916,550
Lebanese and other governmental treasury bills and bonds		112,826	5,742,380		74,392	5,929,598
Bonds and financial assets with fixed income		2,057	501,212		5,776	509,044
Shares, securities and financial instruments with variable income	35,942			98,718		134,660
Corporate certificates of deposit			33,059		88	33,147
Collective Provisions			(1,574)			(1,574)
Total by category	**35,942**	**117,968**	**10,124,765**	**98,718**	**144,033**	**10,521,425**

As per the table above, 97.6% of the financial instruments are classified under debt instruments at amortized cost. Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currencies) increased, as a percentage of the Bank's total securities portfolio, to 56.4% (0.21% of total assets) as at 31 December 2014, higher than the 51.9% (and 0.19% of total assets) as at 31 December 2013 and 44.2% (and 0.16% of total assets) as at 31 December 2012. Investments in Central Bank certificates of deposit (in both LBP and foreign currencies) represented 37.2% of the Bank's portfolio (and 0.14% of total assets) as at 31 December 2014, as compared to 40.6% (and 0.15% of total assets) as at 31 December 2013 and 44.7% (and 0.17% of total assets) as at 31 December 2012. Corporate bonds represented 4.8% of the total portfolio as at 31 December 2014 compared to 6.1% as at 31 December 2013 and 8.4% as at 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

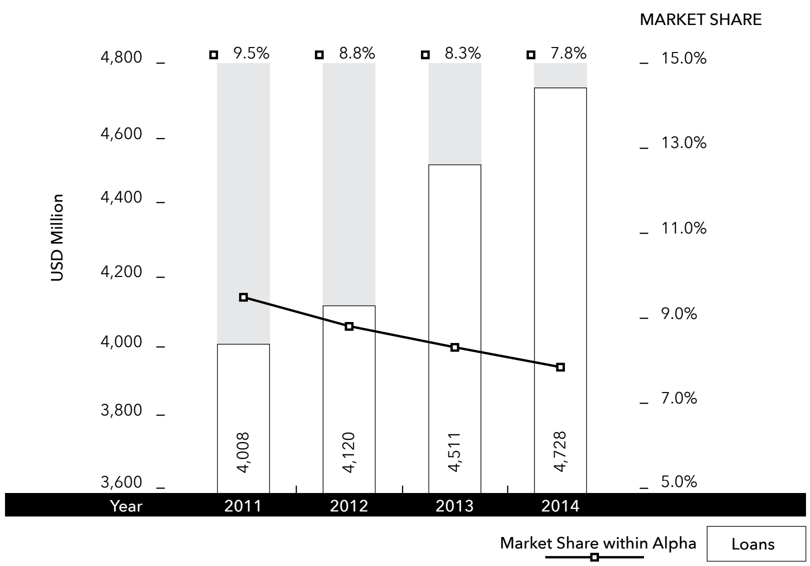
CUSTOMERS' LOANS

Customers' loans net of provisions (specific and collective) on doubtful loans and reserved interest on substandard and doubtful loans grew by 4.8% during the year 2014 to reach LBP 7,127 billion (USD 4,728 million) at the end of 31 December 2014, compared to growth of 9.5% in 2013, and compared to growth of 11.7% in the Alpha Group of top Lebanese banks. The lower growth in the Bank's net customers' loans in comparison with the Alpha Group banks led to a decrease in the Bank's market share of net customers' loans to 7.8% at the end of 31 December 2014, down from 8.3% at the end of 31 December 2013.

During the period between 31 December 2011 and 31 December 2014, net customers' loans increased at an average annual compounded rate of 5.7% compared to growth of 12.6% in the Alpha Group. Consequently, the Bank's market share of net customer advances dropped from 9.5% at the end of 31 December 2011 to 7.8% at the end of 31 December 2014.

The chart below shows the evolution of net customers' loans and their market shares over the last four years:

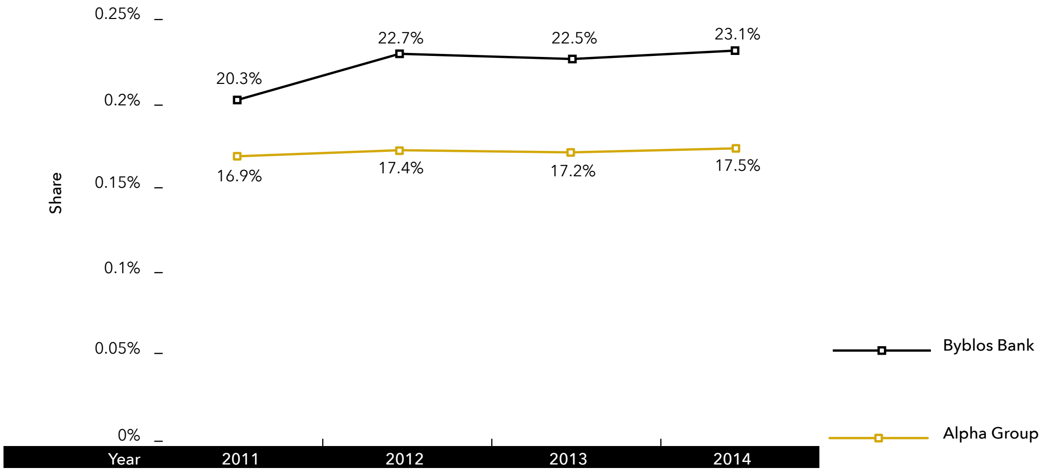
Evolution of Customers' Loans During Last Four Years



MANAGEMENT DISCUSSION AND ANALYSIS

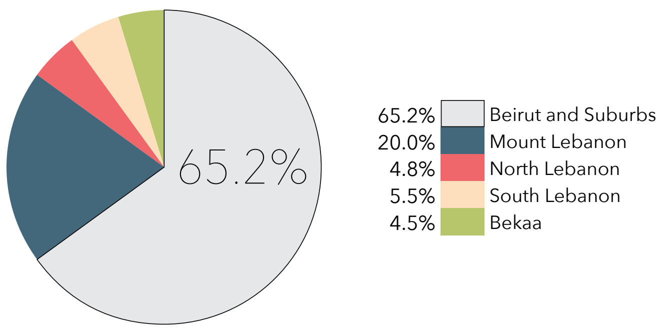
Customers' Loans Currency Structure

LBP Customers' Loans/Total Loans (Byblos Bank vs. Alpha Group)

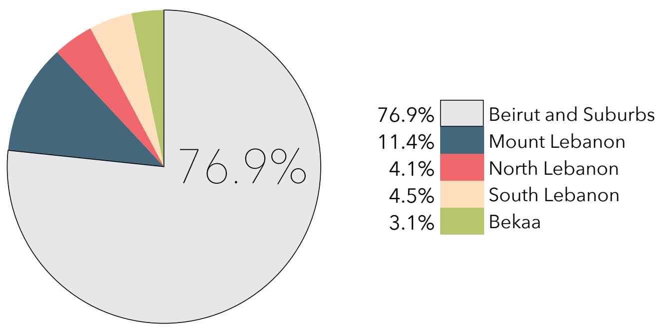


Customers' Loans Geographical Distribution

Byblos Bank Dec. 2014

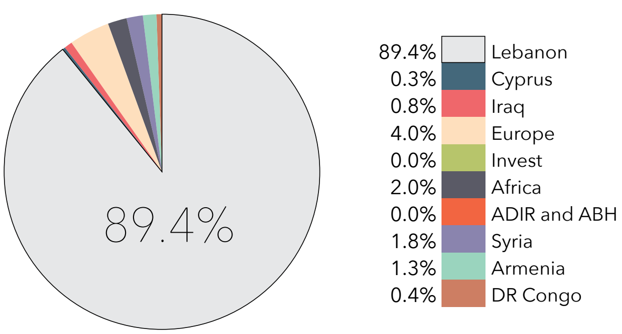


Sector Dec. 2014

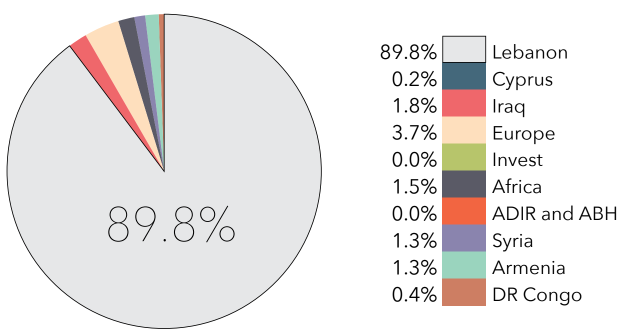


Customers' Loans Split in Byblos Bank Group

Loans Split in Group 2013



Loans Split in Group 2014



MANAGEMENT DISCUSSION AND ANALYSIS

Loan Breakdown by Nature of Borrower

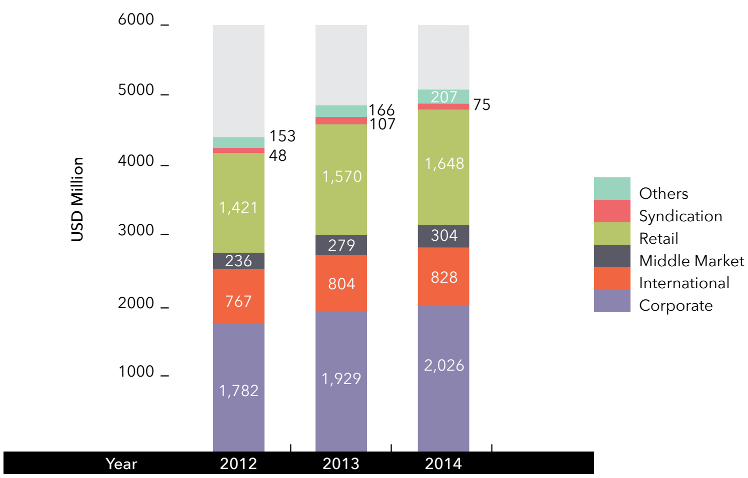
	Dec. 2012			Dec. 2013			Dec. 2014		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Corporate	2,685,886	1,781,683	40.4%	2,907,251	1,928,525	39.7%	3,054,036	2,025,895	39.8%
International	1,156,956	767,467	17.4%	1,212,237	804,137	16.6%	1,248,591	828,252	16.3%
Middle Market	356,078	236,204	5.4%	420,196	278,737	5.7%	458,089	303,874	6.0%
Retail	2,141,804	1,420,766	32.2%	2,366,038	1,569,511	32.3%	2,483,923	1,647,710	32.4%
Syndication	72,470	48,073	1.1%	161,278	106,984	2.2%	113,105	75,028	1.5%
Others	230,968	153,212	3.5%	249,641	165,599	3.4%	311,304	206,503	4.1%
Total	**6,644,162**	**4,407,405**	**100.0%**	**7,316,641**	**4,853,493**	**100.0%**	**7,669,048**	**5,087,262**	**100.0%**

During 2014, Byblos Bank's gross loan portfolio increased by 4.8% (+LBP 352 billion) to reach LBP 7,669 billion (USD 5,087 million) at the end of 31 December 2014 compared to an increase of 10.1% in 2013.

Commercial Loan Portfolio

- The corporate loan portfolio increased by 5.0% (+LBP 147 billion or USD 97 million) during the year 2014 to reach LBP 3,054 billion (USD 2,026 million) at the end of 31 December 2014, compared to an increase of 8.2% (+LBP 221 billion or USD 147 million) in 2013. Corporate loans represented 39.8% of the gross loan portfolio at the end of December 2014, compared to 39.7% at the end of 31 December 2013.
- The international loan portfolio increased by 3.0% (+LBP 36 billion or USD 24 million) during the year 2014 to reach LBP 1,249 billion (USD 828 million) at the end of 31 December 2014, compared to an increase of 4.8% (+LBP 55 billion or USD 37 million) in 2013. International loans represented 16.3% of the gross loan portfolio compared to 16.6% at the end of December 2013.
- The middle market loan portfolio increased by 9.0% (+LBP 38 billion or USD 25 million) during the year 2014 to reach LBP 458 billion (USD 304 million) at the end of 31 December 2014, representing 6.0% of the gross loan portfolio.
- Total exposure to syndicated loans at the end of 2014 amounted to LBP 113 billion (USD 75 million) compared to LBP 161 billion (USD 107 million) at the end of December 2013, representing 1.5% of the gross loan portfolio compared to 2.2% at the end of December 2013.

The chart below shows the breakdown of the loan portfolio by nature of borrower for the years 2012, 2013 and 2014:



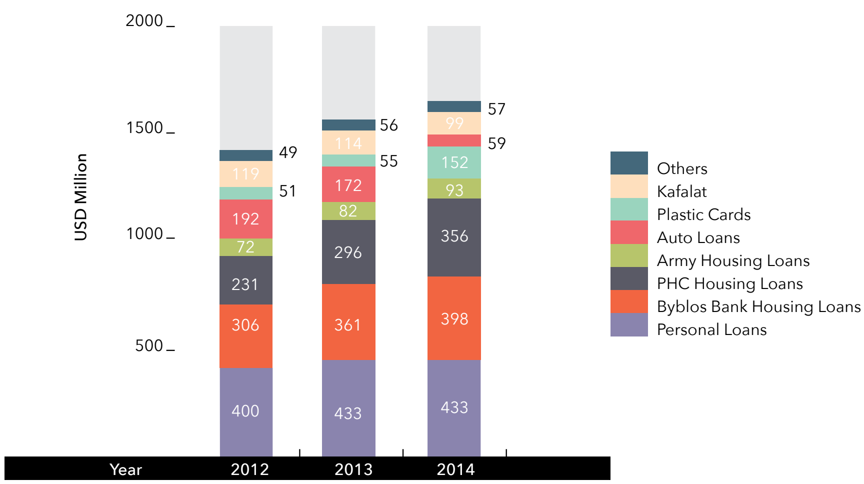
MANAGEMENT DISCUSSION AND ANALYSIS

Retail Loan Portfolio

	Dec. 2012			Dec. 2013			Dec. 2014		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Personal Loans	603,119	400,079	28.2%	652,110	432,577	27.6%	652,581	432,889	26.3%
Byblos Bank Housing Loans	461,626	306,219	21.5%	544,256	361,032	23.0%	599,887	397,935	24.1%
PHC Housing Loans	348,638	231,269	16.3%	446,683	296,307	18.9%	535,959	355,529	21.6%
Army Housing Loans	108,834	72,195	5.1%	123,708	82,062	5.2%	140,689	93,326	5.7%
Auto Loans	289,531	192,061	13.5%	259,211	171,948	11.0%	229,745	152,401	9.2%
Plastic Cards	76,826	50,963	3.6%	83,485	55,380	3.5%	88,956	59,009	3.6%
Kafalat	178,877	118,658	8.3%	171,801	113,964	7.2%	149,623	99,253	6.0%
Others	74,353	49,322	3.5%	84,784	56,241	3.6%	86,483	57,368	3.5%
Total Retail	**2,141,804**	**1,420,766**	**100.0%**	**2,366,038**	**1,569,511**	**100.0%**	**2,483,923**	**1,647,710**	**100.0%**

In line with the Bank's strategy to maintain Byblos Bank's leadership in retail, the retail loan portfolio increased from LBP 2,366 billion (USD 1,570 million) as of 31 December 2013 to LBP 2,484 billion (USD 1,648 million) as of 31 December 2014, recording growth of 5.0%. The main increase in retail loans was the result of the increase in housing loans, whose outstanding portfolios increased between 2013 and 2014 from USD 739 million to USD 847 million, an increase of 14.5%. However, the improvement in housing loans was partially offset by the decrease in auto loans by 11.4% (-LBP 29 billion or USD 20 million) and the decrease in Kafalat loans by 12.9% (-LBP 22 billion or USD 15 million) during 2014.

The chart below shows the evolution of retail loans throughout the last three years:



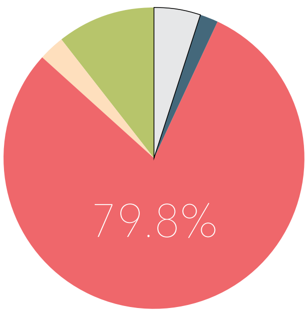
MANAGEMENT DISCUSSION AND ANALYSIS

LIABILITIES

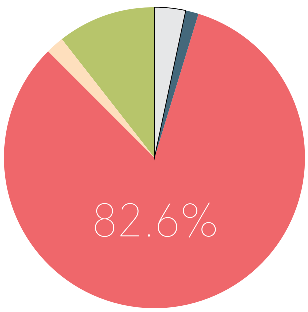
LIABILITIES BREAKDOWN

Customers' deposits represent the major source of funds with a share of 82.6% at the end of 2014, compared to a share of 79.8% at the end of 2013:

Breakdown of Liabilities 2013



Breakdown of Liabilities 2014

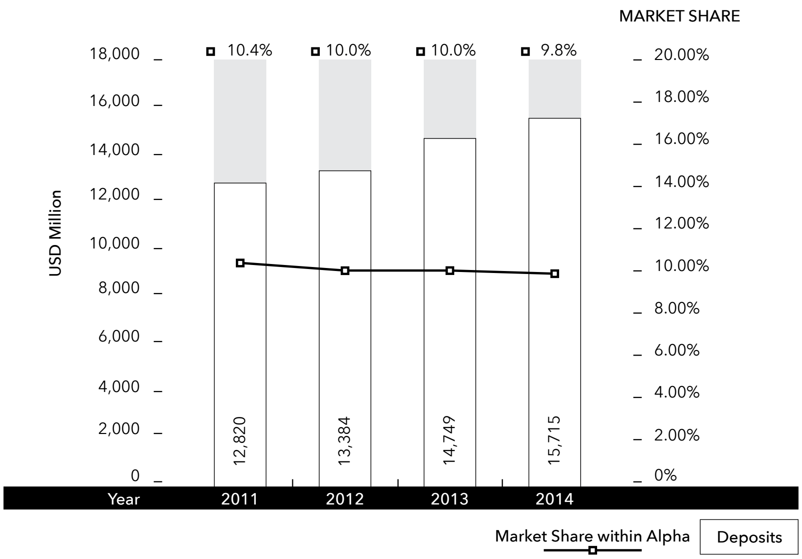


CUSTOMERS' DEPOSITS

Customers' deposits recorded an increase of 6.5% during 2014 to reach LBP 23,691 billion (USD 15,715 million) at the end of 31 December 2014 compared to an increase of 10.2% during 2013, and compared to an increase of 9.4% in the Lebanese Alpha Group. Consequently, the Bank's market share of total customers' deposits in the Alpha Group of banks decreased slightly to 9.8% at the end of 2014 compared to 10.0% at the end of the previous year. During the period between 31 December 2011 and 31 December 2012, the Bank's customers' deposits grew at an annual average compounded growth rate of 7.0% compared to growth of 9.2% for the Alpha Group. Consequently, the Bank's market share decreased from 10.4% as at 31 December 2011 to 9.8% as at 31 December 2014.

The graph below shows the evolution of customers' deposits over the last four years:

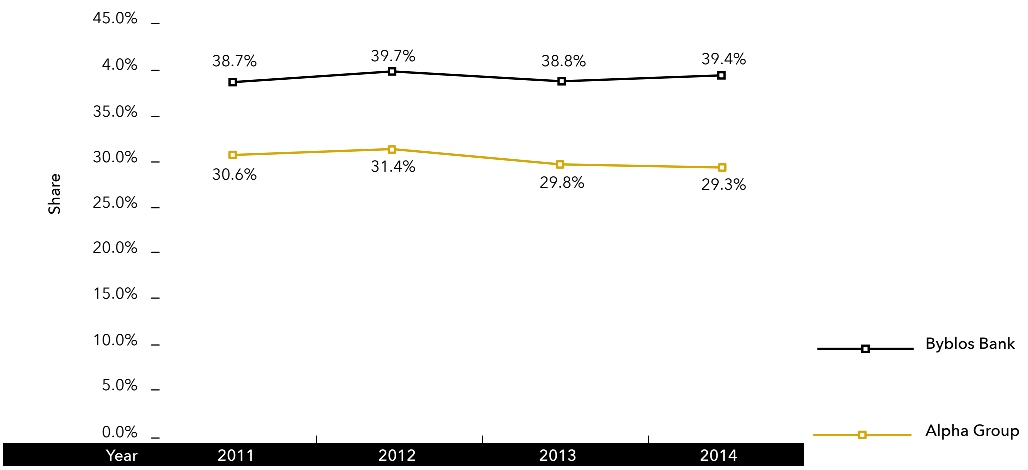
Evolution of Customers' Deposits During Last Four Years



MANAGEMENT DISCUSSION AND ANALYSIS

Customers' Deposits Currency Structure

LBP Customers' Deposits/Total Deposits (Byblos Bank vs. Alpha Group)



The dollarization rate was not impacted by the economic and political tensions among different parties in Lebanon, the "Arab Spring" and its consequences on the country, or the worldwide economic slowdown. Therefore, customers' deposits denominated in LBP remained almost unchanged between 2011 and 2014, with a slight increase from 38.7% in 2011 to 39.4% in 2014, and stayed in line with the trend in the sector. Compared to the Lebanese banking sector, Byblos Bank has a higher deposit base denominated in LBP as compared to 29.3% in the Alpha Group of banks as at the end of December 2014.

Customers' Deposits by Type of Account

The following table shows the distribution of the Bank's customers' deposits by type of account as at 31 December 2012, 2013 and 2014:

As at 31 December	2012		2013		2014	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Current accounts	3,291,348	16.3	3,353,030	15.1	3,264,135	13.8
Term deposits	15,617,849	77.4	17,458,400	78.5	18,986,964	80.2
Blocked accounts	963,958	4.8	1,044,999	4.7	1,004,709	4.2
Related parties' accounts	205,343	1.0	261,324	1.2	311,970	1.3
Accrued interest	97,134	0.5	116,909	0.5	122,824	0.5
Total	**20,175,633**	**100**	**22,234,662**	**100**	**23,690,602**	**100**

The composition of customers' deposits stood almost unchanged throughout the last three years, during which time they were comprised mostly of term deposits, which consisted of 80.2% of total customers' deposits at the end of December 2014, as compared to 78.5% as at 31 December 2013, and to 77.4% as at 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Maturity Profile of Customers' Deposits

The following table shows the distribution of the Bank's customers' deposits by maturity profile as at 31 December 2012, 2013 and 2014:

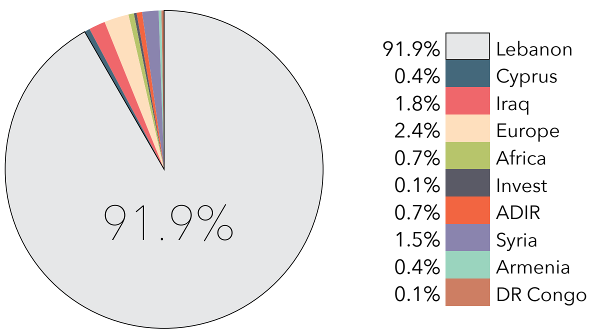
As at 31 December	2012		2013		2014	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Less than 3 months	15,406,356	76.4	16,089,479	72.4	16,726,883	70.6
3 months to 1 year	3,725,139	18.5	4,282,229	19.2	4,925,149	20.8
1 year to 5 years	1,036,896	5.1	1,813,749	8.2	1,969,327	8.3
Over 5 years	7,242	0.0	49,205	0.2	69,243	0.3
Total	**20,175,633**	**100**	**22,234,662**	**100**	**23,690,602**	**100**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 91.4% and 91.6% of total customers' deposits as at 31 December 2014 and 31 December 2013, respectively.

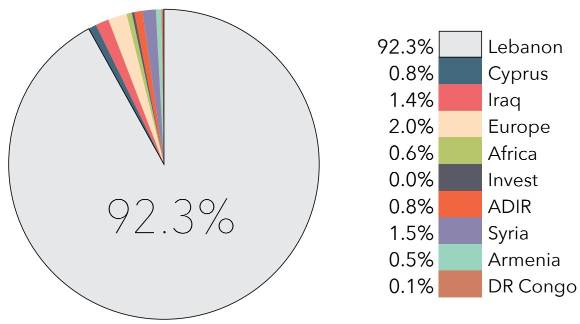
Customers' Deposits Split in the Byblos Bank Group

The pie charts below show the split of customers' deposits in the Byblos Bank Group:

Deposits by Group 2013



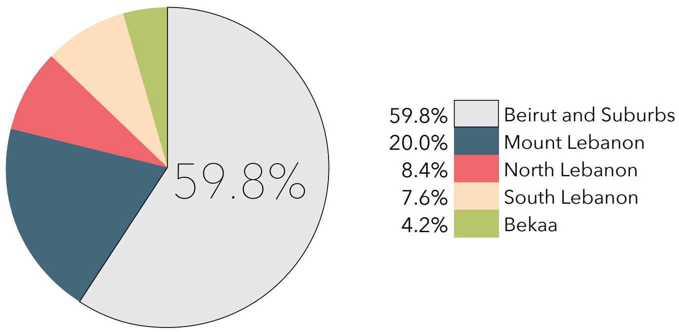
Deposits by Group 2014



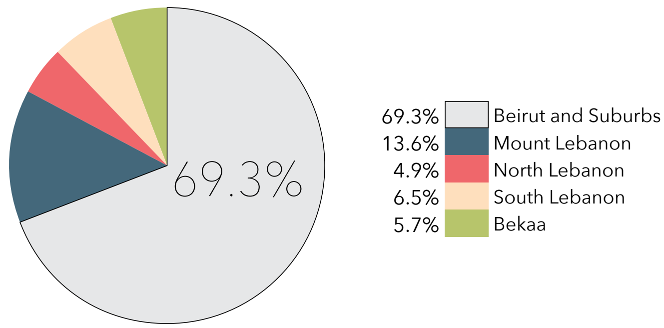
MANAGEMENT DISCUSSION AND ANALYSIS

Geographical Distribution of Customers' Deposits

Byblos Bank Dec. 2014



Sector Dec. 2014



The geographical distribution of the Bank's customers' deposits is in line with the geographical distribution of its branches, with customers' deposits in branches located in Beirut and its suburbs (46.2% of total branches) representing 59.8% of total customers' deposits in the Bank compared to 69.3% in the Lebanese banking sector. On the other hand, customers' deposits in branches located in Mount Lebanon (25.6% of total branches) represented 20.0% of the Bank's customers' deposits compared to 13.6% in the Lebanese banking sector; customers' deposits in branches located in North Lebanon (11.5% of total branches) represented 8.4% of the Bank's customers' deposits, higher than 4.9% in the Lebanese banking sector. In the South (10.3% of total branches), Byblos Bank's customers' deposit concentration was 7.6% compared to 6.5% in the Lebanese banking sector. In the Bekaa Valley, the Bank's customers' deposits are less concentrated than in the Lebanese banking sector, with 4.2% of the Bank's total customers' deposit located in the Bekaa (6.4% of total branches) compared to 5.7% in the Lebanese banking sector.

LONG-TERM SOURCES OF FUNDS

As a part of its strategy to match its longer-term loan portfolio with longer-term funding sources, the Bank has tapped into several types of long-term funding resources. The following table shows the breakdown of the Bank's long-term sources of funding as at 31 December 2012, 2013 and 2014, respectively:

In USD 000's	Dec. 2012	Dec. 2013	Dec. 2014
Central Bank of Lebanon	5,847	28,696	40,994
International Finance Corporation (IFC)		4,231	3,462
Arab Trade Finance Program	15,841	18,439	15,694
Certificates of deposit	40,450	40,450	
PROPARCO	3,347	1,753	384
OPEC Fund for International Development	12,167	4,500	1,833
European Investment Bank	126,055	105,503	100,150
Govco Incorporated NY	59,071	53,429	47,786
Agence Française de Développement	36,787	43,968	40,490
European Bank for Reconstruction and Development	3,571	2,143	714
The European Fund for Southeast Europe (EFSE)	5,168	3,000	
Citibank	5,000	3,167	1,750
Convertible subordinated loans	300,000	300,000	300,000
Byblos Bank Eurobond	300,000	300,000	300,000
Total Long-Term Sources of Funds	**913,304**	**909,278**	**853,258**

MANAGEMENT DISCUSSION AND ANALYSIS

PROFITABILITY

LBP Million	2012	2013	2014	Growth (Vol.)	Growth (%)
Net interest income	402,641	363,358	371,336	7,978	2.2%
Net allocation to provisions	(106,286)	(79,551)	(42,915)	36,636	-46.1%
Net commission income	135,699	138,993	135,865	(3,129)	-2.3%
Net profits on financial operations	146,452	149,590	166,856	17,266	11.5%
Impairment losses on financial investments	19,490	419	3,487	3,068	732.2%
Other operating income	241,450	23,564	21,879	(1,684)	-7.1%
Total Operating Income (Before Provisions and Impairment)	**709,243**	**675,504**	**695,935**	**20,431**	**3.0%**
Total Operating Income (After Provisions and Impairment)	**622,445**	**596,373**	**656,507**	**60,135**	**10.1%**
Operating expenses	(294,212)	(289,187)	(299,658)	(10,471)	3.6%
Depreciation and amortization	(31,282)	(27,377)	(25,041)	2,337	-8.5%
Taxes	(44,692)	(44,359)	(67,277)	(22,917)	51.7%
Net Income	**252,259**	**235,449**	**264,532**	**29,083**	**12.4%**
Bank's share	246,451	224,683	252,792		
Dividend on Preferred Shares (Series 2008)	(24,160)	(24,240)	(24,240)		
Dividend on Preferred Shares (Series 2009)	(24,160)	(24,240)	(24,240)		
Net income related to common shares	198,131	176,203	204,312		
Weighted average number of common shares during the period	561,749,874	561,731,039	562,510,901		
Earnings per common share	352.70	313.68	363.21		

Net income for the year 2014 amounted to LBP 264,532 million (USD 175 million), recording an increase of 12.4% (+LBP 29,083 million or USD 19.3 million) compared to LBP 235,449 million (USD 156 million) for the year 2013. Return on average assets (ROA) stood at 0.94% at the end of December 2014 compared to 0.88% at the end of December 2013. In addition, return on average common equity (ROCE) stood at 11.07% compared to 9.80% at the end of December 2013. Earnings per common share based on the weighted average number of shares stood at LBP 363.21 (USD 0.241) in 2014 compared to LBP 313.68 (USD 0.208) in 2013.

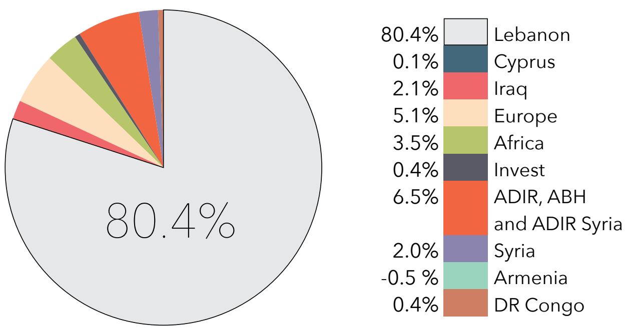
MANAGEMENT DISCUSSION AND ANALYSIS

The contribution of the Bank's subsidiaries to consolidated net income is presented below:

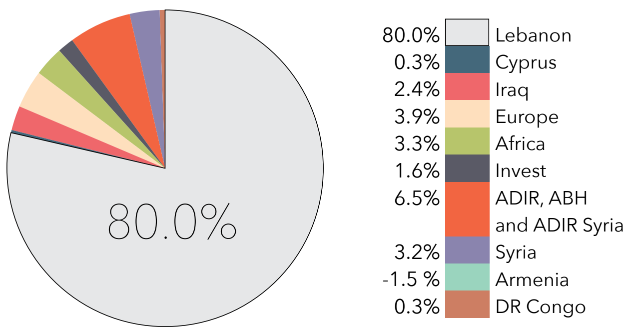
- Byblos Bank Africa's net income for the year 2014 amounted to LBP 8,650 million (USD 6.8 million) compared to LBP 8,248 million (USD 5.5 million) for the year 2013.
- Byblos Bank Europe's net income for the year 2014 amounted to LBP 10,278 million (USD 6.8 million) compared to LBP 12,069 million (USD 8.0 million) for the year 2013.
- Byblos Bank Syria's net income stood at LBP 8,384 million (USD 5.6 million) at the end of 2014 compared to LBP 4,752 million (+USD 3.2 million) for the year 2013.
- Byblos Invest Bank's net income stood at LBP 4,298 million (+USD 2.9 million) at the end of 2014 compared to LBP 994 million (+USD 0.7 million) for the year 2013.
- Byblos Bank Armenia's net loss stood at LBP 3,994 million (-USD 2.6 million) at the end of 2014 compared to a net loss of LBP 1,289 million (USD 0.9 million) for the year 2013.
- Net income of the insurance companies – Adonis Insurance and Reinsurance S.A.L. (ADIR), Adonis Insurance and Reinsurance Syria (ADIR Syria), and Adonis Brokerage House (ABH) – for the year 2014 amounted to LBP 17,199 million (USD 11.5 million) compared to LBP 15,306 million (USD 10.2 million) for the year 2013.

Pie charts below show the contribution of the Bank's subsidiaries to consolidated income between the years 2013 and 2014:

2013



2014



MANAGEMENT DISCUSSION AND ANALYSIS

NET INTEREST INCOME

Net interest income before provisions for the year 2014 amounted to LBP 371,336 million (USD 246.3 million), recording an increase of 2.2% (+LBP 7,978 million or USD 5.3 million) compared to a decrease of 9.8% during 2013, when it stood at LBP 363,358 million (USD 241.0 million). Consequently, net interest margin stood at 1.36% at the end of 2014 compared to 1.40% at the end of 2013.

	2013			2014		
	Average balance LBP Million	Interest earned LBP Million	Average rate %	Average balance LBP Million	Interest earned LBP Million	Average rate %
ASSETS						
Interest-bearing deposits in banks and central banks	13,729,793	512,191	3.73%	14,144,904	539,787	3.82%
Corporate bonds	809,926	26,840	3.31%	602,092	21,178	3.52%
Customers' loans	6,505,751	458,704	7.05%	6,963,889	489,767	7.03%
Treasury bills and bonds	4,820,248	315,738	6.55%	5,678,171	370,141	6.52%
Total Interest-Earning Assets	**25,865,718**	**1,313,473**	**5.08%**	**27,389,056**	**1,420,873**	**5.19%**
Premises and equipment	289,102	0	0.00%	276,333	0	0.00%
Other non-interest-bearing assets	603,419	0	0.00%	615,014	0	0.00%
Total Average Assets	**26,758,239**	**1,313,473**	**4.91%**	**28,280,403**	**1,420,873**	**5.02%**
LIABILITIES						
Customers' deposits	21,205,148	854,971	4.01%	22,962,631	962,496	4.19%
Subordinated loans	411,632	30,747	7.47%	413,474	31,347	7.58%
Certificates of deposit	507,600	35,085	6.91%	475,938	32,227	6.77%
Interest-bearing deposits and loans to banks	1,392,068	29,312	2.11%	1,206,950	23,467	1.94%
Total Interest-Bearing Liabilities	**23,516,448**	**950,115**	**4.04%**	**25,058,993**	**1,049,537**	**4.19%**
Other liabilities	753,095	0	0.00%	706,641	0	0.00%
Shareholders' equity	2,488,696	0	0.00%	2,514,769	0	0.00%
Total Average Liabilities and Equity	**26,758,239**	**950,115**	**3.55%**	**28,280,403**	**1,049,537**	**3.71%**
Net interest spread (a)			**1.04%**			**1.00%**
Net interest spread (b)			**1.36%**			**1.31%**
Net interest margin			**1.40%**			**1.36%**
Interest-Earning Assets/ Interest-Bearing Liabilities			**1.10**			**1.09**

(a) Average return on interest-earning assets minus average cost of interest-bearing liabilities.
(b) Average return on assets minus average cost of liabilities and equity.

MANAGEMENT DISCUSSION AND ANALYSIS

PROVISIONS ALLOCATED

Net provisions (specific and collective) allocated for doubtful and normal loans decreased by 46.1% (-LBP 36,635 million), reaching LBP 42,915 million (USD 28.5 million) for the year 2014, as compared to LBP 79,551 million (USD 52.8 million) for the year 2013.

The Bank allocated specific and collective provisions for doubtful loans in the amount of LBP 74,568 million (USD 49.5 million) during the year 2014 as compared to LBP 115,097 million (USD 76.3 million) the previous year. Collective provisions alone added up to USD 32.1 million and were booked as follows: USD 12.8 million for Byblos Bank S.A.L. (USD 2.7 million for retail portfolio as per new Central Bank of Lebanon circulars numbers 376 and 386, USD 3.9 million as per internal risk policies for the commercial portfolio); USD 16.3 million for Byblos Bank Syria; USD 1.8 million for Byblos Bank Africa; and USD 1.2 million for Byblos Bank S.A.L. operations in Iraq as compared to USD 18.2 million allocated during the same period of last year on the Group level. Furthermore, the Bank recovered provisions in the amount of USD 13.1 million for Byblos Bank Syria, and USD 6.6 million for Byblos Bank S.A.L.

Coverage of non-performing loans by specific and collective provisions and reserved interest stood at 120.7% as at 31 December 2014, as compared to 119.8% as at 31 December 2013. Additional details on coverage of non-performing loans will be discussed in the section on asset quality.

LBP Million	2012	2013	2014
Specific and collective provisions set up during the year			
Doubtful debts	119,682	115,097	74,568
Doubtful banks and financial institutions accounts	-	-	-
Writeoffs	66	80	178
Total Provisions Allocated	**119,747**	**115,177**	**74,746**
Specific and collective provisions written back during the year:			
Loans recovered or upgraded	(9,497)	(25,566)	(25,128)
Unrealized interest on loans and advances to customers	(3,022)	(9,163)	(6,257)
Doubtful banks and financial institutions accounts	(942)	(897)	(446)
Total Provisions Recoveries	**(13,461)**	**(35,626)**	**(31,831)**
Net Provisions Allocated	**106,286**	**79,551**	**42,915**

MANAGEMENT DISCUSSION AND ANALYSIS

NON-INTEREST INCOME

LBP Million	2012	2013	2014	Growth (Vol.)	Growth (%)
Commissions on documentary credits and acceptances	**41,557**	**41,142**	**37,135**	**(4,007)**	**-9.7%**
*out of which in Lebanon**	15,820	14,589	13,363	(1,226)	-8.4%
out of which in Byblos Bank Europe	19,164	20,867	19,511	(1,356)	-6.5%
out of which in Byblos Bank Africa	5,143	5,345	3,955	(1,390)	-26.0%
out of which in Byblos Bank Syria	1,378	214	170	(44)	-20.4%
out of which in Byblos Bank DR Congo	52	127	135	8	6.4%
Commissions on letters of guarantee	**16,593**	**15,357**	**15,861**	**504**	**3.3%**
*out of which in Lebanon**	13,194	13,239	13,825	586	4.4%
out of which in Byblos Bank Europe	829	731	812	81	11.1%
out of which in Byblos Bank Africa	293	373	383	10	2.7%
out of which in Byblos Bank Syria	2,150	753	598	(155)	-20.6%
out of which in Byblos Bank Armenia	4	0	0	0	
out of which in Byblos Bank DR Congo	123	261	243	(18)	-7.0%
Securities Income (realized and unrealized)	80,108	80,927	113,611	32,683	40.4%
Dividends received	5,042	1,715	3,293	1,578	92.0%
Foreign exchange income	61,302	66,949	49,952	(16,996)	-25.4%
Other commissions on banking services	77,549	82,493	82,869	375	0.5%
Total Non-Interest Income (Net)**	**282,152**	**288,583**	**302,721**	**14,138**	**4.9%**

** Lebanon includes Cyprus and Iraq.*
*** Net commissions, plus net trading income, plus net gain or loss on financial assets.*

Non-interest income for the year 2014 amounted to LBP 302,721 million (USD 200.8 million), recording an increase of 4.9% (+LBP 14,138 million/+USD 9.4 million) as compared to LBP 288,583 million (USD 191.4 million) for the same period of last year.

- Commissions on documentary credits and acceptances for the year 2014 amounted to LBP 37,135 million (USD 24.6 million), recording a decrease of 9.7% as compared to LBP 41,142 million (USD 27.3 million) in 2013. Trade finance activities in 2014 represented 12.3% of total non-interest income, compared to 14.3% in 2013.

- Commissions on letters of guarantee for the year 2014 amounted to LBP 15,861 (USD 10.5 million), recording an increase of 3.3% as compared to LBP 15,357 million (USD 10.2 million) in 2013.

- Realized and unrealized gains on the securities portfolio for the year 2014 amounted to LBP 113,611 million (USD 75.4 million), recording an increase of 40.4% as compared to a gain of LBP 80,927 million (USD 53.7 million) in 2013.

- Gains on foreign exchange trading for the year 2014 amounted to LBP 49,952 million (USD 33.1 million), as compared to LBP 66,949 million (USD 44.4 million) in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

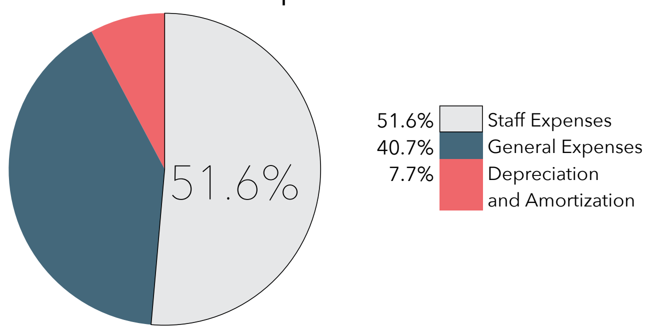
OPERATING EXPENSES

LBP Million	2012	2013	2014	Growth (vol.)	Growth (%)
Staff Expenses	154,321	162,226	167,617	5,392	3.3%
General Expenses	139,891	126,961	132,041	5,080	4.0%
Depreciation and Amortization	31,281	27,377	25,041	(2,336)	-8.5%
Total Operating Expenses	**325,493**	**316,564**	**324,699**	**8,135**	**2.6%**

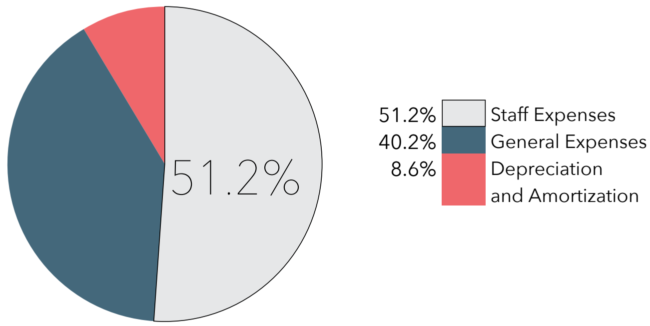
Operating expenses for the year 2014 amounted to LBP 324,699 million (USD 215.4 million), recording an increase of 2.6% (+LBP 8,135 million) as compared to LBP 316,563 million (USD 210.0 million) in 2013. Consequently, the cost-to-income ratio stood at 46.7% in 2014 compared to 46.9% in 2013. Furthermore, operating expenses to average assets stood at 1.15% in 2014 compared to 1.18% in 2013

The pie charts below show the breakdown of operating expenses for the last two years.

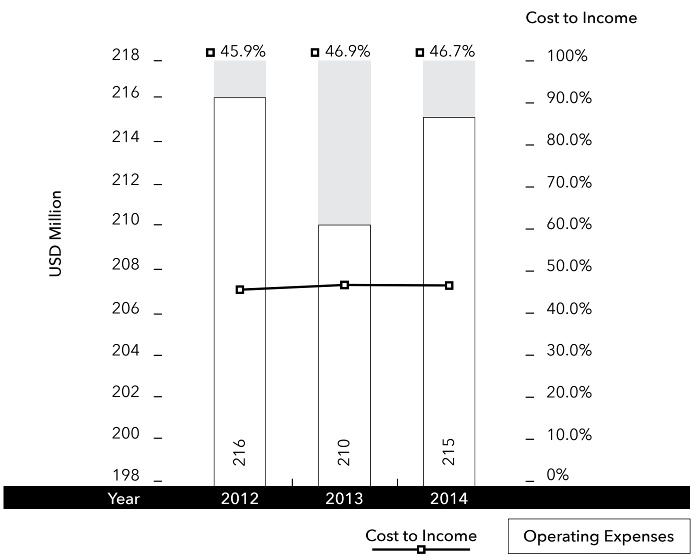
Breakdown of Operating Expenses 2014



Breakdown of Operating Expenses 2013



The graph below shows the evolution of operating expenses and the cost-to-income ratio over the last three years:



MANAGEMENT DISCUSSION AND ANALYSIS

ASSETS QUALITY

LOAN PORTFOLIO

Based on Circular 58 issued by the Banque du Liban (BDL), Lebanon's Central Bank, all banks and financial institutions operating in Lebanon have been required as of 2011 to classify loans according to six categories of risk: (i) regular accounts; (ii) follow-up accounts; (iii) follow-up and regularization accounts; (iv) substandard accounts; (v) doubtful accounts; and (vi) bad accounts.

Byblos Bank adopts the regulatory classification grading and also applies an internal rating system that incorporates and refines the requirements. The Bank believes that, as at 31 December 2014, it was in compliance with all related requirements. Reports to the Central Bank and the Banking Control Commission are made in accordance with the Central Bank classifications.

The Banking Control Commission of Lebanon issued Circular 280, dated 2 January 2015, to clarify the amendments introduced by the BDL to Circular 81 (Intermediate Circular 383 dated 24 December 2014) regarding new standards for granting retail and housing loans and new provisioning and reserve requirements. Circular 280 included the following changes:

1) **Retail and Housing Loans: New Loan Granting Standards**

Banks should abide by a debt-service coverage (DSC) ratio of 35% when granting retail loans and housing loans. They also must abide by a loan-to-value (LTV) ratio of 75% when granting housing loans and auto loans. The DSC ratio is total household monthly loan repayments to banks divided by household monthly income. When the same borrower is granted a housing loan and other loans, the DSC may reach 45% but the housing loan DSC must not exceed 35%.

2) Retail and Housing Loans: New Loan Classification and Provision Requirements

The circular introduced collective provision rates for regular retail loans delinquent for 30 days or less of 1.5% to be reached progressively by end-2017 and starting with 0.25% in 2014. Another provision – reaching 25% for credit cards and 15% for auto loans – is required for the delinquency bracket of 31 days to 90 days. Loans showing delinquency between 91 days and 180 days are now assigned a specific provision of 40% (auto loans) or 50% (all other retail loans). Retail and housing loans are to be assigned full specific provision starting with one year of delinquency (credit cards and personal loans) and up to five years (housing loans).

3) Recognized Collateral and Guarantees

The following collateral and guarantees are recognized as offsetting a loan balance: cash; bank guarantee payable on first demand; Kafalat corporate guarantee.

4) Retail and Housing Reserve Requirements

On top of allocating collective provisions against the regular retail portfolio (up to 30 days' delinquency), banks are requested to allocate a general reserve denominated in LBP for 0.5% of the balance of the portfolio at end-2014, and then 0.5% annually for six years beginning in 2015. Housing loans, student loans and education loans are exempted from this treatment. The general reserve is eligible in CET1.

5) Commercial Loans: Treatment of Collective Provisions and General Reserve

i) Banks are required to conduct impairment tests on their non-impaired commercial loans, based on IFRS standards, at least once every year, and to allocate corresponding collective provisions;

ii) Banks will gradually assign a general reserve, denominated in LBP, for up to 1.5% of the commercial portfolio to be reached by 31 December 2017, with the following minimum phase-in compliance: 0.25% booked in 2014, 0.5% in 2015, 1% in 2016, and 1.5% in 2017. Banks that have already booked a similar amount in collective provisions are exempted from this treatment.

Byblos Bank was in full compliance with BDL 383 and BCCL 280 provision requirements as of 31 December 2014, with comfortable collective provision against the commercial portfolio largely exceeding the amount required by regulations. The Bank undertook the necessary changes in its retail and housing program loans to be in compliance with the new retail and housing loan granting conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group 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 consolidated income statement. 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 Group 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.

The tables below show the breakdown of the Bank's loan portfolio (gross and net) over the last three years:

As at 31 December	2012		2013		2014	
GROSS BALANCES (1)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	5,303,374	80.0	6,348,301	87.0	6,324,891	82.7
Follow-up	616,041	9.3	313,656	4.3	531,051	7.0
Follow-up and regularization	344,463	5.2	277,635	3.8	367,369	4.8
Substandard loans	13,145	0.2	3,486	0.0	30,618	0.4
Doubtful loans	223,128	3.4	124,545	1.7	138,013	1.8
Bad loans	127,661	1.9	230,489	3.2	248,997	3.3
Total	**6,627,812**	**100.0**	**7,298,112**	**100.0**	**7,640,939**	**100.0**

As at 31 December	2012		2013		2014	
NET BALANCES (1 and 2)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	5,303,374	83.0	6,348,301	90.6	6,324,891	86.4
Follow-up	616,040	9.6	313,656	4.5	531,051	7.3
Follow-up and regularization	344,463	5.4	277,635	4.0	367,369	5.0
Substandard loans	10,754	0.2	2,569	0.0	29,358	0.4
Doubtful loans	114,055	1.8	60,494	0.9	68,128	0.9
Bad loans	0	0.0	0	0.0	0	0.0
Total	**6,388,686**	**100.0**	**7,002,655**	**100.0**	**7,320,797**	**100.0**

(1) Loans and advances to customers excluding related parties, and gross of interest received in advance and accruals.
(2) Net of specific provisions and reserved interest.

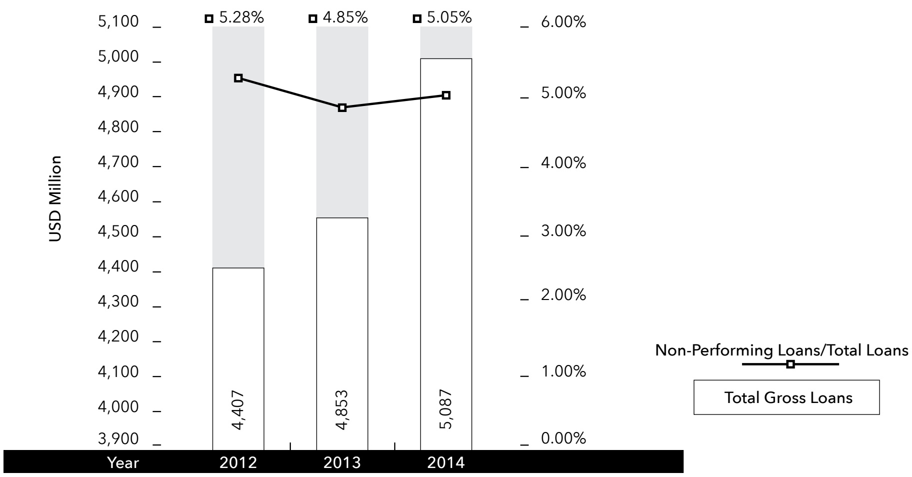
MANAGEMENT DISCUSSION AND ANALYSIS

Provisioning and Coverage Ratios

LBP Million	Dec. 2012	Dec. 2013	Dec. 2014
Substandard loans	13,145	3,486	30,618
Non-performing loans	350,790	355,034	387,011
Total Classfied Loans	**363,935**	**358,520**	**417,629**
Specific provisions for loan losses	167,778	213,603	222,680
General provisions and collective provisions	112,732	130,669	148,135
out of which general and collective provisions for retail	31,540	32,290	10,891
Reserved interest (sub-standard loans)	2,391	917	1,260
Reserved interest (non-performing loans)	68,957	80,937	96,201
Total Provisions and Cash Collateral	**351,859**	**426,126**	**468,276**
Substandard loans/total loans	0.20%	0.05%	0.40%
Non-performing loans/total loans	5.28%	4.85%	5.05%
Total classified/total loans	5.48%	4.90%	5.45%
Total provisions/total loans	5.30%	5.82%	6.11%
NPL provisions/non-performing loans (*)	99.62%	119.77%	120.67%
NPL provisions/non-performing loans (**)	90.63%	110.67%	117.86%
Total provisions/total classified loans (*)	96.68%	118.86%	112.13%
Specific provisions and reserved interest/NPL	67.49%	82.96%	82.40%

** Includes specific, general and collective provisions, reserved interest.*
*** Excluding general provisions for retail loans.*

MANAGEMENT DISCUSSION AND ANALYSIS

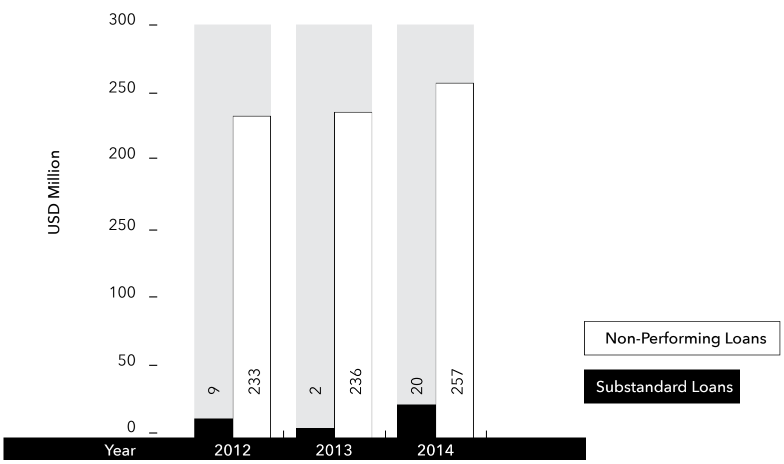


December

Total classified loans (substandard, doubtful, and bad) amounted to LBP 417,629 million (USD 277 million) at the end of 31 December 2014, representing 5.5% of the total loan portfolio compared to LBP 358,520 million (USD 238 million) at the end of December 2013, representing 4.9% of the total loan portfolio. Total non-performing loans (doubtful and bad) amounted to LBP 387,011 million (USD 257 million) as at 31 December 2014, representing 5.1% of the total loan portfolio, up from 4.9% at the end of 31 December 2013. Specific, general and collective provisions (excluding general provisions for the retail loan portfolio), as well as reserved interest on non-performing loans, amounted to LBP 456,126 million (USD 303 million), covering up to 117.9% of total non-performing loans as at 31 December 2014 compared to 110.7% at the end of 31 December 2013.

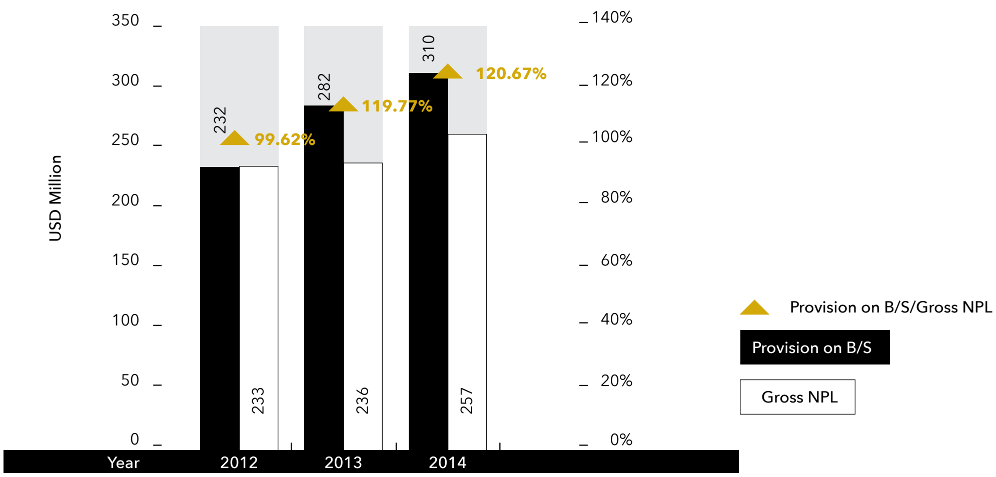
Substandard loans amounted to LBP 30,618 million (USD 20.3 million) at the end of 31 December 2014, representing 0.4% of the total loan portfolio compared to LBP 3,486 million (USD 2.3 million) and 0.05% respectively at the end of 31 December 2013.

Classified Loans



December

MANAGEMENT DISCUSSION AND ANALYSIS



December

LIQUIDITY

Liquid Assets to Total Assets	Dec. 12	Dec. 13	Dec. 14
Cash and Central Bank	**38.08%**	**36.07%**	**38.22%**
out of which certificates of deposit	16.61%	15.21%	13.65%
Lebanese and Other Governmental Securities	**16.43%**	**19.47%**	**20.67%**
Bonds and fixed-income securities	3.73%	2.38%	1.88%
Banks and financial institutions	14.33%	14.24%	11.52%
Total Liquidity	**72.57%**	**72.16%**	**72.29%**

Liquid Assets to Customers' Deposits	Dec-12	Dec-13	Dec-14
Cash and Central Bank	**48.41%**	**45.20%**	**46.29%**
out of which certificates of deposit	21.11%	19.07%	16.53%
Lebanese and Other Governmental Securities	**20.89%**	**24.41%**	**25.03%**
Bonds and fixed-income securities	4.74%	2.98%	2.28%
Banks and financial institutions	18.22%	17.85%	13.96%
Total Liquidity	**92.26%**	**90.44%**	**87.56%**

As shown above, the Bank maintained a high level of liquid assets to meet foreseeable liability maturity requirements. As at 31 December 2014, liquid assets (comprised of cash, reserves and placements with central banks, Lebanese Government securities, placements with banks, and other fixed-income securities) represented 72.3% of total assets and 87.6% of customers' deposits compared to 72.2% and 90.4% respectively as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL

As of 31 December 2014, the Bank's share capital was LBP 689,113 million, consisting of (i) a single class of 565,515,040 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 15 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; (iii) 2,000,000 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 4 September 2009 at a price of USD 96.00 per share, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up.

On 19 February 2009, the Bank listed Global Depositary Shares on the London Stock Exchange representing 26% of the Bank's common shares. The Bank of New York Mellon acts as the depositary bank of the issue. The Bank aimed to increase liquidity through the listing of Global Depositary Shares and to promote further transparency for investors. According to the London Stock Exchange, Byblos Bank was the first Lebanese company to list on the London Stock Exchange in 12 years and the first bank to list on the LSE in 2009, showing resilience despite the ongoing global financial crisis.

CAPITAL ADEQUACY RATIO

As a consolidated Group, Byblos Bank's Total Capital Ratio stood at 16.7% as at 31 December 2014, with the Tier 1 Capital and Common Equity Tier 1 (CET1) ratios coming in at 13.7% and 9.9%, respectively (see table below). These ratios are measured according to Basel III requirements and BDL Intermediate Circular 358, dated 6 March 2014. The latter stipulates a lower risk weight applied to foreign currency-denominated claims on the BDL of 50% instead of 100% required under the Basel II Standardized Approach. Measured under a strict interpretation of the Basel III rules, the Total Capital, Tier 1 Capital and CET1 ratios would reach 14.4%, 11.9%, and 8.6%, respectively.

BYBLOS BANK GROUP BASEL III (*) CAPITAL RATIOS

	31 December		
(LBP Million except ratios)	2012	2013	2014
Common equity ratio (CET1)	9.7%	9.5%	9.9%
Tier 1 capital ratio	13.7%	13.2%	13.7%
Total capital adequacy ratio	**16.7%**	**16.0%**	**16.7%**
Common equity	1,486,461	1,534,004	1,568,435
Tier 1 capital	2,097,762	2,135,290	2,170,015
Tier 2 capital	465,632	464,967	463,616
Total capital base	2,563,394	2,600,257	2,633,631
Total risk-weighted assets (RWA)	**15,315,380**	**16,206,434**	**15,815,521**
Credit risk RWA	*13,603,485*	*14,758,060*	*14,467,658*
Market risk RWA	*489,831*	*304,905*	*242,529*
Operational risk RWA	*1,222,064*	*1,143,469*	*1,105,334*

(*) After applying a risk weight of 50% to foreign currency-denominated claims on the BDL for all years, instead of 100%, as per BDL Intermediate Circular 358.
Regulatory capital does not include profit appropriation of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below shows the Lebanon and Basel Committee (BCBS) timetables for compliance with Basel III ratios. It shows that Byblos Bank was operating at comfortable solvency levels as at 31 December 2014, as measured against established regulatory ratios and timetables to meet the requirements of Basel III.

Timetable to comply with Basel III CAR ratios in Lebanon compared with BCBS target ratios and deadlines (BDL Basic Circular 44):

Basel III minimum CAR ratios / Deadline	Lebanon timetable				BCBS
	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014	31 Dec. 2015(*)	1 Jan. 2019(*)
CET1 Ratio	5%	6%	7%	8%	7%
Tier 1 Ratio	8%	8.5%	9.5%	10%	8.5%
Total Capital Ratio	**10%**	**10.5%**	**11.5%**	**12%**	**10.5%**

(*) Target ratios include a 2.5% capital conservation buffer but exclude any surcharge for systematically important financial institutions (SIFIs) or other countercyclical buffer.

As for the Leverage Ratio, it reached 6.5% at 31 December 2014 based on BCBS and the BDL's definition. The BCBS has set the Leverage Ratio as a non-risk-based measurement formed by Tier 1 in the numerator divided by total assets plus off balance sheet items and committed lines in the denominator. The BCBS has set the minimum ratio at 3%, with effective disclosure date in January 2015.

In addition to measuring the capital requirements under Pillar 1, Byblos Bank has undertaken to estimate the supplementary capital charge that would be needed to cover the interest rate risk in the banking book and the credit concentration risk falling under Pillar 2. To perform these measurements, the Bank used stress-test scenarios and other classical tools to estimate risk concentrations.

Moreover, the Bank has conducted stress-test scenarios to assess the impact on capital and liquidity of higher sovereign risks, increased portfolio defaults, and funding outflows, and has found both the capital buffer and the liquidity buffer to be at satisfactory levels.

MANAGEMENT DISCUSSION AND ANALYSIS

THE BASEL COMMITTEE'S CONSULTATIVE DOCUMENT ON THE REVISIONS TO THE STANDARDIZED APPROACH FOR CREDIT RISK – A SUMMARY

The Basel Committee has proposed a revision of the credit risk weights (RW) under the Standardized Approach (SA) of Basel II/Basel III. The consultative document issued on 22 December 2014 for comments by 27 March 2015 comes as a response to the G-20 request after the global financial crisis (2007-2009) to reduce the reliance on external rating agencies. In brief, the Committee proposes to replace the reference to external rating with other borrower-specific risk drivers to assign risk weights. The treatment is dependent on the type of asset.

Main proposed revisions are summarized below.

i) **Claims on the Sovereign** have not been addressed in the proposal.

ii) **Claims on Banks** are assessed independently from their sovereign of incorporation so far, but the Committee may consider incorporating country risk as an additional risk driver. Claims on banks will be assessed based on two risk drivers:
- Common Equity Tier 1 (CET1) ratio, and
- Net Non-Performing Assets (net NPA) ratio.

The preferential risk weight of 20% that was assigned to short-term claims on banks in Basel II has been removed. To be allocated the best risk weight of 30% in the new proposal, a bank must have a CET1 ratio of at least 12%, along with a net NPA ratio not exceeding 1%. Banks with CET1 ratios below 5.5% or net NPA ratios above 3% will receive a risk weight of 120% or 140%. Banks with CET1 ratios below 4.5% receive a punitive risk weight of 300%.

iii) **Claims on Corporates** are assessed based on two new risk drivers:
- Revenue, i.e. annual sales; and
- Leverage, defined by Total Assets to Total Equity.

The best corporate profiles will get a risk weight of 60% if revenues are higher than EUR 1 billion and leverage is below 3 (three) times. Banks will apply a penalizing risk weight of 300% to exposures to obligors that have not provided revenue and leverage data, and to negative equity corporates. For exposure to a newly incorporated corporate (startup) that has not yet provided revenue and leverage data, banks may apply a risk weight of 110% in the first year after its establishment. Corporates with annual revenues not exceeding EUR 5 million and leverage exceeding 5 (five) times will receive a higher risk weight of 130%.

iv) The Committee has also addressed **Specialized Lending** and **Real Estate** companies with risk weights, respectively, of minimum 120% and minimum 150%.

v) **Subordinated Debt, Equity and Other Capital Instruments:** When such instruments are not deducted from regulatory capital or risk-weighted at 250%, they will receive a risk weight of 300% or 400% whether they are publicly traded on a recognized security exchange or not.

vi) **Retail Exposures:** Definitions of Regulatory retail exposure and risk weight are similar to the current treatment (risk weight is 75% for regulatory retail exposure, 100% for Other retail). The Basel Committee is keeping the discussion open over how to introduce additional risk drivers to differentiate the risk, such as security, income coverage of the debt service, maturity of exposure, and existing established relationship between the bank and the borrower.

vii) **Exposures Secured by Residential Real Estate** (housing loans, mortgage loans): The current treatment of a standard risk weight of 35% is seen as lacking risk sensitivity. Two risk drivers are proposed to apply risk weight to residential real estate: loan-to-value (LTV) ratio and debt-service coverage (DSC) ratio (principal and interest payment relative to the borrower's total income over a month or a year). Risk weights will vary between 25% (LTV<40% and DSC≤35%) and 100% (LTV≥100% and DSC>35% or unknown).

viii) **Exposures secured by Commercial Real Estate:** The assessment is either to follow the treatment of a corporate exposure or to assign a risk weight function of the LTV ratio (75% risk weight to a LTV<60%; a risk weight of 120% for a LTV≥75%). A bank that does not have the necessary LTV information for a given commercial real estate exposure must apply a 120% risk weight.

ix) **Off Balance Sheet Exposures:** The proposal seeks to homogenize the treatment with IRB (internal ratings-based approach) for committed loans whereby a credit conversion factor (CCF) of 75% is assigned to all undrawn exposures, replacing 20% and 50%, respectively, for maturities up to one year and exceeding one year under the Standardized Approach. Also, unconditionally cancelable commitments are assigned 10% instead of the 0% currently under SA.

x) **Past Due Loans:** The Committee is still considering the treatment for past due loans.

xi) **Credit Risk Mitigation** (collateral and guarantees): There is a wider recognition of guarantees. The following are considered eligible guarantors:

- Prudentially regulated financial institutions
- Parent companies, subsidiaries, and affiliate companies of the counterparty
- Other entities that meet all of the following conditions:
  - The entity is externally audited or its common shares are publicly traded on a recognized security exchange;
  - The entity has an established economic relationship with the counterparty.

MANAGEMENT DISCUSSION AND ANALYSIS

We have assessed the impact of the Revised Basel Proposal on the credit risk-weighted assets of Byblos Bank and found that it will have an overall inflating effect on RWA in the range of 10% to 20%. The Bank will continue operating with a comfortable buffer above minimum regulatory ratios. The new proposal will increase the risk-weighted assets of the exposure to banks after the removal of the preferential short-term risk weight of Basel II, and the corporate exposure due to higher conversion factors applied to committed lines and the punitive risk weight applied to highly leveraged corporate and those having negative-equity corporates.

Dividend distribution

The following table sets forth the high and low sale prices of Byblos Bank common shares, as reported on the Beirut Stock Exchange, and the cash dividends paid by the Bank on common shares with respect to the periods indicated:

Period	High	Low	Common Share Dividend[1]	
	USD	USD	LBP	USD
2000	2.3750	1.6250	250.00	0.1658
2001	1.7500	1.0625	250.00	0.1658
2002	1.7813	1.0625	236.84	0.1571
2003	2.0625	1.2500	157.89	0.1047
2004	1.8100	1.4500	157.89	0.1047
2005	2.7800	1.4500	157.89	0.1047
2006	4.0000	1.4500	157.89	0.1047
2007	2.6000	1.6500	157.89	0.1047
2008	3.2300	1.5800	157.89	0.1047
2009	2.1900	1.5800	200.00	0.1327
2010	2.3000	1.7000	200.00	0.1327
2011	2.0100	1.5500	200.00	0.1327
2012	1.7400	1.4700	200.00	0.1327
2013	1.7000	1.4700	200.00	0.1327
2014	**1.7000**	**1.5500**	**200.00**	**0.1327**

(1) Before taxes at a rate of 5%.

At its Annual General Assembly held on 15 May 2015, the Bank's shareholders approved the distribution of dividends out of the Bank's net income for the year ended 31 December 2014 (before taxes of 5%) of LBP 200 (USD 0.1327) per common share and USD 8 per Series 2008 and Series 2009 Preferred Share. Total dividends paid in respect of 2013 represented 61.1% of net income for that year.

MANAGEMENT DISCUSSION AND ANALYSIS

THE BANK'S RATINGS

The Lebanese economy was affected in 2014 by domestic political uncertainties, rising political polarization, growing spillovers from the Syrian conflict, and the weak rule of law, in addition to severe security breaches across the country, a vacuum at the level of the Presidency, and the lack of a fully functioning Parliament.

During the past few months, ratings agencies took actions following mounting political risks and the deterioration in public finances, but they remain confident in the banking sector. Fitch Ratings affirmed its outlook for Byblos Bank ratings at 'negative', and Moody's Investor Services revised its outlook downward to 'negative'. Only Capital Intelligence maintains a 'stable' outlook on Byblos ratings.

On 16 December 2014 Fitch Ratings affirmed at 'B' the long-term Issuer Default Rating (IDR) of Byblos Bank with a 'negative' outlook. It also maintained the bank's Viability Ratings at 'b'. It said that the 'negative' outlook mirrors the outlook on the sovereign ratings. It noted that the unstable domestic political situation would weigh on the banking sector, but it did not expect political instability to have a significant impact on deposit growth. As such, it expected liquidity in the banking sector to remain at comfortable levels.

It said that the ratings take into account the Bank's strong domestic franchise, experienced management and resilient deposits, in addition to Byblos Bank's solid liquidity and increasing international diversification. It considered that the Bank has weak capitalization, mainly due to the Bank's large holdings of sovereign debt. It indicated that a ratings upgrade is not likely in the short- to medium-term, given the Bank's key role in financing the sovereign. It said that it would downgrade the Bank's ratings in the event of a prolonged weakening of the operating environment that would affect depositor confidence, and if asset quality significantly deteriorated and reduced the Bank's capital base.

Further, the agency pointed out that the Lebanese authorities would have a high willingness to support the Bank in case of need, given its systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied upon. It added that the authorities would face difficulties in providing system-wide support for the banking sector, including to Byblos Bank, if needed.

On 16 December 2014 Moody's Investors Service downgraded to 'B2' from 'B1' the long-term foreign currency deposit ratings of Byblos Bank and lowered the Bank's long-term local currency deposit ratings to 'B2' from 'Ba3'. It kept the 'negative' outlook on the long-term deposit ratings. Also, it downgraded the long-term national scale ratings of Byblos Bank to 'A1.lb' from 'Aa2.lb', with a 'negative' outlook. It also lowered the baseline credit assessments of the Bank to 'b2' from 'b1'. The agency indicated that its ratings action followed its earlier decision to downgrade Lebanon's sovereign rating.

The agency indicated that the downgrade of the Bank's baseline credit assessment reflects the adverse impact of the weakening of government creditworthiness on the Bank's credit profile, given the Bank's large holdings of government debt. It estimated Byblos Bank's sovereign exposure at 4.4 times its Tier One Capital at the end of September 2014. It noted that the Bank's high exposure to government securities and to the Central Bank's Certificates of Deposit, as well as its limited regional diversification, make it susceptible to event risks at the sovereign level and constrain the Bank's credit assessments at the level of the government's bond rating. It added that the Bank's regional geographic diversification is not sufficient to offset the risks of the Bank's credit linkages to the Lebanese sovereign. Further, Moody's attributed the downgrade of the Bank's deposit ratings to the government's reduced capacity to support it in case of need. It noted that the deposit rating of the Bank is now rated on par with the government's ratings and does not benefit from the government's support uplift.

In May 2014 Capital Intelligence affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B' and 'B', respectively. It also affirmed the Bank's Financial Strength Rating (FSR) at 'BBB-'. It maintained the Support Level at '3', given the high likelihood of official support in case of need due to Byblos Bank's systemic importance. It said the outlook on all the ratings is 'stable' and noted that the ratings continue to be restrained by the sovereign ratings of Lebanon.

The agency pointed out that Byblos Bank's ratings are supported by its improved asset quality, sound capital adequacy, comfortable liquidity level and good domestic franchise. It said that the Bank had increased its customers' deposits at a moderately high rate in 2013 despite strong competition, mainly due to its strong franchise. It indicated that Byblos Bank has good access to capital markets, which has allowed it to diversify its sources of funding a lot more significantly than most Lebanese banks. It said that the Bank's loan asset quality has improved and stands at a relatively good level. It indicated that the Bank's decrease in profitability, mainly from the decline in the net interest margin, from translation losses and from high dividend payouts, has kept common equity capital nearly unchanged for the past three years. It pointed out that the Bank's ratings are constrained by factors such as the exposure to the sovereign, country risk and slow economic growth. It noted that Byblos Bank follows a universal banking model, offers services in commercial and retail banking through one of the largest branch networks in Lebanon, and operates in 11 locations abroad.

CONSOLIDATED FINANCIAL STATEMENTS

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AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

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

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

21 April 2015
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

LBP Million	Notes	2014	2013
Interest and similar income	8	1,413,234	1,295,959
Interest and similar expense	9	(1,049,537)	(950,115)
NET INTEREST INCOME		**363,697**	**345,844**
Fee and commission income	10	149,631	154,040
Fee and commission expense	10	(13,767)	(15,047)
NET FEE AND COMMISSION INCOME		**135,864**	**138,993**
Net gain from financial instruments at fair value through profit or loss	11	66,942	86,098
Net gain from sale of financial assets at amortized cost	12	104,818	79,862
Revenue from financial assets at fair value through other comprehensive income	27	2,736	1,144
Other operating income	13	21,859	23,542
TOTAL OPERATING INCOME		**695,916**	**675,483**
Net credit losses	14	(39,428)	(79,132)
NET OPERATING INCOME		**656,488**	**596,351**
Personnel expenses	15	(167,617)	(162,226)
Other operating expenses	16	(132,041)	(126,961)
Depreciation of property and equipment	28	(24,882)	(27,218)
Amortization of intangible assets	29	(159)	(159)
TOTAL OPERATING EXPENSES		**(324,699)**	**(316,564)**
OPERATING PROFIT		**331,789**	**279,787**
Net gain on disposal of property and equipment		20	21
PROFIT BEFORE TAX		**331,809**	**279,808**
Income tax expense	17	(67,277)	(44,359)
PROFIT FOR THE YEAR		**264,532**	**235,449**
Attributable to:			
Equity holders of the parent		252,792	224,683
Non-controlling interests		11,740	10,766
		264,532	**235,449**
Earnings per share		**LBP**	**LBP**
Equity shareholders of the parent:			
Basic earnings per share	18	363.21	313.68
Diluted earnings per share	18	339.79	298.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

LBP Million	Notes	2014	2013
PROFIT FOR THE YEAR		**264,532**	**235,449**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to the income statement in subsequent periods:			
Exchange difference on translation of foreign operations		**(47,460)**	**(61,299)**
Net other comprehensive loss to be reclassified to the income statement in subsequent periods		**(47,460)**	**(61,299)**
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized gain from financial assets at fair value through other comprehensive income		10,657	8,222
Income tax effect		(1,546)	(1,232)
		9,111	**6,990**
Re-measurement gains on defined-benefit plans	37 (a)	977	2,741
Net other comprehensive income not to be reclassified to the income statement in subsequent periods		**10,088**	**9,731**
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(37,372)**	**(51,568)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**227,160**	**183,881**
Attributable to:			
Equity holders of the parent		227,342	203,526
Non-controlling interests		(182)	(19,645)
		227,160	**183,881**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2014	2013
ASSETS			
Cash and balances with central banks	19	7,048,785	5,809,930
Due from banks and financial institutions	20	2,913,279	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	21	393,712	614,866
Financial assets given as collateral	22	7,005	7,005
Derivative financial instruments	23	6,715	3,824
Financial assets at fair value through profit or loss	24	155,582	157,447
Net loans and advances to customers at amortized cost	25	7,099,163	6,776,850
Net loans and advances to related parties at amortized cost	47	28,033	23,732
Debtors by acceptances		302,939	445,957
Financial assets at amortized cost	26	10,260,119	10,198,193
Financial assets at fair value through other comprehensive income	27	98,718	86,895
Property and equipment	28	236,379	243,230
Intangible assets	29	652	811
Assets obtained in settlement of debt	30	36,677	36,379
Other assets	31	106,780	107,835
TOTAL ASSETS		**28,694,538**	**27,866,268**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2014	2013
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	32	71,146	51,502
Due to banks and financial institutions	33	911,173	1,392,562
Derivative financial instruments	23	5,427	3,063
Customers' deposits at amortized cost	34	23,377,789	21,970,185
Deposits from related parties at amortized cost	47	312,813	264,477
Debt issued and other borrowed funds	35	445,387	506,489
Engagements by acceptances		302,939	445,957
Other liabilities	36	163,903	195,704
Provisions for risks and charges	37	145,429	138,375
Subordinated debt	38	414,580	412,368
TOTAL LIABILITIES		**26,150,586**	**25,380,682**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	39	684,273	684,273
Share capital – preferred shares	39	4,840	4,840
Share premium – common shares	39	229,014	229,014
Share premium – preferred shares	39	591,083	588,671
Non-distributable reserves	40	748,879	672,318
Distributable reserves	41	95,943	97,253
Treasury shares	43	(6,425)	(10,054)
Retained earnings		39,899	52,118
Revaluation reserve of real estate	44	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	45	(7,533)	(16,644)
Net results of the financial period – profit		252,792	224,683
Foreign currency translation reserve		(164,357)	(123,650)
		2,474,097	**2,408,511**
NON-CONTROLLING INTERESTS		**69,855**	**77,075**
TOTAL EQUITY		**2,543,952**	**2,485,586**
TOTAL LIABILITIES AND EQUITY		**28,694,538**	**27,866,268**

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 21 April 2015.

Dr. François S. Bassil
Chairman and General Manager

Mr. Ziad El-Zoghbi
Head of Group Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

LBP Million	Common shares	Preferred shares	Share premium – common shares	Share premium – preferred shares	Non-distributable reserves	Distributable reserves	Other equity instruments
	Attributable to equity holders of the parent						
Balance at 1 January 2014	684,273	4,840	229,014	588,671	672,318	97,253	-
Profit for the year	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	-	-
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to retained earnings	-	-	-	-	-	(7,000)	-
Transfer to reserves and premiums	-	-	-	2,412	76,764	4,691	-
Dividends paid – subsidiaries	-	-	-	-	-	-	-
Equity dividends paid (note 54)	-	-	-	-	-	-	-
Treasury shares (note 43)	-	-	-	-	(203)	-	-
Put options on non-controlling interests (note 6)	-	-	-	-	-	999	-
Acquisition of additional non-controlling interests (note 5)	-	-	-	-	-	-	-
Balance at 31 December 2014	**684,273**	**4,840**	**229,014**	**591,083**	**748,879**	**95,943**	**-**
Balance at 1 January 2013	684,273	4,840	229,014	586,259	568,145	99,659	14,979
Profit for the year	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	-	-
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to retained earnings	-	-	-	-	-	-	-
Transfer to reserves and premiums	-	-	-	2,412	104,448	3,346	-
Dividends paid – subsidiaries	-	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-	-
Equity dividends paid (note 54)	-	-	-	-	-	-	-
Treasury shares (note 43)	-	-	-	-	(275)	-	(14,979)
Put options on non-controlling interests (note 6)	-	-	-	-	-	(5,752)	-
Balance at 31 December 2013	**684,273**	**4,840**	**229,014**	**588,671**	**672,318**	**97,253**	**-**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial assets at fair value through other comprehensive income	Net results of the financial period - profit	Foreign currency translation reserve	Total	Non-controlling interests	Total
(10,054)	52,118	5,689	(16,644)	224,683	(123,650)	2,408,511	77,075	2,485,586
-	-	-	-	252,792	-	252,792	11,740	264,532
-	977	-	9,111	-	(35,538)	(25,450)	(11,922)	(37,372)
-	**977**	**-**	**9,111**	**252,792**	**(35,538)**	**227,342**	**(182)**	**227,160**
-	231,683	-	-	(224,683)	-	-	-	-
-	(83,867)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(4,225)	(4,225)
-	(161,012)	-	-	-	-	(161,012)	-	(161,012)
3,629	-	-	-	-	-	3,426	-	3,426
-	-	-	-	-	-	999	2,571	3,570
-	-	-	-	-	(5,169)	(5,169)	(5,384)	(10,553)
(6,425)	**39,899**	**5,689**	**(7,533)**	**252,792**	**(164,357)**	**2,474,097**	**69,855**	**2,543,952**
(25,302)	74,024	5,689	(23,634)	246,450	(92,762)	2,371,634	120,172	2,491,806
-	-	-	-	224,683	-	224,683	10,766	235,449
-	2,741	-	6,990	-	(30,888)	(21,157)	(30,411)	(51,568)
-	**2,741**	**-**	**6,990**	**224,683**	**(30,888)**	**203,526**	**(19,645)**	**183,881**
-	246,450	-	-	(246,450)	-	-	-	-
-	(110,206)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(3,209)	(3,209)
-	(54)	-	-	-	-	(54)	-	(54)
-	(160,837)	-	-	-	-	(160,837)	-	(160,837)
15,248	-	-	-	-	-	(6)	-	(6)
-	-	-	-	-	-	(5,752)	(20,243)	(25,995)
(10,054)	**52,118**	**5,689**	**(16,644)**	**224,683**	**(123,650)**	**2,408,511**	**77,075**	**2,485,586**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2014	2013
OPERATING ACTIVITIES			
Profit before tax		331,809	279,808
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	28 and 29	25,041	27,377
Provision for loans and advances and direct writeoffs, net	14	43,361	80,448
Write-back of provision for other doubtful bank accounts, net	14	(446)	(897)
Write-back of provision for financial assets at amortized cost, net	14	(3,487)	(419)
Gain on disposal of property and equipment		(20)	(21)
Gain on disposal of assets obtained in settlement of debt	13	(2,190)	(5,791)
Provisions for risks and charges, net		10,957	14,399
Unrealized fair value gains on financial instruments at fair value through profit or loss		(4,574)	(4,520)
Realized gains from financial assets		(108,936)	(76,407)
Derivative financial instruments		(527)	2,800
Operating profit before working capital changes		**290,988**	**316,777**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Due from central banks		(969,530)	(490,715)
Due to central banks		17,911	32,792
Due from banks and financial institutions		(37,020)	(13,231)
Financial assets given as collateral		-	1,918
Financial assets at fair value through profit or loss		10,557	144,527
Due to banks and financial institutions		(76,022)	(33,291)
Net loans and advances to customers and related parties		(369,975)	(670,112)
Assets obtained in settlement of debt	30	(2,563)	(5,687)
Proceeds from sale of assets obtained in settlement of debt		4,455	8,301
Other assets		(6,648)	(9,587)
Customers' and related parties' deposits		1,455,940	2,059,029
Other liabilities		(36,796)	(99,068)
Cash from operations		**281,297**	**1,241,653**
Provision for risks and charges paid		(1,816)	(3,748)
Taxation paid		(56,494)	(47,788)
Net cash from operating activities		**222,987**	**1,190,117**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2014	2013
INVESTING ACTIVITIES			
Financial assets at amortized cost		46,379	(972,286)
Financial assets at fair value through other comprehensive income		(1,431)	(10)
Loans to banks and financial institutions and reserve purchase agreements		221,154	(156,159)
Purchase of property and equipment and intangible assets		(23,834)	(18,674)
Proceeds from sale of property and equipment		182	237
Net cash from (used in) investing activities		**242,450**	**(1,146,892)**
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		(61,102)	(2,222)
Subordinated debt		2,212	1,472
Treasury shares		3,426	(6)
Dividends paid to equity holders of the parent (net)		(161,012)	(160,837)
Dividends paid to non-controlling interests		(4,225)	(3,209)
Acquisition of additional non-controlling interests		(10,553)	-
Net cash used in financing activities		**(231,254)**	**(164,802)**
Net effect of foreign exchange		**(38,725)**	**(43,725)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**195,458**	**(165,302)**
Cash and cash equivalents at 1 January		4,455,785	4,621,087
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**46**	**4,651,243**	**4,455,785**
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest paid		(1,043,104)	(925,827)
Interest received		1,415,702	1,306,114
Dividends received		3,293	1,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Byblos Bank S.A.L. ("the Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No. 14150 at the commercial registry of Beirut and under No. 39 on the list of banks published by the Central Bank of Lebanon. The Bank's head office is located on Elias Sarkis Street in Ashrafieh, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank, together with its affiliated banks and subsidiaries (collectively "the Group"), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and nine locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of the Congo, and Armenia). Further information on the Group's structure is provided in note 4.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of Law No. 282 dated 30 December 1993; and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Pounds (LBP) and all values are rounded to the nearest LBP million except when otherwise indicated.

STATEMENT OF COMPLIANCE

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

PRESENTATION OF FINANCIAL STATEMENTS

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NON-CONTROLLING INTERESTS

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interests in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profit or loss attributable to non-controlling interests. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. Non-controlling interest continues to be recognized within equity, with changes in the carrying amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then derecognized as if it were acquired at that date. The liability is recognized at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

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 and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies as an investment entity under IFRS 10.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES – AMENDMENTS TO IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

IMPAIRMENT OF ASSETS – AMENDMENTS TO IAS 36

The IASB has amended IAS 36 to (i) remove the requirement to disclose recoverable amounts when a cash-generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment; (ii) require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and (iii) require detailed disclosure of how the fair value less costs of disposal has been

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NOVATION OF DERIVATIVES 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 and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 LEVIES

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

ANNUAL IMPROVEMENTS 2010-2012 CYCLE

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is in line with the applied fair valuation methodologies and as such this amendment to IFRS 13 has no impact on the Group.

ANNUAL IMPROVEMENTS 2011-2013 CYCLE

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

2.4. 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 Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 (2014) FINANCIAL INSTRUMENTS

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 [2014]), which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years, the Group has early adopted IFRS 9 (2011), which includes the requirements for the classification and measurement. IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 (2014) will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9 (2014) and plans to adopt the new standard on the required effective date.

AMENDMENTS TO IAS 19 DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined-benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined-benefit plans with contributions from employees or third parties.

ANNUAL IMPROVEMENTS 2010-2012 CYCLE

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-Based Payment: This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations: The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9.

IFRS 8 Operating Segments: The amendments are applied retrospectively and clarify that 1) an entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are "similar"; and 2) the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision-maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures: The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

ANNUAL IMPROVEMENTS 2011-2013 CYCLE

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations: The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that 1) joint arrangements, not just joint ventures, are outside the scope of IFRS 3; and 2) this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement: The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9.

IAS 40 Investment Property: The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property. The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

AMENDMENTS TO IFRS 11 JOINT ARRANGEMENTS: ACCOUNTING FOR ACQUISITIONS OF INTERESTS

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AMENDMENTS TO IAS 16 AND IAS 38: CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTIZATION

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment, and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

AMENDMENTS TO IAS 27: EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Lebanese Pounds, the Bank's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

(ii) Group companies

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is reclassified to the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

FINANCIAL INSTRUMENTS CLASSIFICATION AND MEASUREMENT

(i) Date of recognition

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

(ii) Classification and measurement of financial instruments

a. Financial assets

The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or fair value.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement

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or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

FINANCIAL ASSETS AT AMORTIZED COST

Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two 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 instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "Net credit losses".

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets.

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "Net gain (loss) from sale of financial assets at amortized cost" in the consolidated income statement.

BALANCES WITH CENTRAL BANKS, DUE FROM BANKS AND FINANCIAL INSTITUTIONS, LOANS TO BANKS AND FINANCIAL INSTITUTIONS, AND LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES – AT AMORTIZED COST

After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions", and "Loans and advances to customers and related parties" are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in "Net credit losses".

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(i) Debt instruments at fair value through profit or loss
These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement showing, separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Gains and losses arising from the derecognition of debt instruments at fair value through profit or loss are also reflected under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement showing, separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

(ii) Equity instruments at fair value through profit or loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

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Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

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 consolidated 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 consolidated 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.

b. Financial liabilities

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

The Group classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; and
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

Fair value option

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk are not reclassified to consolidated income statement.

Debt issued and other borrowed funds and subordinated debt

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds", where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

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

After initial measurement, due to central banks, due to banks and financial institutions, customers' and related parties'

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

c. Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as interest rate swaps and futures, credit-default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

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

(iii) Day 1 profit or loss
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets
The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Group's Senior Management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

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

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

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
    - The Group has transferred substantially all the risks and rewards of the asset; or
    - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference

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between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Due to banks and financial institutions", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets at fair value through profit or loss pledged as collateral" as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within "Due from banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

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

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

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

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

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

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

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

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

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

At each reporting date, the management analyzes the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each reporting 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 borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments, 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.

(i) Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group 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. 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 consolidated 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 Group. 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 writeoff is later recovered, the recovery is credited to the "Net credit losses" in the consolidated income statement.

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. 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 of obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, which considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status, and other relevant factors.

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 group 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.

(ii) Renegotiated loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral repossessed
The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realizable value.

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Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

HEDGE ACCOUNTING

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter-end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the consolidated statement of financial position and is also recognized in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

If the hedging instrument expires or is sold, terminated, or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of a net investment

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in other comprehensive income, while any gains or losses relating to the ineffective portion are recognized in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in other comprehensive statement is transferred to the consolidated income statement.

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LEASING

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payments payable are recognized as an expense in the period in which they are incurred.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

RECOGNITION OF INCOME AND EXPENSES

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

(i) Interest and similar income and expense
For all financial instruments measured at amortized cost, interest income or expense is recorded using the EIR, 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 Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as "Interest and similar income" for financial assets and "Interest and similar expense" for financial liabilities.

Once the recorded value of a financial asset on 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 Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following categories:

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

Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

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 or the purchase or sale of businesses, 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.

Fee and commission income from providing insurance services
Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders, and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

(iii) Dividend income
Dividend income is recognized when the right to receive the payment is established.

(iv) Net gain (loss) from financial instruments at fair value through profit or loss
Results arising from financial instruments at fair value through profit or loss include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(v) Insurance revenue
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the pro rata temporis

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less, including: cash and balances with central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

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

Buildings	50 years
Office equipment and furniture	6.66-12.5 years
Computer equipment and software	3.33-5 years
General installations	5 years
Vehicles	4 years

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 gain (loss) on disposal of fixed assets" in the year the asset is derecognized.

The asset's residual lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if applicable.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

INTANGIBLE ASSETS

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 Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortized over the useful economic life. The 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 consolidated income statement.

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:

Key money	10-15 years

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

The Group does not have intangible assets with indefinite economic lives.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses relating to goodwill cannot be reversed in future periods.

FINANCIAL GUARANTEES

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognized in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fee and commission income".

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group operates defined-benefit pension plans, which require contributions to be made to separately administered funds. The cost of providing benefits under the defined-benefit plans is determined using the projected unit credit method, which involves making actuarial assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Those assumptions are unbiased and mutually compatible.

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

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

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

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

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

PROVISIONS FOR RISKS AND CHARGES

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

TAXES

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

(i) Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

TREASURY SHARES

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

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

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

ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration are not treated as assets of the Group and accordingly are recorded as off financial position items.

DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

CUSTOMERS' ACCEPTANCES

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

SEGMENT REPORTING

The Group's segmental reporting is based on the following operating segments: consumer banking, corporate banking, and treasury and capital markets.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

JUDGMENTS

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

Going concern
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Business model
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group 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 Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment, the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows, and whether the contractual terms contain leverage.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data 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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment losses on loans and advances
The Group 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 consolidated income statement. 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 Group 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 data (including levels of unemployment, real estate prices indices, country risk, and the performance of different individual groups).

Deferred tax assets
Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of Byblos Bank S.A.L. and the following subsidiaries:

	Percentage of ownership			
Subsidiary	**2014 %**	**2013 %**	**Principal activity**	**Country of incorporation**
Byblos Bank Europe S.A.	99.95	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	64.00	64.00	Insurance	Lebanon
Adonis Brokerage House S.A.L.	100.00	100.00	Insurance Brokerage	Lebanon
Byblos Invest Bank S.A.L.	99.99	99.99	Investment Banking	Lebanon
Byblos Bank Africa	56.86	56.86	Commercial Banking	Sudan
Byblos Bank Syria P.J.S.C.	59.87	52.37	Commercial Banking	Syria
Byblos Bank Armenia C.J.S.C.	65.00	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance Syria (ADIR Syria)	76.00	76.00	Insurance	Syria
Byblos Bank RDC S.A.R.L. (formerly Solidaire Banque Internationale [S.B.I. S.A.R.L.])	66.67	66.67	Banking activities	Democratic Republic of the Congo

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. BUSINESS COMBINATIONS

Acquisition of additional interest in Byblos Bank Syria P.J.S.C.
Effective 1 January 2014, the Group acquired an additional 7.5% interest in the voting shares of Byblos Bank Syria P.J.S.C., increasing its ownership interest to 59.87%. A cash consideration of LBP 10,553 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LBP 5,384 million. Following is a schedule of additional interest acquired in Byblos Bank Syria P.J.S.C.:

LBP Million	
Cash consideration paid to non-controlling shareholders	10,553
Carrying value of additional interest in Byblos Bank Syria P.J.S.C.	(5,384)
Difference recognized within equity	**5,169**

6. MATERIAL PARTLY OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests are provided below.

PROPORTION OF EQUITY INTERESTS HELD BY NON-CONTROLLING INTERESTS:

Name	2014 %	2013 %
Byblos Bank Africa	43.14	43.14
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	36.00	36.00
Byblos Bank Armenia C.J.S.C.	35.00	35.00
Byblos Bank Syria P.J.S.C.	40.13	47.63

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

SUMMARIZED INCOME STATEMENT FOR 2014:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria P.J.S.C.
Net interest income (expense)	16,325	5,528	3,419	(709)
Net fee and commission income	5,074	2,383	156	2,493
Net gain from financial instruments at fair value through profit or loss	1,996	2,722	1,751	24,287
Other operating income	605	15,711	220	367
Net credit losses	(2,705)	(160)	(4,714)	(8,160)
Total operating expenses	(8,870)	(9,920)	(4,771)	(6,504)
Income tax expense	(3,775)	(873)	(55)	(3,389)
Profit (loss) for the year	**8,650**	**15,391**	**(3,994)**	**8,385**
Attributable to non-controlling interests	**3,732**	**5,541**	**(1,398)**	**3,365**
Dividends paid to non-controlling interests	**1,710**	**2,379**	**-**	**-**

SUMMARIZED INCOME STATEMENT FOR 2013:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria P.J.S.C.
Net interest income	13,629	2,869	6,055	442
Net fee and commission income	6,929	1,944	163	3,140
Net gain from financial instruments at fair value through profit or loss	2,363	4,197	192	41,293
Other operating income	350	15,612	26	1,157
Net credit losses	(1,586)	(1,000)	(2,676)	(40,083)
Total operating expenses	(10,694)	(9,503)	(5,049)	(10,382)
Income tax expense	(2,743)	(847)	-	9,185
Profit (loss) for the year	**8,248**	**13,272**	**(1,289)**	**4,752**
Attributable to non-controlling interests	**3,558**	**4,784**	**(451)**	**2,263**
Dividends paid to non-controlling interests	**1,198**	**1,803**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria P.J.S.C.
Cash and balances with banks	92,344	19,294	63,426	232,535
Balances with Parent and Group entities	49,651	140,584	539	36,108
Financial assets at fair value through profit or loss	-	25,429	-	-
Net loans and advances at amortized cost	107,396	1,816	90,138	95,143
Financial assets at amortized cost	35,442	103,988	9,677	15,376
Property and equipment	16,850	2,028	3,271	7,498
Other assets	17,314	48,373	1,502	27,263
Due to banks	(29,704)	-	(24,194)	(20,120)
Due to Parent and Group entities	(77,673)	-	(12,403)	-
Deposits at amortized cost	(132,614)	(176,685)	(107,265)	(331,836)
Other liabilities	(23,588)	(104,134)	(499)	(1,489)
Total equity	**55,418**	**60,693**	**24,192**	**60,478**
Attributable to non-controlling interests	**14,209**	**21,850**	**-**	**24,270**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013:

	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria P.J.S.C.
Cash and balances with banks	65,844	21,173	49,397	231,749
Balances with Parent and Group entities	79,136	134,861	591	64,598
Financial assets at fair value through profit or loss	-	22,373	-	-
Net loans and advances at amortized cost	133,155	2,994	89,671	121,839
Financial assets at amortized cost	43,539	74,677	11,847	22,962
Property and equipment	19,454	2,149	3,991	10,451
Other assets	8,134	43,885	2,134	35,782
Due to banks	(60,745)	-	(25,873)	(56,076)
Due to Parent and Group entities	(70,104)	-	(7,724)	-
Deposits at amortized cost	(147,623)	(151,239)	(90,726)	(327,033)
Other liabilities	(16,965)	(98,971)	(803)	(32,490)
Total equity	**53,825**	**51,902**	**32,505**	**71,782**
Attributable to non-controlling interests	**13,801**	**18,711**	**-**	**34,190**

Put options granted to the holders of non-controlling interests of the subsidiaries Byblos Bank Africa and Byblos Bank Armenia C.J.S.C. were estimated at a fair value of LBP 13,213 million and LBP 9,212 million respectively as at 31 December 2014 (2013: LBP 11,774 million and LBP 14,221 million respectively) (note 36). These were recorded through partial recognition of non-controlling interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED CASH FLOW INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2014:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria P.J.S.C.
Operating	36,907	16,909	(18,368)	51,892
Investing	4,767	(13,017)	(365)	6,606
Financing	(37,323)	(2,852)	-	-
Net increase (decrease) in cash and cash equivalents	**4,351**	**1,040**	**(18,733)**	**58,498**

SUMMARIZED CASH FLOW INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2013:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria P.J.S.C.
Operating	(59,704)	17,058	(2,587)	(60,792)
Investing	(9,989)	(5,364)	(169)	10,553
Financing	15,266	(1,332)	-	-
Net increase (decrease) in cash and cash equivalents	**(54,427)**	**10,362**	**(2,756)**	**(50,239)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION

For management purposes, the Group is organized into three operating segments based on products and services as follows:

RETAIL BANKING provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, fund transfers, foreign exchange, and other branch-related services.

CORPORATE BANKING provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance, and foreign exchange operations.

TREASURY AND CAPITAL MARKETS is mostly responsible for the liquidity management and market risk of the Group, as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investment products and services to investors and other institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense amounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents net operating income, profit and total assets and liabilities information in respect of the Group's operating segments:

PROFIT FOR THE YEAR INFORMATION

2014 LBP Million	**Retail banking**	**Corporate banking**	**Treasury and capital markets**	**Other[1]**	**Total**
Net interest income	186,799	114,430	58,476	3,992	363,697
Net fee and commission income	66,626	62,594	376	6,268	135,864
Net gain from financial instruments at fair value through profit or loss	-	-	66,942	-	66,942
Net gain from sale of financial assets at amortized cost	-	-	104,818	-	104,818
Revenue from financial assets at fair value through other comprehensive income	-	-	2,736	-	2,736
Other operating income	-	-	-	21,859	21,859
Net credit losses	(8,004)	(35,197)	3,773	-	(39,428)
Net operating income	**245,421**	**141,827**	**237,121**	**32,119**	**656,488**

[1] *Other includes all non-banking activities.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Net interest income	180,406	109,440	49,403	6,595	345,844
Net fee and commission income	65,508	65,661	2,037	5,787	138,993
Net gain from financial instruments at fair value through profit or loss	-	-	86,098	-	86,098
Net gain from sale of financial assets at amortized cost	-	-	79,862	-	79,862
Revenue from financial assets at fair value through other comprehensive income	-	-	1,144	-	1,144
Other operating income	-	-	-	23,542	23,542
Net credit losses	(16,025)	(64,423)	1,316	-	(79,132)
Net operating income	**229,889**	**110,678**	**219,860**	**35,924**	**596,351**

FINANCIAL POSITION INFORMATION

2014 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,418,690**	**5,011,446**	**20,883,916**	**380,486**	**28,694,538**
Total liabilities	**22,165,961**	**1,524,642**	**1,847,712**	**612,271**	**26,150,586**

2013 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,393,029**	**4,853,510**	**20,231,474**	**388,255**	**27,866,268**
Total liabilities	**20,755,502**	**1,479,159**	**2,365,984**	**780,037**	**25,380,682**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GEOGRAPHIC INFORMATION

The Group operates in three geographical segments, Lebanon, Europe and Other countries. The following table shows the distribution of the Group's net operating income and non-current assets.

2014 LBP Million	Lebanon	Europe	Other	Total
Total operating income	563,786	50,145	81,985	695,916
Net credit losses	(20,054)	(6,886)	(12,488)	(39,428)
Net operating income[2]	**543,732**	**43,259**	**69,497**	**656,488**
Non-current assets[3]	**222,089**	**7,400**	**44,219**	**273,708**

2013 LBP Million	Lebanon	Europe	Other	Total
Total operating income	527,279	53,675	94,529	675,483
Net credit losses	(30,617)	(6,191)	(42,324)	(79,132)
Net operating income[2]	**496,662**	**47,484**	**52,205**	**596,351**
Non-current assets[3]	**218,880**	**8,994**	**52,546**	**280,420**

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

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

8. INTEREST AND SIMILAR INCOME

LBP Million	2014	2013
Balances with central banks	199,375	162,273
Due from banks and financial institutions	18,035	14,233
Loans to banks and financial institutions	13,230	13,474
Financial assets given as collateral	477	517
Loans and advances to customers at amortized cost	488,449	457,584
Loans and advances to related parties at amortized cost	1,319	1,121
Financial assets at amortized cost	692,349	646,757
	1,413,234	**1,295,959**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INTEREST AND SIMILAR EXPENSE

LBP Million	2014	2013
Due to central banks	986	1,809
Due to banks and financial institutions	22,481	27,503
Customers' deposits at amortized cost	949,321	843,637
Deposits from related parties at amortized cost	13,175	11,334
Debt issued and other borrowed funds	32,227	34,849
Subordinated debt	31,347	30,747
Other equity instruments	-	236
	1,049,537	**950,115**

10. NET FEE AND COMMISSION INCOME

LBP Million	2014	2013
Fee and commission income		
Loans and advances	23,618	24,849
Letters of guarantee	15,861	15,357
Acceptances	9,258	9,857
Letters of credit	27,867	31,285
Credit cards	14,207	12,457
Domiciled bills	2,554	2,185
Checks for collection	3,038	3,084
Maintenance of accounts	13,305	13,080
Transfers	9,797	9,912
Safe rental	1,116	946
Portfolio commission	3,808	4,321
Commission on insurance-related activities	8,210	8,593
Refund of banking services	12,316	12,820
Other commissions	4,676	5,294
	149,631	**154,040**
Fee and commission expense	**(13,767)**	**(15,047)**
Net fee and commission income	**135,864**	**138,993**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP Million	2014	2013
Interest and similar income from debt instruments		
Lebanese government bonds	6,802	16,499
Certificates of deposit issued by the Central Bank of Lebanon	10	700
Other foreign government bonds	231	115
Other debt securities	596	200
	7,639	**17,514**
Gain (loss) from sale of debt instruments		
Lebanese government bonds	3,439	(3,004)
Certificates of deposit issued by the Central Bank of Lebanon	2	(873)
Other foreign government bonds	388	21
Other debt securities	76	39
	3,905	**(3,817)**
Unrealized gain (loss) from revaluation of debt instruments		
Lebanese government bonds	1,490	(1,189)
Certificates of deposit issued by the Central Bank of Lebanon	16	556
Other foreign government bonds	(38)	-
Other debt securities	322	(105)
	1,790	**(738)**
Net gain from debt instruments	**13,334**	**12,959**
Equity instruments		
Gain from sale	213	362
Unrealized gain from revaluation	2,784	5,258
Dividend income	557	571
Net gain from equity instruments	**3,554**	**6,191**
Unrealized gain from revaluation of structural position of a subsidiary	23,758	39,748
Foreign exchange	26,296	27,200
	66,942	**86,098**

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives, and the revaluation of the daily open trading position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognizes some debt instruments classified at amortized cost due to the following reasons:
- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Lebanese Central Bank;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

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

2014 LBP Million	Gains	Losses	Net
Lebanese government bonds	61,457	-	61,457
Certificates of deposit issued by the Central Bank of Lebanon	42,072	(632)	41,440
Other foreign government bonds	185	-	185
Other debt securities	1,736	-	1,736
	105,450	**(632)**	**104,818**

2013 LBP Million	Gains	Losses	Net
Lebanese government bonds	27,575	(280)	27,295
Certificates of deposit issued by the Central Bank of Lebanon	31,309	-	31,309
Other foreign government bonds	2,527	-	2,527
Other debt securities	3,623	(56)	3,567
Bank placements at the Central Bank of Lebanon	15,164	-	15,164
	80,198	**(336)**	**79,862**

During 2013, the Group discounted placements at the Central Bank of Lebanon which resulted in a gain of LBP 15,164 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. OTHER OPERATING INCOME

LBP Million	2014	2013
Net gain from sale of assets obtained in settlement of debt	2,190	5,791
Rental income from assets obtained in settlement of debt	1,424	895
Write-back of provisions for risks and charges (note 37 (b))	751	145
Other operating income from insurance-related activities	12,891	13,003
Others	4,603	3,708
	21,859	**23,542**

14. NET CREDIT LOSSES

LBP Million	2014	2013
Charge for the year		
Loans and advances to customers at amortized cost (note 25)	74,568	115,097
Financial assets at amortized cost (note 26)	513	1,000
Bad debts written off	178	80
	75,259	**116,177**
Recoveries during the year:		
Loans and advances to customers (note 25)	(25,128)	(25,566)
Unrealized interest on loans and advances to customers (note 25)	(6,257)	(9,163)
Financial assets at amortized cost (note 26)	(4,000)	(1,419)
Doubtful banks (note 20)	(446)	(897)
	(35,831)	**(37,045)**
	39,428	**79,132**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PERSONNEL EXPENSES

LBP Million	2014	2013
Salaries and related charges	139,670	135,695
Social security contributions	19,401	17,727
Provision for end-of-service benefits (note 37 (a))	8,546	8,804
	167,617	**162,226**

16. OTHER OPERATING EXPENSES

LBP Million	2014	2013
Taxes on interest	3,508	3,721
Taxes and duties	6,546	7,522
Contribution to deposit guarantee fund	11,185	9,951
Rent and related charges	7,297	7,862
Professional fees	8,397	8,414
Telecommunications and postage expenses	8,339	8,418
Board of Directors attendance fees	998	998
Maintenance and repairs	15,358	14,052
Electricity and fuel	6,165	6,732
Travel and entertainment	3,601	3,907
Publicity and advertising	11,839	11,829
Subscriptions	4,876	3,594
Bonuses	20,883	15,623
Legal expenses	3,566	3,273
Insurance	1,869	1,857
Guarding fees	1,996	2,085
Printings and stationery	3,207	3,159
Provisions for risks and charges (note 37 (b))	645	4,190
Donations	3,228	2,624
Others	8,538	7,150
	132,041	**126,961**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2014 and 2013 are as follows:

LBP Million	2014	2013
Current income tax expense	55,475	45,168
Deferred tax related to origination and reversal of temporary differences	2,839	(9,185)
Other taxes	8,963	8,376
	67,277	**44,359**

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

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

LBP Million	2014	2013
Operating profit before tax	**331,809**	**279,808**
Of which Lebanese banks	266,563	237,994
Of which insurance companies	22,524	16,440
Of which foreign banks	42,722	25,374
Income tax at Lebanese tax rate 15%	**49,771**	**41,971**
Impact of increase resulting from:		
Different tax rates	5,149	1,036
Non-deductible expenses	4,119	2,799
Carried forward taxable losses of a subsidiary	-	5,513
	9,268	**9,348**
Impact of decrease resulting from:		
Revenues previously subject to tax	-	(188)
Unrealized gain from revaluation of structural position of a subsidiary	(3,564)	(5,963)
	(3,564)	**(6,151)**
Income tax	**55,475**	**45,168**
Effective income tax rate	**16.72%**	**16.14%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

LBP Million	2014	2013
Balance at 1 January	42,275	36,519
Charge for the year	64,438	53,544
	106,713	**90,063**
Less taxes paid:		
Current year tax liability*	(27,380)	(24,522)
Prior years tax liabilities	(29,114)	(23,266)
	(56,494)	**(47,788)**
Balance at 31 December (note 36 (a))	**50,219**	**42,275**

(*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposit.

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

2014 LBP Million	Deferred tax assets	Deferred tax liabilities
Fair value of financial instruments	-	3,369
Carried forward taxable losses of a subsidiary	7,583	-
	7,583	**3,369**

2013 LBP Million	Deferred tax assets	Deferred tax liabilities
Fair value of financial instruments	925	2,748
Carried forward taxable losses of a subsidiary	14,361	-
	15,286	**2,748**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

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

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

LBP Million	2014	2013
Weighted average number of common shares outstanding during the year (*)	562,510,901	561,731,039

LBP Million	2014	2013
Net profit attributable to equity holders of the parent	252,792	224,683
(Less): proposed dividends to preferred shares	(48,480)	(48,480)
Net profit attributable to equity holders of the parent	**204,312**	**176,203**
Basic earnings per share in LBP	**363.21**	**313.68**

(*) The weighted average number of ordinary shares adopted for the computation of basic earnings per share takes into account the weighted average number of treasury shares, excluding treasury shares held against other equity instruments (note 43).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DILUTED EARNINGS PER SHARE

The following table shows the income and share data used in the diluted earnings per share calculation:

LBP Million	2014	2013
Weighted average number of ordinary shares for basic earnings per share	562,510,901	561,731,039
Effect of dilution:		
Convertible subordinated debt	117,200,000	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**679,710,901**	**678,931,039**

LBP Million	2014	2013
Net profit attributable to equity holders of the parent	204,312	176,203
Interest on convertible debt	31,347	30,747
Less: income tax	(4,702)	(4,612)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	230,957	202,338
Diluted earnings per share in LBP	**339.79**	**298.02**

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. CASH AND BALANCES WITH CENTRAL BANKS

LBP Million	2014	2013
Cash on hand	228,866	273,430
Balances with the Central Bank of Lebanon:		
Current accounts	637,817	578,304
Time deposits	5,710,490	4,461,128
	6,348,307	**5,039,432**
Balances with central banks in other countries:		
Current accounts	406,648	428,564
Time deposits	15,490	23,000
	422,138	**451,564**
Accrued interest receivable	49,474	45,504
	7,048,785	**5,809,930**

OBLIGATORY RESERVES:

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks, which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts amounted to LBP 2,476,029 million and LBP 2,557,673 million respectively as at 31 December 2014 (2013: LBP 2,349,275 million and LBP 2,390,356 million respectively).

- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2014, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LBP 102,090 million (2013: LBP 119,680 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2014	2013
Banks		
Current accounts	1,506,564	987,038
Time deposits	1,385,453	2,310,245
Accrued interest receivable	834	917
Doubtful bank accounts	2,038	2,377
Provision for doubtful bank accounts	(2,038)	(2,377)
	2,892,851	**3,298,200**
Financial institutions		
Current accounts	9,982	52,243
Cash margins	-	710
	9,982	**52,953**
Registered exchange companies:		
Current accounts	8,027	665
Doubtful exchange companies accounts	1,922	2,259
Provision for doubtful exchange companies accounts	(1,922)	(2,259)
	8,027	**665**
Brokerage companies		
Current accounts	2,419	1,496
	2,913,279	**3,353,314**

DOUBTFUL BANKS AND REGISTERED EXCHANGE COMPANIES

Following is the movement in the provisions for doubtful banks and registered exchange companies during the year:

	2014			2013		
LBP Million	Banks	Registered exchange companies	Total	Banks	Registered exchange companies	Total
Balance at 1 January	2,377	2,259	4,636	3,193	2,259	5,452
Write-back (note 14)	(109)	(337)	(446)	(897)	-	(897)
Exchange difference	(230)	-	(230)	81	-	81
Balance at 31 December	**2,038**	**1,922**	**3,960**	**2,377**	**2,259**	**4,636**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

LBP Million	2014	2013
Loans to banks and financial institutions	359,000	583,163
Accrued interest receivable	993	2,395
	359,993	**585,558**
Discounted acceptances	34,890	31,286
Interest received in advance	(1,171)	(1,978)
	33,719	**29,308**
	393,712	**614,866**

22. FINANCIAL ASSETS GIVEN AS COLLATERAL

LBP Million	2014	2013
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	6,915	6,915
Accrued interest receivable	90	90
	7,005	**7,005**

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon during 2010 (note 32).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

	2014			2013		
LBP Million	Assets	Liabilities	Notional	Assets	Liabilities	Notional
Held for trading						
Currency swaps	167	155	315,869	1,684	1,673	308,670
Forward foreign exchange contracts	6,548	5,272	304,771	2,140	1,390	154,549
	6,715	5,427	620,640	3,824	3,063	463,219

FORWARDS

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

DERIVATIVE FINANCIAL INSTRUMENTS HELD OR ISSUED FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the hedge accounting criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP Million	2014	2013
Lebanese government bonds	113,672	104,979
Certificates of deposit issued by the Central Bank of Lebanon	3,190	329
Other debt securities	2,068	19,175
Quoted equity instruments	35,942	32,964
Other foreign government bonds	710	-
	155,582	**157,447**

25. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

LBP Million	2014	2013
Commercial loans	5,173,799	4,942,009
Consumer loans	2,393,641	2,260,967
	7,567,440	**7,202,976**
Less		
Individual impairment allowances	(222,680)	(213,603)
Collective impairment allowances	(148,135)	(130,669)
Unrealized interest	(97,462)	(81,854)
	7,099,163	**6,776,850**

Bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LBP 60,912 million as of 31 December 2014 (2013: LBP 59,817 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of unrealized interest on substandard, doubtful, and bad loans during the year was as follows:

2014 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	81,565	289	81,854
Add (less)			
Unrealized interest for the year	30,850	35	30,885
Amounts transferred from off financial position	114	-	114
Recoveries (note 14)	(6,257)	-	(6,257)
Amounts written off	(3,714)	-	(3,714)
Difference of exchange	(5,341)	(79)	(5,420)
Balance at 31 December	**97,217**	**245**	**97,462**

2013 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	70,963	385	71,348
Add (less)			
Unrealized interest for the year	29,104	82	29,186
Amounts transferred from off financial position	4,125	-	4,125
Recoveries (note 14)	(9,163)	-	(9,163)
Amounts written off	(8,771)	-	(8,771)
Difference of exchange	(4,693)	(178)	(4,871)
Balance at 31 December	**81,565**	**289**	**81,854**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of the individual impairment allowances during the year was as follows:

2014 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	168,202	45,401	213,603
Add (less)			
- Charge for the year (note 14)	16,428	8,316	24,744
- Amounts written off	(1,685)	(42)	(1,727)
- Recoveries (note 14)	(18,951)	(4,427)	(23,378)
- Transfer from off financial position	592	-	592
- Transfer from collective impairment allowances	(108)	25,377	25,269
- Difference of exchange	(15,185)	(1,238)	(16,423)
Balance at 31 December	**149,293**	**73,387**	**222,680**
Gross amount of loans individually determined to be impaired	**312,251**	**105,382**	**417,633**

2013 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	136,364	31,414	167,778
Add (less)			
- Charge for the year (note 14)	70,670	16,987	87,657
- Amounts written off	(5,203)	(296)	(5,499)
- Recoveries (note 14)	(23,621)	(1,945)	(25,566)
- Transfer from off financial position	2,588	120	2,708
- Transfer from collective impairment allowances	4,330	-	4,330
- Difference of exchange	(16,926)	(879)	(17,805)
Balance at 31 December	**168,202**	**45,401**	**213,603**
Gross amount of loans individually determined to be impaired	**304,077**	**54,443**	**358,520**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of the collective impairment allowances during the year was as follows:

2014 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	98,413	32,256	130,669
Add (less)			
- Charge for the year (note 14)	45,726	4,098	49,824
- Amounts written off	(447)	-	(447)
- Recoveries (note 14)	(1,750)	-	(1,750)
- Transfer to individual impairment allowances	108	(25,377)	(25,269)
- Difference of exchange	(4,772)	(120)	(4,892)
Balance at 31 December	**137,278**	**10,857**	**148,135**

2013 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	81,191	31,542	112,733
Add (less)			
- Charge for the year (note 14)	26,536	904	27,440
- Transfer from commercial to consumer	(795)	795	-
- Transfer to individual impairment allowances	(4,330)	-	(4,330)
- Difference of exchange	(4,189)	(985)	(5,174)
Balance at 31 December	**98,413**	**32,256**	**130,669**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL ASSETS AT AMORTIZED COST

LBP Million	2014	2013
Lebanese government bonds	5,673,700	5,185,252
Certificates of deposit issued by the Central Bank of Lebanon	3,913,360	4,239,042
Other foreign government bonds	134,667	129,695
Other debt securities	539,966	649,266
	10,261,693	**10,203,255**
Less: collective impairment allowances	(1,574)	(5,062)
	10,260,119	**10,198,193**

The movement in the collective impairment allowances during the year was as follows:

2014 LBP Million	Other debt securities	Total
Balance at 1 January	5,062	5,062
Write-back during the year (note 14)	(4,000)	(4,000)
Charge for the year (note 14)	513	513
Exchange difference	(1)	(1)
Balance at 31 December	**1,574**	**1,574**

2013 LBP Million	Other debt securities	Total
Balance at 1 January	5,487	5,487
Write-back during the year (note 14)	(1,419)	(1,419)
Charge for the year (note 14)	1,000	1,000
Exchange difference	(6)	(6)
Balance at 31 December	**5,062**	**5,062**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

LBP Million	2014	2013
Quoted shares	50,986	43,405
Unquoted shares	47,732	43,490
	98,718	**86,895**

The table below details the financial assets at fair value through other comprehensive income as at 31 December:

	2014			2013		
LBP Million	Carrying amount	Cumulative fair value changes	Dividend income	Carrying amount	Cumulative fair value changes	Dividend income
Unquoted shares:						
Banque de l'Habitat S.A.L.	24,430	19,242	458	22,508	17,320	454
Intra Investment Company S.A.L.	17,591	4,567	-	17,591	4,567	583
Interbank Payment Network (IPN) S.A.L.	1,345	342	85	1,345	342	106
Arab Trade Financing Program	2,118	626	-	1,492	-	-
Liquidity Management Fund Bank	1,431	-	-	-	-	-
Others	817	368	-	554	105	1
Quoted shares:						
Jordan Ahli Bank	50,986	(29,428)	2,193	43,405	(37,009)	-
	98,718	**(4,283)**	**2,736**	**86,895**	**(14,675)**	**1,144**

Dividend income amounted to LBP 2,736 million for the year ended 31 December 2014 (2013: LBP 1,144 million) and resulted from equity instruments held at year-end (2013: the same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. PROPERTY AND EQUIPMENT

2014 LBP Million	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
Cost:						
At 1 January 2014	238,467	2,824	219,077	719	579	461,666
Additions	10,015	145	12,633	1	1,040	23,834
Transfers	-	-	70	3	(73)	-
Disposals	-	(157)	(3,897)	-	-	(4,054)
Foreign exchange difference	(5,288)	(123)	(4,094)	(20)	-	(9,525)
At 31 December 2014	**243,194**	**2,689**	**223,789**	**703**	**1,546**	**471,921**
Depreciation:						
At 1 January 2014	50,126	2,401	165,909	-	-	218,436
Depreciation during the year	5,036	185	19,661	-	-	24,882
Related to disposals	-	(83)	(3,809)	-	-	(3,892)
Foreign exchange difference	(593)	(113)	(3,178)	-	-	(3,884)
At 31 December 2014	**54,569**	**2,390**	**178,583**	**-**	**-**	**235,542**
Net carrying value:						
At 31 December 2014	**188,625**	**299**	**45,206**	**703**	**1,546**	**236,379**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
Cost:						
At 1 January 2013	246,383	3,512	209,667	686	3,535	463,783
Additions	71	7	17,970	26	600	18,674
Transfers	3,707	-	24	-	(3,731)	-
Disposals	-	(459)	(1,082)	-	(13)	(1,554)
Foreign exchange difference	(11,694)	(236)	(7,502)	7	188	(19,237)
At 31 December 2013	**238,467**	**2,824**	**219,077**	**719**	**579**	**461,666**
Depreciation:						
At 1 January 2013	45,729	2,683	149,977	-	-	198,389
Depreciation during the year	5,278	234	21,706	-	-	27,218
Related to disposals	-	(357)	(981)	-	-	(1,338)
Foreign exchange difference	(881)	(159)	(4,793)	-	-	(5,833)
At 31 December 2013	**50,126**	**2,401**	**165,909**	**-**	**-**	**218,436**
Net carrying value:						
At 31 December 2013	**188,341**	**423**	**53,168**	**719**	**579**	**243,230**

The cost of buildings at 31 December 2014 and 2013 includes the revaluation differences of properties valued during prior years in accordance with Law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LBP 5,689 milion as at 31 December 2014 (2013: the same) (note 44).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. INTANGIBLE ASSETS

LBP Million	2014	2013
Cost:		
At 1 January and 31 December	2,303	2,303
Accumulated amortization:		
At 1 January	1,492	1,333
Amortization expense for the year	159	159
At 31 December	**1,651**	**1,492**
Net carrying value:		
At 31 December	**652**	**811**

30. ASSETS OBTAINED IN SETTLEMENT OF DEBT

LBP Million	2014	2013
Cost:		
At 1 January	41,538	38,361
Additions	2,563	5,687
Disposals	(2,265)	(2,510)
At 31 December	41,836	41,538
Impairment:		
At 1 January and 31 December	(5,159)	(5,159)
Net carrying value:		
At 31 December	**36,677**	**36,379**

Advance payments received in connection with future sale transactions for the above assets amounted to LBP 2,220 million as of 31 December 2014 (2013: LBP 1,246 million) (note 36).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. OTHER ASSETS

LBP Million		2014	2013
Obligatory deposits	(a)	16,047	16,658
Other assets	(b)	83,150	75,891
Deferred tax assets (note 17)		7,583	15,286
Doubtful debtor accounts		37	37
		106,817	**107,872**
Less: Allowance for credit losses		(37)	(37)
		106,780	**107,835**

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

b) Other assets are comprised of the following:

LBP Million	2014	2013
Prepaid rent	2,585	3,778
Printings and stationery	2,746	3,835
Credit card balances due from customers	14,947	13,071
Insurance premiums receivable	3,687	3,558
Reinsurers' share of technical reserves of subsidiary insurance companies	32,918	27,709
Receivables from the National Social Security Fund	8,672	6,692
Other debit balances	17,595	17,248
	83,150	**75,891**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. DUE TO CENTRAL BANKS

LBP Million	2014	2013
Current accounts	2,905	1,058
Time deposits	6,370	6,736
Loans due to the Central Bank of Lebanon	60,640	41,945
Loan due to the Central Bank of Armenia	1,160	1,314
Accrued interest payable	71	449
	71,146	**51,502**

LOANS DUE TO THE CENTRAL BANK OF LEBANON:

- During 2013, the Bank signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision No. 6116, dated 7 March 1996, relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The loan amounted to LBP 53,725 million as of 31 December 2013) 2014: LBP 35,030 million). The Bank pledged as collateral against this loan, certificates of representation signed by the Bank's customers.

- During 2010, the Bank obtained three loans from the Central Bank of Lebanon to finance customers affected by July-August 2006 war. These loans were originally granted in the amount of LBP 8,814 million, out of which LBP 1,895 matured during 2013. These loans are secured by the pledge of Lebanese treasury bills amounting to LBP 6,915 million included under financial assets given as collateral as of 31 December 2013) 2014: LBP 6,915 million) (note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DUE TO BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2014	2013
Banks:		
- Current accounts	140,805	187,405
- Time deposits	309,787	673,911
- Term loans	164,164	165,929
- Cash margins	80,099	129,748
- Accrued interest payable	4,170	5,370
	699,025	**1,162,363**
Financial institutions:		
- Current accounts	5,597	3,993
- Term loans	167,107	198,095
- Time deposits	29,871	25,879
- Accrued interest payable	1,323	1,959
	203,898	**229,926**
Registered exchange companies:		
- Current accounts	1,272	108
- Time deposits	6,747	131
- Accrued interest payable	7	-
	8,026	**239**
Brokerage institutions:		
- Current accounts	224	34
	911,173	**1,392,562**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. CUSTOMERS' DEPOSITS AT AMORTIZED COST

LBP Million	2014	2013
Current accounts	3,264,135	3,353,030
Term deposits	18,986,964	17,458,400
Cash margins	1,004,709	1,044,999
Accrued interest payable	121,981	113,756
	23,377,789	**21,970,185**

Customers' deposits include coded deposit accounts amounting to LBP 31,106 million as of 31 December 2014 (2013: LBP 35,696 million).

35. DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	Interest rate %	2014 LBP Million	2013 LBP Million
Certificates of deposit				
Issue 2009 – Second Series	31/03/2014	7.25	-	60,978
Accrued interest payable	-	-	-	12
				60,990
Bonds (*)				
Issue 2011	24/06/2021	7.00	444,771	444,884
Accrued interest payable			616	615
			445,387	**445,499**
			445,387	**506,489**

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or the Democratic Republic of the Congo. The Bank shall pay interest on the bonds without deduction or withholding for taxes. The bonds are redeemable, in whole or in part, at the option of the Bank at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the bonds in excess of the current applicable tax rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. OTHER LIABILITIES

LBP Million	2014	2013
Accrued expenses	36,854	40,179
Fixed-asset suppliers	674	2,637
Unearned commission and interest	5,531	6,283
Cash margins related to companies under establishment	1,653	1,854
Insurance premiums received in advance	2,735	2,760
Payables to the National Social Security Fund	1,989	1,939
Advance payments linked to assets obtained in settlement of debt (note 30)	2,220	1,246
Current tax liability (a)	63,996	54,142
Deferred tax liability (note 17)	3,369	2,748
Bankers' checks	-	27,135
Put options on non-controlling interests (note 6)	22,425	25,995
Other creditors	22,457	28,786
	163,903	**195,704**

(a) Current tax liability

LBP Million	2014	2013
Income tax due (note 17)	50,219	42,275
Withholding tax on salaries	2,026	2,132
Withholding tax on interest earned by customers	8,224	7,121
Value added tax	170	386
Other taxes	3,357	2,228
	63,996	**54,142**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. PROVISIONS FOR RISKS AND CHARGES

LBP Million	2014	2013
Technical reserves of insurance subsidiaries	90,074	84,916
Employees' end-of-service benefits (a)	46,320	40,606
Other provisions (b)	9,035	12,853
	145,429	**138,375**

(a) Employees' end-of-service benefits

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

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

LBP Million	2014	2013
Balance at 1 January	**40,606**	**38,286**
Costs charged to the income statement (note 15):		
Service costs	5,324	3,574
Past service costs	-	1,976
Net interest	3,222	3,254
	8,546	**8,804**
Re-measurement (gains) losses in other comprehensive income:		
Actuarial changes arising from changes in economic assumptions	-	420
Experience adjustments	(977)	(3,161)
	(977)	**(2,741)**
End-of-service benefits paid during the year	(1,816)	(3,748)
Foreign exchange	(39)	5
Balance at 31 December	**46,320**	**40,606**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Defined-benefit plans in Lebanon constitute more than 88% of the Group's retirement obligations. The principal assumptions used in determining the end-of-service benefit obligations of these plans are shown below:

	2014	2013
Economic assumptions		
Discount rate	8.5%	8.5%
Future salary increase	5.5%	5.5%
Future expected return on contributions	5.0%	5.0%
Bonus	Last 2 years average	Last 2 years average
	as a % of basic	as a % of basic
Demographic assumptions		
Retirement age	Earliest of 64 or completion of 20 contribution years	Earliest of 64 or completion of 20 contribution years
Mortality rate	None	None
Turnover rate	2.0%	2.0%

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2014 is shown as below:

	Discount rate		Future salary increase		Future expected return on contributions	
LBP Million	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact on net defined benefit obligations						
2014	(1,421)	1,531	2,763	(2,611)	(1,195)	1,154
2013	(1,390)	1,501	2,663	(2,514)	(1,127)	1,087

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined-benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Other provisions
Movement in other provisions during the year was as follows:

LBP Million	2014	2013
At 1 January	12,853	10,338
Charge for the year (note 16)	645	4,190
Write-back during the year (note 13)	(751)	(145)
Writeoff during the year	(2,641)	-
Foreign exchange	(1,071)	(1,530)
At 31 December	**9,035**	**12,853**

38. SUBORDINATED DEBT

LBP Million	2014	2013
Nominal value	441,520	441,697
Unamortized discount	(27,022)	(29,405)
Accrued interest payable	82	76
	414,580	**412,368**

On 21 December 2012, the Bank signed a USD 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of USD 300 million subordinated notes convertible into Byblos Bank S.A.L. shares or Global Depository Receipts (GDRs) according to the following terms:

Number of notes:	30,000
Note's issue price:	USD 10,000
Note's nominal value:	USD 10,000
Date of issue:	21 December 2012
Maturity:	21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank S.A.L. shares or GDRs at a price of USD 2.50 per share or USD 125 per GDR
Interest rate:	Contractual interest rate of 6.5% payable semi-annually
Rights of holders:	The noteholder has the right to convert all or a portion of the subordinated notes into Byblos Bank S.A.L. shares or GDRs at a conversion price of USD 2.50 per share or USD 125 per GDR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The convertible subordinated loan (net of subordinated notes held by a consolidated subsidiary) were recorded at issuance as follows:

LBP Million	2014
Nominal value of convertible bonds	441,520
Equity component	(31,618)
Liability component	**409,902**

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 40).

39. SHARE CAPITAL

	2014			2013		
	No. of shares	Share capital LBP Million	Share premium LBP Million	No. of shares	Share capital LBP Million	Share premium LBP Million
Common shares	565,515,040	684,273	229,014	565,515,040	684,273	229,014
	565,515,040	**684,273**	**229,014**	**565,515,040**	**684,273**	**229,014**
Preferred shares						
- Series 2008	2,000,000	2,420	295,154	2,000,000	2,420	295,154
- Series 2009	2,000,000	2,420	295,929	2,000,000	2,420	293,517
	4,000,000	**4,840**	**591,083**	**4,000,000**	**4,840**	**588,671**

The capital of the Bank is divided into 569,515,040 shares of LBP 1,210 each fully paid (2013: the same).

PREFERRED SHARES

i) Series 2008 Preferred Shares

On 15 August 2008, and based on the decision of the Extraordinary General Assembly held on 18 July 2008, the Bank issued Series 2008 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	USD 100
Share's nominal value:	LBP 1,200
Issue premium:	USD (000) 195,790 (equivalent to LBP 295,154 million) calculated in USD as the difference between the total issue of USD (000) 200,000 and the total par value of the issue amounting to LBP 2,400 million and after deducting issuance commission for the issue amounting to USD (000) 2,618.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Benefits:	Non-cumulative annual dividends of USD 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of Series 2008 Preferred Shares was increased from LBP 1,200 to LBP 1,210.

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the Extraordinary General Assembly held on 1 August 2009, the Bank issued Series 2009 Preferred Shares according to the following terms:

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

During 2014, the Bank transferred LBP 2,412 million from retained earnings to the share premium on Series 2009 Preferred Shares (2013: LBP 2,412 million) for the difference between the redemption price and the issue price.

LISTING OF SHARES

As of 31 December the Bank's shares were listed as follows:

LBP Million	Stock exchange	2014	2013
Ordinary shares	Beirut	502,644,196	501,304,190
Global Depository Receipts (*)	London SEAQ and Beirut	1,257,417	1,284,217
Preferred shares	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDRs) can be issued at a ratio of 50 common shares per one GDR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. NON-DISTRIBUTABLE RESERVES

LBP Million	Legal reserve	Reserves for capital increase	Equity component of convertible subordinated debt	Reserve for general banking risks	Other reserves	Total
Balance at 1 January 2014	225,923	54,659	31,618	209,994	150,124	672,318
Appropriation from retained earnings	21,443	7,334	-	34,131	13,856	76,764
Net loss on sale of treasury shares	-	(203)	-	-	-	(203)
Balance at 31 December 2014	**247,366**	**61,790**	**31,618**	**244,125**	**163,980**	**748,879**
Balance at 1 January 2013	200,820	49,645	31,618	179,994	106,068	568,145
Appropriation from retained earnings	25,103	5,289	-	30,000	44,056	104,448
Net loss on sale of treasury shares	-	(275)	-	-	-	(275)
Balance at 31 December 2013	**225,923**	**54,659**	**31,618**	**209,994**	**150,124**	**672,318**

LEGAL RESERVE

According to the Lebanese Code of Commerce and to the Code of Money and Credit, the Bank is required to transfer 10% of its annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2014, the Group appropriated LBP 21,443 million from 2013 profits to the legal reserve (2013: LBP 25,103 million).

RESERVES FOR CAPITAL INCREASE

This represents regulatory reserves constituted in accordance with circulars issued by the Central Bank of Lebanon and the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

LBP Million	2014	2013
Reserve equivalent to gain on sale of assets acquired in settlement of debt	29,595	23,971
Reserve equivalent to provisions recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	12,833	11,123
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	755	958
	61,790	**54,659**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RESERVE FOR GENERAL BANKING RISKS

According to Central Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% 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% of these risks at the end of year ten (2017) and 2% at the end of year twenty (2027). This reserve cannot be distributed as dividends.

The appropriation in 2014 from the profits of the year 2013 amounted to LBP 34,131 million (2013: LBP 30,000 million).

OTHER RESERVES

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LBP 31,077 million from retained earnings to other reserves related to the subordinated debt.
- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2014, the Group transferred an amount of LBP 13,856 million from retained earnings to other reserves in this respect (2013: LBP 12,979 million).

As of 31 December 2014, "Other reserves" include reserves of LBP 87,932 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2013: LBP 82,534 million).

41. DISTRIBUTABLE RESERVES

LBP Million	2014	2013
General reserves	90,521	91,831
Other capital reserves	5,422	5,422
	95,943	**97,253**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL RESERVES

The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

LBP Million	2014	2013
At 1 January	91,831	94,237
Appropriation to/from retained earnings	(2,309)	3,346
Impact from derecognition of non-controlling interests (note 6)	999	(5,752)
At 31 December	**90,521**	**91,831**

OTHER CAPITAL RESERVES

LBP Million	2014	2013
Premium on capital increase of Byblos Bank Armenia C.J.S.C.	1,026	1,026
Premium on capital increase of Byblos Bank Africa	4,396	4,396
	5,422	**5,422**

42. OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank S.A.L. issued three-year notes (3 Years Byblos Bank Note) for a total amount of USD 9,936,000 (equivalent to LBP 14,979 million) according to the following terms:

Number of notes:	46
Principal of one note:	USD 216,000
Issuing price:	100%
Total issue:	USD 9,936,000 (equivalent to LBP 14,979 million)
Annual return:	3% per year payable on a monthly basis plus any dividend paid on Byblos Bank common shares during the period preceding the payments of the notes on the basis of 120,000 shares per note.
Maturity:	12 July 2013
Prepayment:	The Bank has the right to redeem the notes before maturity on an annual basis, but only within 30 days following the Annual Ordinary General Assembly of Shareholders. In such case, the Bank shall pay in addition to the principal amount of the Note and the return, a bonus of 6% on the principal of the notes.
Settlement:	At maturity, and at its discretion, the Bank shall either settle 120,000 Byblos Bank common shares per note (calculated on the basis of a strike price of USD 1.80 per share) or the principal amount of the note in addition to a bonus of 6%.

At maturity, on 12 July 2013, the Bank settled the notes through a transfer of 5,520,000 treasury common shares (note 43).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2014 and 2013 was as follows:

	Common shares		Global Depository Receipts	
YEAR ENDED 31 DECEMBER 2014	No. of shares	Amount USD(000)	No. of shares	Amount USD(000)
At 1 January 2014	3,022,602	5,418	14,812	1,252
Acquisitions of treasury shares	88,940	143	2,061	155
Sales of treasury shares	(1,064,116)	(1,909)	(9,600)	(797)
At 31 December 2014	**2,047,426**	**3,652**	**7,273**	**610**
Total treasury shares in LBP million				**6,425**

	Common shares		Global Depository Receipts	
Year ended 31 December 2013	No. of shares	Amount USD(000)	No. of shares	Amount USD(000)
At 1 January 2013	8,609,221	15,633	13,407	1,151
Acquisitions of treasury shares	253,919	386	1,405	101
Sales of treasury shares	(320,538)	(573)	-	-
Settlement of other equity instruments (note 42)	(5,520,000)	(10,028)	-	-
At 31 December 2013	**3,022,602**	**5,418**	**14,812**	**1,252**
Total treasury shares in LBP million				**10,054**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. REVALUATION RESERVE OF REAL ESTATE

LBP Million	2014	2013
Revaluation reserve accepted in Tier II capital	1,978	1,978
Revaluation reserve not accepted in Tier II capital	3,711	3,711
	5,689	**5,689**

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

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

LBP Million	2014	2013
At 1 January	(16,644)	(23,634)
Net changes in fair values during the year	10,392	8,222
Net changes in deferred taxes	(1,546)	(1,232)
Difference on exchange	265	-
Balance at 31 December	**(7,533)**	**(16,644)**

46. CASH AND CASH EQUIVALENTS

LBP Million	2014	2013
Cash and balances with central banks	2,414,186	2,144,861
Due from banks and financial institutions	2,798,622	3,276,123
	5,212,808	**5,420,984**
Less: Due to banks and financial institutions	(551,625)	(956,992)
Less: Due to central banks	(9,940)	(8,207)
Cash and cash equivalents at 31 December	**4,651,243**	**4,455,785**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

47. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group's principal subsidiaries is shown in note 4. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's financial statements.

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

Loans to related parties (a) were made in the ordinary course of business; (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others; and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

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

LBP Million	2014	2013
Loans and advances	28,033	23,732
Deposits	312,813	264,477
Debt issued and other borrowed funds	2,025	2,312
Subordinated debt	19,672	19,672
Guarantees received	15,627	11,411
Guarantees given	8	8
Commitments (including acceptances)	6,756	8,068

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

LBP Million	2014	2013
Interest income on loans	1,319	1,121
Interest expense on deposits	13,175	11,334
Interest expense on debt issued and other borrowed funds	142	162
Interest expense on subordinated debt	1,265	1,265
Rent expense	544	544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to the above:

- Due to banks and financial institutions includes loans from related parties amounting to LBP 62,001 million as of 31 December 2014 (2013: LBP 69,357 million) on which interest of LBP 2,139 million (2013: LBP 2,158 million) was paid.
- Due from banks and financial institutions includes balances with a related party amounting to LBP 10,889 million as of 31 December 2014 (2013: nil)
- Loans to banks and financial institutions and reverse repurchase agreements include loans to a related party amounting to LBP 9,986 million as of 31 December 2014 (2013: nil) on which interest and commissions of LBP 145 million (2013: nil) were received.

COMPENSATION OF THE KEY MANAGEMENT PERSONNEL OF THE GROUP

LBP Million	2014	2013
Short-term benefits[1]	17,407	11,945

[1] Short-term benefits comprise salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to Key Management Personnel.

48. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments, including financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

2014 LBP Million	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	-	185,758	185,758
Other guarantees	356,209	993,718	1,349,927
	356,209	**1,179,476**	**1,535,685**
Commitments			
Documentary credits	328,749	236,000	564,749
Loan commitments	-	2,354,802	2,354,802
	328,749	**2,590,802**	**2,919,551**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	-	172,986	172,986
Other guarantees	413,441	1,065,181	1,478,622
	413,441	**1,238,167**	**1,651,608**
Commitments			
Documentary credits	442,552	342,448	785,000
Loan commitments	-	2,080,962	2,080,962
	442,552	**2,423,410**	**2,865,962**

GUARANTEES

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

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

DOCUMENTARY CREDITS

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

LOAN COMMITMENTS

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

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Group had several unresolved legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any financial loss to the Group.

LEASE ARRANGEMENTS

Operating leases – Group as lessee
The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years. There are no restrictions placed upon the lessee by entering into these leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

LBP Million	2014	2013
Within one year	3,084	3,276
After one year but not more than five years	9,212	10,480
More than five years	11,257	12,545
	23,553	**26,301**

OTHER CONTINGENCIES

Tax legislation is subject to varying interpretations when being applied to financial transactions and activities. Fiscal years from 2012 to 2014 remain open to review by the authorities.

During the past four years, Syria has witnessed a period of political and civil unrest together with adverse events which can affect the economic environment of future periods. As part of its collective provisioning process, management performed a stress test on the loan portfolio exposed to the Syrian market risks and, as a result, the necessary provisions were booked. The Group's management continues to monitor its loan portfolio and evaluate the impact of these events on a regular basis.

49. ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

LBP Million	2014	2013
Assets held in custody and under administration	3,196,496	3,216,525

ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Group as a going concern.

Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

QUOTED MARKET PRICES – LEVEL 1

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

VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FAIR VALUE MEASUREMENT HIERARCHY OF THE GROUP'S FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE:

2014	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS				
Derivative financial instruments				
Currency swaps	-	167	-	**167**
Forward foreign exchange contracts	-	6,548	-	**6,548**
Financial assets at fair value through profit or loss:				
Lebanese government bonds	85,811	27,861	-	**113,672**
Certificates of deposit issued by the Central Bank of Lebanon	-	3,190	-	**3,190**
Other debt securities	2,068	-	-	**2,068**
Other foreign government bonds	710	-	-	**710**
Quoted equity instruments	35,942	-	-	**35,942**
Financial assets at fair value through other comprehensive income	50,986	-	47,732	**98,718**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	155	-	**155**
Forward foreign exchange contracts	-	5,272	-	**5,272**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS				
Derivative financial instruments				
Currency swaps	-	1,684	-	**1,684**
Forward foreign exchange contracts	-	2,140	-	**2,140**
Financial assets at fair value through profit or loss:				
Lebanese government bonds	103,144	1,835	-	**104,979**
Certificates of deposit issued by the Central Bank of Lebanon	-	329	-	**329**
Other debt securities	19,175	-	-	**19,175**
Quoted equity instruments	32,964	-	-	**32,964**
Financial assets at fair value through other comprehensive income	43,405	-	43,490	**86,895**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	1,673	-	**1,673**
Forward foreign exchange contracts	-	1,390	-	**1,390**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASSETS AND LIABILITIES CARRIED AT FAIR VALUE USING A VALUATION TECHNIQUE WITH SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)

Derivatives

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, and interest rate curves.

Government bonds, certificates of deposit and other debt securities

The Group 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.

ASSETS AND LIABILITIES CARRIED AT FAIR VALUE USING A VALUATION TECHNIQUE WITH SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Equity shares of non-listed entities

The Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

RECONCILIATION OF FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS IN UNQUOTED EQUITY SHARES:

LBP Million	2014	2013
Balance at 1 January	43,490	36,994
Re-measurement recognized in other comprehensive income	4,242	6,496
	47,732	**43,490**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPARISON OF CARRYING AND FAIR VALUES FOR FINANCIAL ASSETS AND LIABILITIES NOT HELD AT FAIR VALUE:

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the Group's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

	2014		2013	
LBP Million	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Cash and balances with central banks	7,048,785	7,048,785	5,809,930	5,809,930
Due from banks and financial institutions	2,913,279	2,913,279	3,353,314	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	394,072	393,712	614,970	614,866
Financial assets given as collateral	7,048	7,005	7,097	7,005
Net loans and advances to customers at amortized cost	7,096,291	7,099,163	6,770,954	6,776,850
Net loans and advances to related parties at amortized cost	28,033	28,033	23,732	23,732
Financial assets at amortized cost				
Lebanese government bonds	5,714,885	5,673,700	5,204,674	5,185,252
Certificates of deposit issued by the Central Bank of Lebanon	3,952,369	3,913,360	4,290,091	4,239,042
Other foreign government bonds	140,834	134,667	132,762	129,695
Other debt securities	553,230	538,392	666,459	644,204
FINANCIAL LIABILITIES				
Due to central banks	71,146	71,146	51,502	51,502
Due to banks and financial institutions	911,175	911,173	1,392,457	1,392,562
Customers' deposits at amortized cost	23,445,040	23,377,789	22,061,710	21,970,185
Deposits from related parties at amortized cost	318,235	312,813	268,115	264,477
Debt issued and other borrowed funds	449,909	445,387	512,295	506,489
Subordinated debt	414,580	414,580	412,368	412,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED USING A VALUATION TECHNIQUE WITH SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) AND/OR SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Deposits with banks and loans and advances to banks

For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

Government bonds, certificates of deposit and other debt securities

The Group 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.

Loans and advances to customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current rates for new loans granted during 2014 with similar characteristics.

Deposits from banks and customers

In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar characteristics.

Debt issued and other borrowed funds and subordinated debt

Fair values are determined using discounted cash flow valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

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2014 LBP Million	Quoted market price Level 1	Valuation techniques Observable inputs Level 2	Unobservable inputs Level 3	Total
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	228,866	6,819,919	-	**7,048,785**
Due from banks and financial institutions	-	2,913,279	-	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	-	394,072	-	**394,072**
Financial assets given as collateral	-	7,048	-	**7,048**
Net loans and advances to customers at amortized cost	-	-	7,096,291	**7,096,291**
Net loans and advances to related parties at amortized cost	-	-	28,033	**28,033**
Financial assets at amortized cost:				
Lebanese government bonds	2,489,495	3,225,390	-	**5,714,885**
Certificates of deposit issued by the Central Bank of Lebanon	7,920	3,944,449	-	**3,952,369**
Other foreign government bonds	140,834	-	-	**140,834**
Other debt securities	553,230	-	-	**553,230**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	71,146	-	**71,146**
Due to banks and financial institutions	-	911,175	-	**911,175**
Customers' deposits at amortized cost	-	23,445,040	-	**23,445,040**
Deposits from related parties at amortized cost	-	318,235	-	**318,235**
Debt issued and other borrowed funds	-	449,909	-	**449,909**
Subordinated debt	-	414,580	-	**414,580**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013	Quoted market price	Valuation techniques: Observable inputs	Valuation techniques: Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	273,430	5,536,500	-	**5,809,930**
Due from banks and financial institutions	-	3,353,314	-	**3,353,314**
Loans to banks and financial institutions and reverse repurchase agreements	-	614,970	-	**614,970**
Financial assets given as collateral	-	7,097	-	**7,097**
Net loans and advances to customers at amortized cost	-	-	6,770,954	**6,770,954**
Net loans and advances to related parties at amortized cost	-	-	23,732	**23,732**
Financial assets at amortized cost:				
Lebanese government bonds	2,500,673	2,704,001	-	**5,204,674**
Certificates of deposit issued by the Central Bank of Lebanon	227,837	4,062,254	-	**4,290,091**
Other foreign government bonds	77,835	54,927	-	**132,762**
Other debt securities	666,459	-	-	**666,459**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	51,502	-	**51,502**
Due to banks and financial institutions	-	1,392,457	-	**1,392,457**
Customers' deposits at amortized cost	-	22,061,710	-	**22,061,710**
Deposits from related parties at amortized cost	-	268,115	-	**268,115**
Debt issued and other borrowed funds	-	512,295	-	**512,295**
Subordinated debt	-	412,368	-	**412,368**

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51. RISK MANAGEMENT

51.1. INTRODUCTION

Risk is inherent in the Group's activities, yet it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operational risks.

The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- Individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors (Board);
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk-taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the Bank's strategic planning process.

GROUP RISK MANAGEMENT STRUCTURE

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

Risk, Anti-Money Laundering and Compliance Committee (BRC): provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity, operational, Anti-Money Laundering, compliance, reputational and other risks of the Group. The BRC also oversees ICAAP and approves risk policies.

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

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

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

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

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

Risk Committee: is tasked with formulating and enforcing guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by Group Risk Management and issues related to the implementation of Basel II/Basel III projects. The Committee discusses and approves the risk policies, the risk measurement tools such as rating and scoring, and risk-based processes, including stress testing, economic capital, and risk-based profitability. It oversees the risk reports prepared and ICAAP framework before submission to the Board.

The Group also established two other committees concerned with risk management and compliance, these being the Operational Risk Management Committee and the Compliance and Anti-Money Laundering Committee. The Operational Risk Management Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanctions laws, and to oversee implementation of the Group's Know-your-customer and sanction policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

RISK MANAGEMENT – BASEL PERSPECTIVE

The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel II/III) to measure and assess the risks identified under Pillars I and II, i.e. the credit, operational, and market risks, as well as the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take more sophisticated steps toward credit risk and make use of internal ratings-based methodology – or "IRB Approach" – to calculate expected credit loss and ultimately capital requirements for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for.

As for addressing the capital management issue in the context of Basel II, the Group develops annually a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document, disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors emanating from the environment in which it operates.

The overall responsibility for the monitoring and the analytical management of risk is effectively assigned to the Group Risk Management Division (GRM). The GRM reports to the Vice-Chairman and General Manager through the head of the GRM Division. Risk issues and reports are submitted to the Board regularly through the Board Risk, Anti-Money Laundering and Compliance Committee.

The GRM has a dedicated team, the Financial and Operational Risk Management Department, that fulfils the analytical part of risk management and is thereby in direct charge of identifying, measuring, monitoring and controlling Pillar 1 and 2 risks faced by the Group. The department is split into three main functions:

Risk Policies and Analytics is responsible for the preparation and reporting of Basel II regulatory CAR reports, the development of stress testing scenarios, and the write-up of risk reports and ICAAP documents. It handles as well the measurement of PD (probability of default), LGD (loss given default), EL (expected credit loss) and UL (unexpected loss). The units develop and support risk-based profitability measurements, risk measurement tools (retail scoring and commercial rating), and risk-related policies.

Market Risk sets the firm-wide framework necessary for identification, measurement and management of market risk across the Group, including developing policies, procedures, and risk measurement methodologies. Market Risk is also in charge of monitoring the Group's limits regarding liquidity, interest rate risk and securities investment positions, stress tests, and reports on breaches to Senior Management.

Operational Risk Management is responsible for establishing the necessary framework for identifying, measuring and managing operational risk across the Group, including clear definition of risks, developing ORM policies, and enhancing ORM programs and tools.

RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

51.2. CREDIT RISK

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

CREDIT INITIATION

Target markets and customers and product strategy are identified in the yearly business plan derived from the medium-term plan. They are submitted to and discussed with management and the Board by different business lines. The process of initiating and approving credit proposals is governed by the Group's Credit Policies and Procedures Manual (CPPM). The CPPM consolidates the principles for the credit origination and follow-up process based on early warning signals, and includes the credit committee approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the structuring of credit packages.

Commercial lending is handled by the Commercial Banking Division, which oversees business origination related to corporate customers, middle market and international lending. The assessment of a credit request requires an evaluation of the borrower's creditworthiness through an in-depth analysis of a series of financial, management, business and market criteria translated into an overall credit risk rating. This assessment process is applicable to both new and existing clients.

The *Financial Institutions Department* (FI) is a separate business line that sets the strategy for banks' limits and manages the relationships with banks. The function is determined by liquidity targets and by profit generation through a dynamic yet diversified trade finance business.

The *Consumer Banking Division* is responsible for designing and implementing the strategy and documenting the program for consumer loans, housing loans, revolving credit cards, small business loans and Kafalat-guaranteed loans.

CREDIT APPROVAL

The review of credit proposals is assigned to the credit risk analysis team within the GRM Division, acting independently from the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the credit risk analysis team prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into five departments, each servicing a different business segment (corporate, international, middle market, financial institutions and retail). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed up with a post-approval review on a sampling basis. The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the Group's risk acceptance criteria and CPPM.

LOAN FOLLOW-UP AND MONITORING

Each business line manager who originated the loan remains vested with the responsibility of monitoring the exposure and reviewing the file on an annual basis or more frequently if needed. Annual reviews consist of a full update of the credit package and follow the same process as the initiation of the loan.

Outstanding loans are subject as well to a constant monitoring by the GRM Division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow up on the prompt and remedial management of spotted deteriorations in borrowers' financial positions, value of collateral and related sector/industry. Early warning signals are derived from a set of system-generated reports.

IMPAIRMENT ASSESSMENT

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

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- Significant financial difficulty of the customer;
- A breach of contract such as a default of payment;
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty;
- It becomes probable that the customer will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows related to the loans.

In measuring credit risk at a counterparty level, the Group reflects three components: the "probability of default" (PD) by the client or counterparty on its contractual obligations; the Group's current exposure to the counterparty and its likely future development, from which the Group derives the "exposure at default" (EAD); and the likely recovery ratio on the defaulted obligations to give the "loss given default" (LGD).

INDIVIDUALLY ASSESSED ALLOWANCES

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

COLLECTIVELY ASSESSED ALLOWANCES

Allowances are assessed collectively for losses on loans and advances and for debt instruments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances and debt instruments at amortized cost that have been assessed individually and found not to be impaired.

The Group generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Group would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan-to-collateral ratios, and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with overall Group policy.

Credit-related commitments and financial guarantees are assessed and provisions are made in a similar manner as for loans.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position.

With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitments and financial guarantee risks
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

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ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

2014 LBP Million	**Maximum exposure**	**Cash**	**Securities**	**Letters of credit/ guarantees**	**Real estate**	**Net credit exposure**
Balances with central banks	6,819,919	-	-	-	-	6,819,919
Due from banks and financial institutions	2,913,279	(663)	-	-	-	2,912,616
Loans to banks and financial institutions and reverse repurchase agreements	393,712	(11,567)	-	-	-	382,145
Financial assets given as collateral	7,005	-	-	-	-	7,005
Derivative financial instruments	6,715	-	-	-	-	6,715
Financial assets at fair value through profit or loss	119,640	-	-	-	-	119,640
Net loans and advances to customers at amortized cost:						
Commercial loans	4,790,011	(449,073)	(117,564)	(94,971)	(1,021,599)	3,106,804
Consumer loans	2,309,152	(222,697)	-	-	(1,079,004)	1,007,451
Net loans and advances to related parties at amortized cost	28,033	(10,353)	-	-	(3,082)	14,598
Financial assets at amortized cost	10,260,119	-	-	-	-	10,260,119
	27,647,585	**(694,353)**	**(117,564)**	**(94,971)**	**(2,103,685)**	**24,637,012**
Financial guarantees	185,758	(17,539)	-	-	-	168,219
Documentary credits (including acceptances)	867,688	(62,973)	-	-	-	804,715
	28,701,031	**(774,865)**	**(117,564)**	**(94,971)**	**(2,103,685)**	**25,609,946**
Utilized collateral		(774,865)	(117,564)	(94,971)	(2,103,685)	
Surplus of collateral before undrawn credit lines		(85,130)	(327,231)	(72,991)	(1,646,979)	
Guarantees received from banks, financial institutions and customers		**(859,995)**	**(444,795)**	**(167,962)**	**(3,750,664)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,354,802 million as at 31 December 2014.

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2013 LBP Million	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	Net credit exposure
Balances with central banks	5,536,500	-	-	-	-	5,536,500
Due from banks and financial institutions	3,353,314	(710)	-	-	-	3,352,604
Loans to banks and financial institutions and reverse repurchase agreements	614,866	(2,615)	-	-	-	612,251
Financial assets given as collateral	7,005	-	-	-	-	7,005
Derivative financial instruments	3,824	-	-	-	-	3,824
Financial assets at fair value through profit or loss	124,483	-	-	-	-	124,483
Net loans and advances to customers at amortized cost:						
Commercial loans	4,593,829	(457,074)	(108,525)	(11,907)	(786,179)	3,230,144
Consumer loans	2,183,021	(222,619)	-	-	(1,025,604)	934,798
Net loans and advances to related parties at amortized cost	23,732	(9,069)	-	-	(2,241)	12,422
Financial assets at amortized cost	10,198,193	-	-	-	-	10,198,193
	26,638,767	**(692,087)**	**(108,525)**	**(11,907)**	**(1,814,024)**	**24,012,224**
Financial guarantees	172,986	(9,589)	-	-	-	163,397
Documentary credits (including acceptances)	1,230,957	(64,848)	-	-	-	1,166,109
	28,042,710	**(766,524)**	**(108,525)**	**(11,907)**	**(1,814,024)**	**25,341,730**
Utilized collateral		(766,524)	(108,525)	(11,907)	(1,814,024)	
Surplus of collateral before undrawn credit lines		(86,924)	(192,397)	(156,055)	(1,506,506)	
Guarantees received from banks, financial institutions and customers		**(853,448)**	**(300,922)**	**(167,962)**	**(3,320,530)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,080,962 million as at 31 December 2013.

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COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The main types of collateral obtained are as follows:

Securities:
The balances shown above represent the fair value of the securities.

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

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

Other:
In addition to the above, the Group also obtains from its clients proxy to mortgage a residential or commercial property, guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, and assignments of proceeds and revenues, which are not reflected in the above table.

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CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

2014	Neither past due nor impaired				
LBP Million	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	6,436,888	383,031	-	-	6,819,919
Due from banks and financial institutions	2,623,543	289,736	-	3,960	2,917,239
Loans to banks and financial institutions and reverse repurchase agreements	86,022	307,690	-	-	393,712
Financial assets given as collateral	7,005	-	-	-	7,005
Derivative financial instruments	6,715	-	-	-	6,715
Financial assets at fair value through profit or loss:					
Lebanese government bonds	113,672	-	-	-	113,672
Certificates of deposit issued by the Central Bank of Lebanon	3,190	-	-	-	3,190
Other debt securities	2,068	-	-	-	2,068
Other foreign government bonds	710	-	-	-	710
Net loans and advances to customers at amortized cost:					
Commercial loans	4,465,167	264,382	131,999	312,251	5,173,799
Consumer loans	2,093,810	22,310	172,139	105,382	2,393,641
Net loans and advances to related parties at amortized cost	28,033	-	-	-	28,033
Debtors by acceptances	292,101	10,838	-	-	302,939
Financial assets at amortized cost:					
Lebanese government bonds	5,673,700	-	-	-	5,673,700
Certificates of deposit issued by the Central Bank of Lebanon	3,913,360	-	-	-	3,913,360
Other foreign government bonds	75,240	59,427	-	-	134,667
Other debt securities	420,533	119,433	-	-	539,966
	26,241,757	**1,456,847**	**304,138**	**421,593**	**28,424,335**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013	Neither past due nor impaired				
LBP Million	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	5,121,166	415,334	-		5,536,500
Due from banks and financial institutions	2,794,667	558,647	-	4,636	3,357,950
Loans to banks and financial institutions and reverse repurchase agreements	31,226	583,640	-	-	614,866
Financial assets given as collateral	7,005	-	-	-	7,005
Derivative financial instruments	3,824	-	-	-	3,824
Financial assets at fair value through profit or loss:					
Lebanese government bonds	104,979	-	-	-	104,979
Certificates of deposit issued by the Central Bank of Lebanon	329	-	-	-	329
Other debt securities	19,175	-	-	-	19,175
Net loans and advances to customers at amortized cost:					
Commercial loans	4,347,292	198,737	91,903	304,077	4,942,009
Consumer loans	1,992,037	16,227	198,260	54,443	2,260,967
Net loans and advances to related parties at amortized cost	23,732	-	-	-	23,732
Debtors by acceptances	440,652	5,305	-	-	445,957
Financial assets at amortized cost:					
Lebanese government bonds	5,185,252	-	-	-	5,185,252
Certificates of deposit issued by the Central Bank of Lebanon	4,239,042	-	-	-	4,239,042
Other foreign government bonds	78,588	51,107	-	-	129,695
Other debt securities	439,164	210,102	-	-	649,266
	24,828,130	**2,039,099**	**290,163**	**363,156**	**27,520,548**

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Aging analysis of past due but not impaired loans per class of financial assets:

2014 LBP Million	**Less than 90 days**	**91 to 180 days**	**More than 181 days**	**Total**
Loans and advances to customers at amortized cost:				
- Commercial loans	59,243	42,885	29,871	131,999
- Consumer loans	141,627	20,143	10,369	172,139
	200,870	**63,028**	**40,240**	**304,138**

2013 LBP Million	**Less than 90 days**	**91 to 180 days**	**More than 181 days**	**Total**
Loans and advances to customers at amortized cost:				
- Commercial loans	57,127	20,022	14,754	91,903
- Consumer loans	145,570	24,277	28,413	198,260
	202,697	**44,299**	**43,167**	**290,163**

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MAPPING TO EXTERNAL CREDIT RATING

	Financial assetsimpaired	Loans and advances to customers	
	External credit rating	Supervisory rating	Characteristics
High grade	Lebanese Sovereign AAA to A-	Regular	Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral/guarantee (if required).
		Follow-up	Lack of documentation related to borrower's activity.
Standard grade	BBB+ and below unrated	Follow-up and regularization	Creditworthy borrower showing weaknesses; insufficient/inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; conflict between partners or other lawsuits; loan rescheduling since initiation; excess utilization above limit.
Individually impaired	Impaired	Substandard	Signals of incapacity to repay from identified cash flows; full repayment supposes the liquidation of assets/ collateral; recurrent late payments; late interests; losses incurred for over three years.
		Doubtful	Full repayment is questioned even after asset liquidation; account stagnation and inability to repay restructured loans.
		Bad	No or little expected inflows from business or assets; borrower is unreachable; insolvency status.

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The classification of loans and advances to customers and related parties at amortized cost, in accordance with the ratings of Central Bank of Lebanon Circular 58 are as follows:

2014 LBP Million	**Gross balance**	**Unrealized interest**	**Impairment allowances**	**Net balance**
Regular	6,251,227	-	-	6,251,227
Follow-up	532,598	-	-	532,598
Follow-up and regularization	365,982	-	-	365,982
Substandard	30,618	(1,260)	-	29,358
Doubtful	138,017	(13,661)	(56,223)	68,133
Bad	248,998	(82,541)	(166,457)	-
	7,567,440	**(97,462)**	**(222,680)**	**7,247,298**
Collective impairment	(148,135)	-	-	(148,135)
	7,419,305	**(97,462)**	**(222,680)**	**7,099,163**

2013 LBP Million	**Gross balance**	**Unrealized interest**	**Impairment allowances**	**Net balance**
Regular	6,253,909	-	-	6,253,909
Follow-up	314,135	-	-	314,135
Follow-up and regularization	276,412	-	-	276,412
Substandard	3,486	(917)	-	2,569
Doubtful	124,545	(14,491)	(49,560)	60,494
Bad	230,489	(66,446)	(164,043)	-
	7,202,976	**(81,854)**	**(213,603)**	**6,907,519**
Collective impairment	(130,669)	-	-	(130,669)
	7,072,307	**(81,854)**	**(213,603)**	**6,776,850**

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RENEGOTIATED LOANS

Restructuring activity aims to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

LBP Million	2014	2013
Commercial loans	24,449	26,381

ANALYSIS OF RISK CONCENTRATION

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2014 was LBP 98,570 million (2013: LBP 80,464 million) before taking account of collateral or other credit enhancements and LBP 98,570 million (2013: LBP 80,464 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of netting and collateral agreements.

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GEOGRAPHIC ANALYSIS

2014 LBP Million	Lebanon	Europe	Other	Total
Balances with central banks	6,397,781	41,073	381,065	**6,819,919**
Due from banks and financial institutions	126,607	880,144	1,906,528	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	14,694	97,344	281,674	**393,712**
Financial assets given as collateral	7,005	-	-	**7,005**
Derivative financial instruments	4,401	2,252	62	**6,715**
Financial assets at fair value through profit or loss:				
Lebanese government bonds	113,672	-	-	**113,672**
Certificates of deposit issued by the Central Bank of Lebanon	3,190	-	-	**3,190**
Other debt securities	-	385	1,683	**2,068**
Other foreign government bonds	-	-	710	**710**
Net loans and advances to customers at amortized cost				
Commercial loans	3,891,820	185,725	712,466	**4,790,011**
Consumer loans	2,168,812	48,025	92,315	**2,309,152**
Net loans and advances to related parties at amortized cost	24,175	568	3,290	**28,033**
Debtors by acceptances	215,144	1,827	85,968	**302,939**
Financial assets at amortized cost:				
Lebanese government bonds	5,673,700	-	-	**5,673,700**
Certificates of deposit issued by the Central Bank of Lebanon	3,913,360	-	-	**3,913,360**
Other foreign government bonds	-	72,975	61,692	**134,667**
Other debt securities	33,147	190,760	314,485	**538,392**
	22,587,508	**1,521,078**	**3,841,938**	**27,950,524**

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2013 LBP Million	**Lebanon**	**Europe**	**Other**	**Total**
Balances with central banks	5,084,934	37,310	414,256	**5,536,500**
Due from banks and financial institutions	121,767	2,291,098	940,449	**3,353,314**
Loans to banks and financial institutions and reverse repurchase agreements	16,866	308,022	289,978	**614,866**
Financial assets given as collateral	7,005	-	-	**7,005**
Derivative financial instruments	1,241	1,873	710	**3,824**
Financial assets at fair value through profit or loss:				
Lebanese government bonds	104,979	-	-	**104,979**
Certificates of deposit issued by the Central Bank of Lebanon	329	-	-	**329**
Other debt securities	-	377	18,798	**19,175**
Net loans and advances to customers at amortized cost				
Commercial loans	3,626,925	242,818	724,086	**4,593,829**
Consumer loans	2,058,507	43,510	81,004	**2,183,021**
Net loans and advances to related parties at amortized cost	22,830	-	902	**23,732**
Debtors by acceptances	233,298	4,042	208,617	**445,957**
Financial assets at amortized cost:				
Lebanese government bonds	5,185,252	-	-	**5,185,252**
Certificates of deposit issued by the Central Bank of Lebanon	4,239,042	-	-	**4,239,042**
Other foreign government bonds	-	61,092	68,603	**129,695**
Other debt securities	29,466	289,123	325,615	**644,204**
	20,732,441	**3,279,265**	**3,073,018**	**27,084,724**

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51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

The Group stresses the importance of customer deposits as a source of funds to finance its lending activities. This is monitored by using the loans-to-deposits ratio, which compares loans and advances to customers as a percentage of deposits from customers.

	2014	2013
Loans to deposits		
Year-end	30.08%	30.59%
Maximum	30.68%	30.59%
Minimum	30.08%	29.25%
Average	30.34%	29.71%

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	2,412,387	26,749	631,903	2,523,953	3,593,026	9,188,018
Due from banks and financial institutions	2,573,021	225,691	114,868	-	-	2,913,580
Loans to banks and financial institutions and reverse repurchase agreements	114,348	131,768	116,499	35,830	-	398,445
Financial assets given as collateral	-	-	7,005	-	-	7,005
Derivative financial instruments	3,914	768	2,033	-	-	6,715
Financial assets at fair value through profit or loss	408	2,033	7,217	51,777	148,378	209,813
Net loans and advances to customers at amortized cost	3,044,456	588,427	1,193,239	1,842,754	1,063,796	7,732,672
Net loans and advances to related parties at amortized cost	19,364	1,050	818	4,206	3,455	28,893
Debtors by acceptances	105,505	116,814	80,620	-	-	302,939
Financial assets at amortized cost	178,432	424,976	1,280,962	6,312,566	5,346,804	13,543,740
Financial assets at fair value through other comprehensive income	-	-	-	-	98,718	98,718
Total undiscounted financial assets	**8,451,835**	**1,518,276**	**3,435,164**	**10,771,086**	**10,254,177**	**34,430,538**
FINANCIAL LIABILITIES						
Due to central banks	9,394	547	10,739	34,554	18,247	73,481
Due to banks and financial institutions	374,240	182,403	128,338	188,316	77,872	951,169
Derivative financial instruments	4,150	327	950	-	-	5,427
Customers' deposits at amortized cost	13,724,877	2,823,203	5,084,265	2,182,138	74,048	23,888,531
Deposits from related parties at amortized cost	292,080	3,985	6,297	29,855	-	332,217
Debt issued and other borrowed funds	-	-	31,658	126,630	492,257	650,545
Engagements by acceptances	105,505	116,814	80,620	-	-	302,939
Subordinated debt	-	7,349	22,047	117,585	501,952	648,933
Total undiscounted financial liabilities	**14,510,246**	**3,134,628**	**5,364,914**	**2,679,078**	**1,164,376**	**26,853,242**
Net undiscounted financial assets/(liabilities)	**(6,058,411)**	**(1,616,352)**	**(1,929,750)**	**8,092,008**	**9,089,801**	**7,577,296**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	1,818,052	383,241	655,977	3,103,515	366,218	6,327,003
Due from banks and financial institutions	2,956,303	321,656	72,747	4,587	-	3,355,293
Loans to banks and financial institutions and reverse repurchase agreements	65,550	142,552	405,226	5,648	-	618,976
Financial assets given as collateral	-	-	-	7,005	-	7,005
Derivative financial instruments	3,270	312	243	-	-	3,825
Financial assets at fair value through profit or loss	349	181	7,580	43,359	156,436	207,905
Net loans and advances to customers at amortized cost	2,926,054	454,689	1,075,349	1,873,906	1,010,628	7,340,626
Net loans and advances to related parties at amortized cost	16,755	1,109	374	1,740	4,690	24,668
Debtors by acceptances	195,762	158,039	89,994	2,104	58	445,957
Financial assets at amortized cost	390,706	287,021	1,522,758	6,200,964	5,036,636	13,438,085
Financial assets at fair value through other comprehensive income	-	-	-	-	86,895	86,895
Total undiscounted financial assets	**8,372,801**	**1,748,800**	**3,830,248**	**11,242,828**	**6,661,561**	**31,856,238**
FINANCIAL LIABILITIES						
Due to central banks	8,235	59	473	12,662	31,997	53,426
Due to banks and financial institutions	618,080	345,204	117,452	201,629	148,697	1,431,062
Derivative financial instruments	2,878	179	6	-	-	3,063
Customers' deposits at amortized cost	13,197,571	2,667,924	4,376,187	1,966,639	52,187	22,260,508
Deposits from related parties at amortized cost	226,314	14,361	15,150	21,028	932	277,785
Debt issued and other borrowed funds	-	62,068	31,658	126,630	524,027	744,383
Engagements by acceptances	195,762	158,039	89,994	2,104	58	445,957
Subordinated debt	-	7,186	22,210	117,422	529,300	676,118
Total undiscounted financial liabilities	**14,248,840**	**3,255,020**	**4,653,130**	**2,448,114**	**1,287,198**	**25,892,302**
Net undiscounted financial assets/(liabilities)	**(5,876,039)**	**(1,506,220)**	**(822,882)**	**8,794,714**	**5,374,363**	**5,963,936**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

2014 LBP Million	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial guarantees	302	755	112,135	72,566	-	185,758
Documentary credits	36,488	249,786	262,180	16,295	-	564,749
Commitments to lend	2,354,802	-	-	-	-	2,354,802
	2,391,592	**250,541**	**374,315**	**88,861**	**-**	**3,105,309**

2013 LBP Million	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial guarantees	752	10,055	104,183	57,167	829	172,986
Documentary credits	34,796	406,030	327,355	16,819	-	785,000
Commitments to lend	2,080,962	-	-	-	-	2,080,962
	2,116,510	**416,085**	**431,538**	**73,986**	**829**	**3,038,948**

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

51.4. MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off balance sheet positions resulting from movements in market variables such as interest rates, foreign exchange rates, and equity prices.

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

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

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

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

		2014	2013
Currency	**In basis points**	**Effect on net interest income LBP Million**	**Effect on net interest income LBP Million**
LBP	50 basis point	(20,492)	(16,433)
USD	50 basis point	159	648
EUR	50 basis point	(1,078)	(238)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's interest sensitivity position based on the contractual re-pricing date at 31 December was as follows:

2014 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest-bearing items	Total
ASSETS							
Cash and balances with central banks	1,269,880	-	376,875	1,581,375	2,635,580	1,185,075	7,048,785
Due from banks and financial institutions	1,046,034	225,532	114,528	-	-	1,527,185	2,913,279
Loans to banks and financial institutions and reverse repurchase agreements	165,960	87,997	107,305	32,450	-	-	393,712
Financial assets given as collateral	-	-	6,915	-	-	90	7,005
Derivative financial instruments	-	-	-	-	-	6,715	6,715
Financial assets at fair value through profit or loss	-	-	-	-	-	155,582	155,582
Net loans and advances to customers at amortized cost	3,235,005	743,263	2,072,263	962,736	134,388	(48,492)	7,099,163
Net loans and advances to related parties at amortized cost	26,217	-	-	-	1,816	-	28,033
Debtors by acceptances	-	-	-	-	-	302,939	302,939
Financial assets at amortized cost	147,952	351,006	798,345	4,556,327	4,267,055	139,434	10,260,119
Financial assets at fair value through other comprehensive income	-	-	-	-	-	98,718	98,718
Total	**5,891,048**	**1,407,798**	**3,476,231**	**7,132,888**	**7,038,839**	**3,367,246**	**28,314,050**
LIABILITIES							
Due to central banks	32	1	5,697	8,712	47,357	9,347	71,146
Due to banks and financial institutions	186,596	176,569	99,805	134,151	160,657	153,395	911,173
Derivative financial instruments	-	-	-	-	-	5,427	5,427
Customers' deposits at amortized cost	10,975,572	2,737,367	4,874,817	1,944,739	68,655	2,776,639	23,377,789
Deposits from related parties at amortized cost	253,422	1,431	6,984	12,461	-	38,515	312,813
Debt issued and other borrowed funds	-	-	-	-	444,771	616	445,387
Engagements by acceptances	-	-	-	-	-	302,939	302,939
Subordinated debt	-	-	-	-	414,498	82	414,580
Total	**11,415,622**	**2,915,368**	**4,987,303**	**2,100,063**	**1,135,938**	**3,286,960**	**25,841,254**
Total interest sensitivity gap	**(5,524,574)**	**(1,507,570)**	**(1,511,072)**	**5,032,825**	**5,902,901**	**80,286**	**2,472,796**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest-bearing items	Total
ASSETS							
Cash and balances with central banks	879,537	339,188	572,754	2,747,090	300,000	971,361	5,809,930
Due from banks and financial institutions	1,940,071	293,398	72,151	4,625	-	1,043,069	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	65,009	142,026	402,080	5,300	-	451	614,866
Financial assets given as collateral	-	-	-	6,915	-	90	7,005
Derivative financial instruments	-	-	-	-	-	3,824	3,824
Financial assets at fair value through profit or loss	-	-	-	-	-	157,447	157,447
Net loans and advances to customers at amortized cost	3,166,381	580,034	1,748,082	1,096,037	268,340	(82,024)	6,776,850
Net loans and advances to related parties at amortized cost	20,738		-	-	2,798	196	23,732
Debtors by acceptances	-	-	-	-	-	445,957	445,957
Financial assets at amortized cost	292,177	161,621	985,906	4,496,418	4,109,974	152,097	10,198,193
Financial assets at fair value through other comprehensive income	-	-	-	-	-	86,895	86,895
Total	**6,363,913**	**1,516,267**	**3,780,973**	**8,356,385**	**4,681,112**	**2,779,363**	**27,478,013**
LIABILITIES							
Due to central banks	-	2	-	11,490	31,730	8,280	51,502
Due to banks and financial institutions	419,159	346,692	109,963	174,143	143,256	199,349	1,392,562
Derivative financial instruments	-	-	-	-	-	3,063	3,063
Customers' deposits at amortized cost	10,440,533	2,618,299	4,234,875	1,789,000	48,600	2,838,878	21,970,185
Deposits from related parties at amortized cost	168,941	12,765	9,604	13,041	-	60,126	264,477
Debt issued and other borrowed funds	-	60,978	-	-	444,883	628	506,489
Engagements by acceptances	-	-	-	-	-	445,957	445,957
Subordinated debt	-	-	-	-	412,286	82	412,368
Total	**11,028,633**	**3,038,736**	**4,354,442**	**1,987,674**	**1,080,755**	**3,556,363**	**25,046,603**
Total interest sensitivity gap	**(4,664,720)**	**(1,522,469)**	**(573,469)**	**6,368,711**	**3,600,357**	**(777,000)**	**2,431,410**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored constantly to ensure they are maintained within established limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Following is the consolidated statement of financial position as of 31 December 2014 detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

2014 LBP Million	Local currencies	Foreign currencies	Total
ASSETS			
Cash and balances with central banks	1,558,455	5,490,330	7,048,785
Due from banks and financial institutions	41,233	2,872,046	2,913,279
Loans to banks and financial institutions and reverse repurchase agreements	3,852	389,860	393,712
Financial assets given as collateral	7,005	-	7,005
Derivative financial instruments	4,656	2,059	6,715
Financial assets at fair value through profit or loss	31,051	124,531	155,582
Net loans and advances to customers at amortized cost	1,643,551	5,455,612	7,099,163
Net loans and advances to related parties at amortized cost	2,335	25,698	28,033
Debtors by acceptances	-	302,939	302,939
Financial assets at amortized cost	7,099,440	3,160,679	10,260,119
Financial assets at fair value through other comprehensive income	26,309	72,409	98,718
Property and equipment	185,643	50,736	236,379
Intangible assets	652	-	652
Assets obtained in settlement of debt	(9,346)	46,023	36,677
Other assets	58,859	47,921	106,780
TOTAL ASSETS	**10,653,695**	**18,040,843**	**28,694,538**
LIABILITIES AND EQUITY			
Due to central banks	61,724	9,422	71,146
Due to banks and financial institutions	22,996	888,177	911,173
Derivative financial instruments	5,010	417	5,427
Customers' deposits at amortized cost	9,238,897	14,138,892	23,377,789
Deposits from related parties at amortized cost	85,003	227,810	312,813
Debt issued and other borrowed funds	-	445,387	445,387
Engagement by acceptances	-	302,939	302,939
Other liabilities	103,553	60,350	163,903
Provisions for risks and charges	133,146	12,283	145,429
Subordinated debt	-	414,580	414,580
TOTAL LIABILITIES	**9,650,329**	**16,500,257**	**26,150,586**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Local currencies	Foreign currencies	Total
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	591,083	591,083
Non-distributable reserves	563,839	185,040	748,879
Distributable reserves	76,482	19,461	95,943
Treasury shares	-	(6,425)	(6,425)
Retained earnings	7,486	32,413	39,899
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	16,986	(24,519)	(7,533)
Net results of the financial period – profit	228,664	24,128	252,792
Foreign currency translation reserves	(164,357)	-	(164,357)
NON-CONTROLLING INTERESTS	21,886	47,969	69,855
TOTAL EQUITY	**1,445,788**	**1,098,164**	**2,543,952**
TOTAL LIABILITIES AND EQUITY	**11,096,117**	**17,598,421**	**28,694,538**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Following is the consolidated statement of financial position as of 31 December 2013 detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

2013 LBP Million	Local currencies	Foreign currencies	Total
ASSETS			
Cash and balances with central banks	1,362,175	4,447,755	5,809,930
Due from banks and financial institutions	54,960	3,298,354	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	5,370	609,496	614,866
Financial assets given as collateral	7,005	-	7,005
Derivative financial instruments	2,552	1,272	3,824
Financial assets at fair value through profit or loss	1,835	155,612	157,447
Net loans and advances to customers at amortized cost	1,529,035	5,247,815	6,776,850
Net loans and advances to related parties at amortized cost	2,586	21,146	23,732
Debtors by acceptances	-	445,957	445,957
Financial assets at amortized cost	6,617,392	3,580,801	10,198,193
Financial assets at fair value through other comprehensive income	24,087	62,808	86,895
Property and equipment	183,032	60,198	243,230
Intangible assets	811	-	811
Assets obtained in settlement of debt	(8,403)	44,782	36,379
Other assets	50,583	57,252	107,835
TOTAL ASSETS	**9,833,020**	**18,033,248**	**27,866,268**
LIABILITIES AND EQUITY			
Due to central banks	42,492	9,010	51,502
Due to banks and financial institutions	17,386	1,375,176	1,392,562
Derivative financial instruments	2,247	816	3,063
Customers' deposits at amortized cost	8,542,280	13,427,905	21,970,185
Deposits from related parties at amortized cost	79,684	184,793	264,477
Debt issued and other borrowed funds	-	506,489	506,489
Engagement by acceptances	-	445,957	445,957
Other liabilities	101,474	94,230	195,704
Provisions for risks and charges	122,765	15,610	138,375
Subordinated debt	-	412,368	412,368
TOTAL LIABILITIES	**8,908,328**	**16,472,354**	**25,380,682**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Local currencies	Foreign currencies	Total
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	588,671	588,671
Non-distributable reserves	513,377	158,941	672,318
Distributable reserves	71,907	25,346	97,253
Treasury shares	1	(10,055)	(10,054)
Retained earnings	23,950	28,168	52,118
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	14,888	(31,532)	(16,644)
Net results of the financial period – profit	199,818	24,865	224,683
Foreign currency translation reserves	(123,650)	-	(123,650)
NON-CONTROLLING INTERESTS	18,711	58,364	77,075
TOTAL EQUITY	**1,413,804**	**1,071,782**	**2,485,586**
TOTAL LIABILITIES AND EQUITY	**10,322,132**	**17,544,136**	**27,866,268**

Group's sensitivity to currency exchange rates

The table below shows the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, on the income statement (due to the potential change in fair value of currency-sensitive monetary assets and liabilities) and equity (due to the impact of currency translation gains/losses of consolidated subsidiaries). A negative amount reflects a potential net reduction in income, while a positive amount reflects a net potential.

		2014		2013	
Currency	Change in currency rate	**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity %**
USD	1+	826	-	22	-
EUR	1+	27	1,341	18	1,409
SYP	1+	-	718	-	869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5% increase in the value of the Group's equities at 31 December 2014 would have increased other comprehensive income by LBP 2,549 million and net income by LBP 1,797 million (2013: LBP 2,170 million and LBP 1,648 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed-rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

51.5. OPERATIONAL RISK

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

To reduce operational risk, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines have been placed on the Bank's intranet site for quick access and referrals. Critical operational risk issues are handled by a separate Operational Risk Committee, which meetings are attended by senior managers of business lines, including the Chief Risk Officer and the General Manager.

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

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are employed to facilitate the operational risk monitoring in a forward-looking manner with pre-defined escalation triggers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. 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.

	Less than 12 months				Over 12 months			
2014 LBP Million	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**Total**	**1 to 5 years**	**Over 5 years**	**Total**	**TOTAL**
ASSETS								
Cash and balances with central banks	2,403,232	10,953	407,122	2,821,307	1,583,336	2,644,142	4,227,478	7,048,785
Due from banks and financial institutions	2,572,980	225,641	114,658	2,913,279	-	-	-	2,913,279
Loans to banks and financial institutions and reverse repurchase agreements	114,299	131,270	115,693	361,262	32,450	-	32,450	393,712
Financial assets given as collateral	-	-	7,005	7,005	-	-	-	7,005
Derivative financial instruments	3,914	768	2,033	6,715	-	-	-	6,715
Financial assets at fair value through profit or loss	190	756	746	1,692	24,062	129,828	153,890	155,582
Net loans and advances to customers at amortized cost	3,031,407	552,847	1,084,448	4,668,702	1,562,682	867,779	2,430,461	7,099,163
Net loans and advances to related parties at amortized cost	19,352	1,005	748	21,105	3,896	3,032	6,928	28,033
Debtors by acceptances	105,505	116,814	80,620	302,939	-	-	-	302,939
Financial assets at amortized cost	173,758	389,994	811,538	1,375,290	4,578,409	4,306,420	8,884,829	10,260,119
Financial assets at fair value through other comprehensive income	-	-	-	-	-	98,718	98,718	98,718
Property and equipment	-	-	-	-	-	236,379	236,379	236,379
Intangible assets	-	-	-	-	-	652	652	652
Assets obtained in settlement of debt	-	-	-	-	-	36,677	36,677	36,677
Other assets	4,780	26	61,827	66,633	-	40,147	40,147	106,780
TOTAL ASSETS	**8,429,417**	**1,430,074**	**2,686,438**	**12,545,929**	**7,784,835**	**8,363,774**	**16,148,609**	**28,694,538**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	TOTAL
LIABILITIES								
Due to central banks	9,394	546	10,226	20,166	33,358	17,622	50,980	71,146
Due to banks and financial institutions	370,047	181,578	120,623	672,248	166,351	72,574	238,925	911,173
Derivative financial instruments	4,150	327	950	5,427	-	-	-	5,427
Customers' deposits at amortized cost	13,667,419	2,766,219	4,918,081	21,351,719	1,956,827	69,243	2,026,070	23,377,789
Deposits from related parties at amortized cost	291,393	1,852	7,068	300,313	12,500	-	12,500	312,813
Debt issued and other borrowed funds	-	-	616	616	-	444,771	444,771	445,387
Engagements by acceptances	105,505	116,814	80,620	302,939	-	-	-	302,939
Other liabilities	50,898	1,652	85,078	137,628	22,439	3,836	26,275	163,903
Provisions for risks and charges	-	-	-	-	-	145,429	145,429	145,429
Subordinated debt	-	82	-	82	-	414,498	414,498	414,580
TOTAL LIABILITIES	**14,498,806**	**3,069,070**	**5,223,262**	**22,791,138**	**2,191,475**	**1,167,973**	**3,359,448**	**26,150,586**
Net	**(6,069,389)**	**(1,638,996)**	**(2,536,824)**	**(10,245,209)**	**5,593,360**	**7,195,801**	**12,789,161**	**2,543,952**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	TOTAL
ASSETS								
Cash and balances with central banks	1,804,864	339,997	573,392	2,718,253	2,781,312	310,365	3,091,677	5,809,930
Due from banks and financial institutions	2,955,137	320,986	72,605	3,348,728	4,586	-	4,586	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	65,444	142,388	401,664	609,496	5,370	-	5,370	614,866
Financial assets given as collateral	-	-	-	-	7,005	-	7,005	7,005
Derivative financial instruments	3,270	312	242	3,824	-	-	-	3,824
Financial assets at fair value through profit or loss	5	83	1,066	1,154	17,281	139,012	156,293	157,447
Net loans and advances to customers at amortized cost	2,913,113	424,569	976,028	4,313,710	1,618,209	844,931	2,463,140	6,776,850
Net loans and advances to related parties at amortized cost	16,741	1,084	300	18,125	1,339	4,268	5,607	23,732
Debtors by acceptances	195,762	158,039	89,993	443,794	2,104	59	2,163	445,957
Financial assets at amortized cost	337,297	203,445	1,022,345	1,563,087	4,508,671	4,126,435	8,635,106	10,198,193
Financial assets at fair value through other comprehensive income	-	-	-	-	-	86,895	86,895	86,895
Property and equipment	-	-	-	-	-	243,230	243,230	243,230
Intangible assets	-	-	-	-	-	811	811	811
Assets obtained in settlement of debt	-	-	-	-	-	36,379	36,379	36,379
Other assets	14,380	404	51,117	65,901	5	41,929	41,934	107,835
TOTAL ASSETS	**8,306,013**	**1,591,307**	**3,188,752**	**13,086,072**	**8,945,882**	**5,834,314**	**14,780,196**	**27,866,268**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2013 LBP Million	Less than 12 months				Over 12 months			
	Up to 1 month	**1 to 3 months**	**3 months to 1 year**	**Total**	**1 to 5 years**	**Over 5 years**	**Total**	**TOTAL**
LIABILITIES								
Due to central banks	8,205	2	10	8,217	11,555	31,730	43,285	51,502
Due to banks and financial institutions	615,573	344,211	109,638	1,069,422	178,104	145,036	323,140	1,392,562
Derivative financial instruments	2,878	179	6	3,063	-	-	-	3,063
Customers' deposits at amortized cost	13,204,057	2,646,685	4,270,055	20,120,797	1,800,184	49,204	1,849,388	21,970,185
Deposits from related parties at amortized cost	225,405	13,332	12,175	250,912	13,565	-	13,565	264,477
Debt issued and other borrowed funds	-	60,990	-	60,990	-	445,499	445,499	506,489
Engagements by acceptances	195,762	158,039	89,993	443,794	2,104	59	2,163	445,957
Other liabilities	73,132	1,861	90,620	165,613	26,014	4,077	30,091	195,704
Provisions for risks and charges	-	-	-	-	-	138,375	138,375	138,375
Subordinated debt	-	-	-	-	-	412,368	412,368	412,368
TOTAL LIABILITIES	**14,325,012**	**3,225,299**	**4,572,497**	**22,122,808**	**2,031,526**	**1,226,348**	**3,257,874**	**25,380,682**
Net	**(6,018,999)**	**(1,633,992)**	**(1,383,745)**	**(9,036,736)**	**6,914,356**	**4,607,966**	**11,522,322**	**2,485,586**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53. CAPITAL

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No. 44. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets and off balance sheet commitments at a weighted amount to reflect their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets to be achieved gradually by year-end 2015 as follows:

%	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2013	6.0%	8.5%	10.5%
Year ended 31 December 2014	7.0%	9.5%	11.5%
Year ended 31 December 2015	8.0%	10.0%	12.0%

RISK-WEIGHTED ASSETS

As of 31 December 2014 and 2013, risk-weighted assets are as follows:

LBP Million	2014	2013
Risk-weighted assets	**15,810,239**	**16,139,378**

REGULATORY CAPITAL

At 31 December 2014 and 2013, regulatory capital consists of the following:

	Excluding profit for the year		Including profit for the year less proposed dividends	
LBP Million	2014	2013	2014	2013
Common Tier 1 capital	1,568,174	1,534,004	1,659,415	1,597,136
Additional Tier 1 capital	601,580	601,286	601,580	601,286
Tier 2 capital	463,616	464,967	463,616	464,967
Total capital	**2,633,370**	**2,600,257**	**2,724,611**	**2,663,389**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL ADEQUACY RATIO

As of 31 December 2014 and 2013, capital adequacy ratio is as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
LBP Million	**2014**	**2013**	**2014**	**2013**
Common Tier 1 capital	9.92%	9.50%	10.50%	9.90%
Total Tier 1 capital ratio	13.72%	13.23%	14.30%	13.62%
Total capital ratio	**16.66%**	**16.11%**	**17.23%**	**16.50%**

The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders, or issue capital securities. No changes were made in the objectives, policies and processes from previous years; however, these are under constant scrutiny of the Board.

54. DIVIDENDS PAID AND PROPOSED

LBP Million	**2014**	**2013**
Dividends paid during the year		
Equity dividends on ordinary shares LBP 200 per share	113,103	113,103
Distributions to Series 2008 Preferred Shares: USD 8.00 per share	24,224	24,224
Distributions to Series 2009 Preferred Shares: USD 8.00 per share	24,224	24,224
	161,551	**161,551**
Less: dividends on treasury shares	(539)	(714)
	161,012	**160,837**
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary shares LBP 200 per share	113,103	113,103
Distributions to Series 2008 Preferred Shares: USD 8.00 per share	24,224	24,224
Distributions to Series 2009 Preferred Shares: USD 8.00 per share	24,224	24,224
	161,551	**161,551**

HELD ON 15 MAY 2015

RESOLUTIONS OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

FIRST RESOLUTION

The General Assembly approves the reports of the Board of Directors and the Statutory Auditors and approves all the elements of the consolidated and stand-alone balance sheets and profit and loss accounts of the fiscal year 2014.

SECOND RESOLUTION

The General Assembly decides to allocate the non-consolidated profits (in LBP million) of the fiscal year 2014, as suggested by the Board of Directors, as follows:

2014 Non-Consolidated Net Income	223,036
Legal Reserves	(22,586)
Reserves for General Banking Risks 2014	(28,085)
Reserves for Retail Loan Portfolio	(2,695)
Reserves for Capital Increase	(1,081)
Net Reserves for Foreclosed Properties	(2,246)
Unrealized Gains on Portfolio Held at Fair Value through P&L	441
Profits Carried Forward from Previous Years	1,717
Net Income Available for Appropriation	**168,501**
Dividends - Preferred Shares Series 2008	24,224
Dividends - Preferred Shares Series 2009	24,224
Dividends - Common Shares	113,103
Profit Carried Forward for 2014	6,950

THIRD RESOLUTION

The General Assembly decides to grant discharge to the Chairman and Board members for their duties during the fiscal year 2014.

FOURTH RESOLUTION

The General Assembly decides to elect the following persons as members of the Bank's Board of Directors for three years expiring at the holding of the Annual Ordinary General Assembly meeting that will approve the financial statements of 2017:

Dr. François S. Bassil, Semaan F. Bassil, Bassam A. Nassar, Faisal M. Ali El Tabsh, Arthur G. Nazarian, Ahmad T. Tabbara, Alain C. Tohmé, Dr. Henry T. Azzam, Baron Dr. Guy Quaden, Des S. O'Shea and Yves R. Jacquot.

The elected Directors accepted the mandate assigned to them and thanked the shareholders for their trust.

FIFTH RESOLUTION

The General Assembly decides on the following points, after reviewing the special reports of each of the Board of Directors and the Statutory Auditors:

- To approve the credits effectively used during the year 2014 by some Board members and/or main shareholders and/or senior officers at Byblos Bank S.A.L. and/or companies they belong to, as detailed in the reports of the Board of Directors and the Statutory Auditors.

  The Assembly also confirms the agreement between the Bank and the companies some board members belong to, as shown in the special reports of the Board of Directors and the Statutory Auditors.

- To grant the special authorization referred to in article /152/ of the Code of Money and Credit and in article /158/ of the Code of Commerce for the fiscal year 2015 to each Board member and/or main shareholders and/or senior officers at Byblos Bank S.A.L. and/or companies they belong to, as shown in the special report of the Board of Directors.

- To grant the special authorization referred to in article /159/ of the Code of Commerce to allow members of the Board of Directors to accept the chairmanship of, or Board membership in, other companies having similar business.

RESOLUTIONS OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

SIXTH RESOLUTION

The General Assembly approves the setting of annual lump-sum emoluments for the members of the Board of Directors at 480 million Lebanese Pounds for the year 2015, to be distributed equally among the members, each one of them being entitled to 10 million Lebanese Pounds as attendance fees for each meeting with a maximum of 40 million Lebanese Pounds per year.

SEVENTH RESOLUTION

The General Assembly approves the terms of collaboration with Dr. François S. Bassil in the event he is elected as Chairman and General Manager of Byblos Bank S.A.L. or eventually as Chairman of Byblos Group, and with Mr. Semaan Bassil as General Manager or eventually as Chairman and General Manager of Byblos Bank S.A.L., as described in the special report, and to grant them on this basis for 2015 the authorization mentioned in article /152/ of the Code of Money and Credit and article /158/ of the Code of Commerce.

The General Assembly approves the salaries and other benefits paid to the senior officers of the Bank for the year 2014, as mentioned in the Board of Directors special report, and approves as well to pay them the amounts mentioned in the same report for 2015.

The General Assembly approves the fees paid to the members and chairmen of the Board Audit and Risk committees for 2014, and approves that said members and chairmen receive fees for the fiscal year 2015, as mentioned in the Board of Directors special report.

EIGHTH RESOLUTION

The General Assembly decides to set the fees of the External Auditors, Messrs. BDO Semaan Gholam & Co. and Messrs. Ernst & Young, for the fiscal years 2015, 2016 and 2017, and determine their fees for 2015 at 1,250 million Lebanese Pounds for auditing and reviewing the stand-alone and consolidated financial statements

RESOLUTIONS OF THE EXTRAORDINARY GENERAL ASSEMBLY

HELD ON 15 MAY 2015

FIRST RESOLUTION

The Extraordinary General Assembly decides to amend the Articles of Association by adding "Article 34 bis" as follows:

Article 34 bis: Group Subsidiaries:

The Board of Directors shall supervise the activities of the subsidiaries in which the Bank owns, directly or indirectly, the majority of the capital or the voting rights or the power of management. The Bank and these subsidiaries shall form together Byblos Group. Supervision of the group and coordination among its elements shall be carried out by a group chairman elected by the Board of Directors, further to consultations with the Boards of Directors of the group subsidiaries, amongst its Board members as per qualification terms it shall determine.

The Group Chairman shall have the following powers:

- Follow up on the activities of the Group subsidiaries.
- Notify the Board of Directors periodically of his assessment, feedback and suggestions regarding the activities of the Group subsidiaries.
- Advise the Board of Directors about the resolutions to be taken in the main matters that the Bank should vote on within the Group subsidiaries.
- Represent the Group towards third parties without prejudice to the powers of the Group subsidiaries.

SECOND RESOLUTION

The Extraordinary General Assembly acknowledges that the above-mentioned amendments shall become effective only upon the approval of the Banque du Liban (the Central Bank of Lebanon), in accordance with Government Decree No. 77 dated 27 June 1977.

DIRECTORY

CORRESPONDENT BANKS

Country	City	Bank Name
Australia	Sydney	Westpac Banking Corporation
Belgium	Brussels	Byblos Bank Europe S.A.
Denmark	Copenhagen	Danske Bank A/S
France	Paris	Société Générale
Germany	Frankfurt	Commerzbank AG, Deutsche Bank AG
Italy	Milan	UniCredit SpA, Intesa Sanpaolo SpA
Japan	Tokyo	Sumitomo Mitsui Banking Corporation, The Bank of New York Mellon
KSA	Jeddah	The National Commercial Bank
Kuwait	Kuwait	National Bank of Kuwait SAK
Netherlands	Amsterdam	ABN AMRO Bank NV
Norway	Oslo	DnB NOR BANK ASA
Qatar	Doha	Qatar National Bank SAQ
Sweden	Stockholm	Skandinaviska Enskilda Banken AB
Switzerland	Zurich	Crédit Suisse
Turkey	Istanbul	Yapi Ve Kredi Bankasi AS
UAE	Dubai	Emirates NBD PJSC, MashreqBank PSC
UK	London	Barclays Bank PLC
USA	New York	The Bank of New York Mellon, Citibank NA

GROUP ADDRESSES

Head Office:

BYBLOS BANK HEADQUARTERS

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Lebanon

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Telex:	BYBANK 41601 LE
Cable:	BYBLOBANK
SWIFT:	BYBALBBX
Forex:	(+961) 1 335255
Website:	http://www.byblosbank.com
E-mail:	secretariat@byblosbank.com.lb

BYBLOS BANK S.A.L. BRANCHES IN LEBANON

To contact any of our branches in Lebanon, please call Customer Service at (+961) 1 205050.
You can locate our branches by visiting the Contact Us section on our website
or by logging on to Byblos Bank's Mobile Banking Application.

Baabda Regional Management

- Ain El Remmaneh Branch
- Baabda Branch
- Furn El Chebbak Branch
- Hazmieh Branch

Bekaa Regional Management

- Aley Branch
- Bar Elias Branch
- Deir El Kamar Branch
- Jdita Branch
- Jeb Jannine Branch
- Kabrchmoun Branch
- Ras El Metn Branch
- Zahleh 1 Branch
- Zahleh 2 Branch

Beirut 1 Regional Management

- Chiyah Branch
- Choueifat Branch
- Ghobeiry Branch
- Haret Hreik Branch
- Jnah Branch
- Verdun Branch
- Verdun Moussaitbeh Branch

Beirut 2 Regional Management

- Ashrafieh Geitawi Branch
- Ashrafieh Gemmayzeh Branch
- Ashrafieh Sassine Branch
- Ashrafieh St. Nicolas Branch
- Ashrafieh Tabaris Branch
- Badaro Branch
- Place de l'Etoile Branch

GROUP ADDRESSES

Dora Regional Management

- Bourj Hammoud Branch
- Dekwaneh Branch
- Dora Branch
- Jdeideh 2 Branch

Jbeil Regional Management

- Amchit Branch
- Jbeil 1 Branch
- Jbeil 2 Branch
- Mastita/Blat Branch
- Okaybe Branch

Keserwan Regional Management

- Adma Branch
- Haret Sakhr Branch
- Jounieh Branch
- Kaslik Branch
- Kfarhbab Branch
- Reyfoun Branch
- Tabarja/Kfaryassine Branch
- Zouk Branch

Koura Regional Management

- Batroun Branch
- Bechmezzine Branch
- Kousba Branch

Metn Regional Management

- Antelias 1 Branch
- Antelias 2 Branch
- Aya/Dora Branch
- Baabdat Branch
- Dbayeh Branch
- Elyssar/Mazraat Yachouh Branch
- Jal El Dib Branch
- Jdeideh 1 Branch
- Mansourieh Branch
- Rabieh Branch
- Sin El Fil Branch

North Regional Management

- Halba Branch
- Kobayat Branch
- Tripoli Boulevard Branch
- Tripoli Mina Branch
- Tripoli Tall Branch
- Zghorta Branch

Ras Beirut Regional Management

- Bechara Al Khoury Branch
- Bliss Branch
- Hamra Branch
- Hamra Sadat Branch
- Istiklal Branch
- Mar Elias Branch
- Mazraa Branch

South Regional Management

- Bint Jbeil Branch
- Ghazieh Branch
- Hlaliyeh Branch
- Jezzine Branch
- Marjeyoun Branch
- Nabatieh Branch
- Saida Branch
- Tyre Branch

GROUP ADDRESSES

Addresses of all entities overseas are well detailed
on the Contact Us page of our website: www.byblosbank.com

Branches Abroad

Baghdad Branch, Iraq
Basra Branch, Iraq
Erbil Branch, Iraq
Limassol Branch, Cyprus

Representative Offices Abroad

Abu Dhabi Representative Office, United Arab Emirates
Nigeria Representative Office, Nigeria

Insurance Companies

ADIR Insurance and Reinsurance Co. S.A.L., Lebanon
ADIR Insurance and Reinsurance Co. Syria S.A., Syria
Adonis Brokerage House S.A.L., Lebanon

Subsidiary Bank in Lebanon

Byblos Invest Bank S.A.L.

Subsidiary Banks Abroad

Byblos Bank Africa with branches in Khartoum and Bahri
Byblos Bank Armenia C.J.S.C. with branches in Amiryan, Komitas, Malatia and Vanadzor
Byblos Bank Europe S.A. with branches in Belgium, France, and the United Kingdom
Byblos Bank RDC S.A. with a branch in Kinshasa-Gombe
Byblos Bank Syria P.J.S.C. with branches in Abou Roummaneh, Mazzeh, Abbasiyeen Square, Aleppo, Tartous, Lattakia, Hama, and Swaidaa

ACKNOWLEDGMENTS

CONCEPT
Byblos Bank – Group Communication Department

DESIGN AND LAYOUT
www.circle.agency

PRINTING
Anis Commercial Printing Press

BYBLOS BANK GROUP

Lebanon
Belgium
France
United Kingdom
Armenia
Cyprus
Sudan
Syria
United Arab Emirates
Iraq
Nigeria
Democratic Republic of the Congo

WWW.BYBLOSBANK.COM