

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013



**Building a better
working world**

Ernst & Young p.c.c.
Commerce & Finance Building
1st Floor, Kantari, Beirut
P.O. Box: 11-1639, Riad el Solh
Beirut - 1107 2090, Lebanon

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

SG SEMAAN, GHOLAM & CO.

Semaan, Gholam & Co.
Gholam Building, Sioufi Street
Beirut
P.O.Box: 11-0558, Riad el Solh
Beirut - 1107 2050, Lebanon

Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 90

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 2013 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

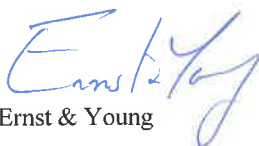
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

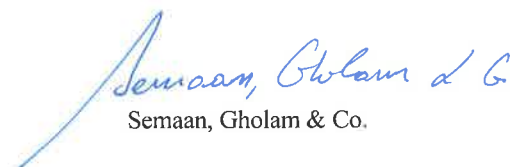
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young

14 April 2014
Beirut, Lebanon



Semaan, Gholam & Co.
Semaan, Gholam & Co.

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 LL million	2012 LL million
Interest and similar income	7	1,295,959	1,274,746
Interest and similar expense	8	(945,955)	(884,216)
NET INTEREST INCOME		350,004	390,530
Fee and commission income	9	154,040	149,819
Fee and commission expense	9	(15,047)	(14,120)
NET FEE AND COMMISSION INCOME		138,993	135,699
Net gain from financial instruments at fair value through profit or loss	10	86,098	88,078
Net gain from sale of financial assets at amortized cost	11	79,862	65,995
Revenue from financial assets at fair value through other comprehensive income	26	1,144	4,491
Other operating income	12	19,382	24,451
TOTAL OPERATING INCOME		675,483	709,244
Net credit losses	13	(79,132)	(86,797)
NET OPERATING INCOME		596,351	622,447
Personnel expenses	14	(162,226)	(154,321)
Other operating expenses	15	(126,961)	(139,891)
Depreciation of property and equipment	27	(27,218)	(31,123)
Amortisation of intangibles assets	28	(159)	(159)
TOTAL OPERATING EXPENSES		(316,564)	(325,494)
OPERATING PROFIT		279,787	296,953
Net gain on disposal of fixed assets		21	-
PROFIT BEFORE TAX		279,808	296,953
Income tax expense	16	(44,359)	(44,691)
PROFIT FOR THE YEAR		235,449	252,262
Attributable to:			
Equity holders of the parent		224,683	246,450
Non-controlling interests		10,766	5,812
		235,449	252,262
Earnings per share		LL	LL
Equity shareholders of the parent:			
Basic earnings per share	17	313.68	352.70
Diluted earnings per share	17	298.02	337.32

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	<i>Notes</i>	2013 LL million	2012 LL million
PROFIT FOR THE YEAR		235,449	252,262
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to the income statement in subsequent periods:</i>			
Exchange difference on translation of foreign operations		(61,299)	(109,946)
Net other comprehensive loss to be reclassified to the income statement in subsequent periods		(61,299)	(109,946)
<i>Items not to be reclassified to the income statement in subsequent periods:</i>			
Net unrealized gain (loss) from financial assets at fair value through other comprehensive income		8,222	(3,605)
Income tax effect		(1,232)	527
		6,990	(3,078)
Re-measurement gain on defined benefits plans	36 (a)	2,741	-
Net other comprehensive income (loss) not to be reclassified to the income statement in subsequent periods		9,731	(3,078)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(51,568)	(113,024)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		183,881	139,238
Attributable to:			
Equity holders of the parent		203,526	181,939
Non-controlling interests		(19,645)	(42,701)
		183,881	139,238

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

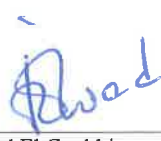
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 LL million	2012 LL million
ASSETS			
Cash and balances with central banks	18	5,809,930	5,507,572
Due from banks and financial institutions	19	3,353,314	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	20	614,866	458,707
Financial assets given as collateral	21	7,005	8,923
Derivative financial instruments	22	3,824	12,174
Financial assets at fair value through profit or loss	23	157,447	300,909
Net loans and advances to customers at amortized cost	24	6,782,036	6,195,104
Net loans and advances to related parties at amortized cost	47	18,546	15,815
Debtors by acceptances		445,957	316,232
Financial assets at amortized cost	25	10,198,193	9,145,626
Financial assets at fair value through other comprehensive income	26	86,895	78,663
Property and equipment	27	243,230	265,394
Intangible assets	28	811	970
Assets obtained in settlement of debt	29	36,379	33,202
Other assets	30	107,835	94,385
TOTAL ASSETS		27,866,268	25,650,209
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	31	51,502	17,918
Due to banks and financial institutions	32	1,392,562	1,327,047
Derivative financial instruments	22	3,063	8,613
Customers' deposits at amortized cost	33	21,986,338	19,967,531
Deposits from related parties at amortized cost	47	248,324	208,102
Debt issued and other borrowed funds	34	506,489	508,711
Engagements by acceptances		445,957	316,232
Other liabilities	35	195,704	262,888
Provisions for risks and charges	36	138,375	130,465
Subordinated debt	37	412,368	410,896
TOTAL LIABILITIES		25,380,682	23,158,403
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	38	684,273	684,273
Share capital – preferred shares	38	4,840	4,840
Share premium – common shares	38	229,014	229,014
Share premium – preferred shares	38	588,671	586,259
Non distributable reserves	39	672,318	568,145
Distributable reserves	40	97,253	99,659
Other equity instruments	41	-	14,979
Treasury shares	42	(10,054)	(25,302)
Retained earnings	43	52,118	74,024
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	(16,644)	(23,634)
Net results of the financial period – profit		224,683	246,450
Foreign currency translation reserve		(123,650)	(92,762)
NON-CONTROLLING INTERESTS		77,075	120,172
TOTAL EQUITY		2,485,586	2,491,806
TOTAL LIABILITIES AND EQUITY		27,866,268	25,650,209

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 11 April 2014.


 Dr Francois Bassil
 Chairman/ General Manager


 Mr Ziad El-Zoghbi
 Financial and Administrative Manager

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to equity holders of the parent						Change in fair value of financial assets at fair value through other comprehensive income LL million	Net results of the financial period - profit LL million	Foreign currency translation reserve LL million	Non-controlling interests	Total				
	Common shares LL million	Preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves LL million	Distributable reserves LL million						Other equity instruments LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million
Balance at 1 January 2013	684,273	4,840	229,014	586,259	568,145	99,659	14,979	(25,302)	74,024	5,689	(23,634)	246,450	(92,762)	120,172	2,491,806
Profit for the year	-	-	-	-	-	-	-	-	2,741	-	6,990	224,683	(30,888)	10,766	235,449
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	(246,450)	-	(30,411)	(25,568)
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	2,412	-	3,346	-	-	(110,206)	-	-	-	-	(3,209)	(3,209)
Dividends paid - subsidiaries	-	-	-	-	104,448	-	-	-	-	-	-	-	-	-	(54)
Translation difference	-	-	-	-	-	-	-	-	(54)	-	-	-	-	-	(160,837)
Equity dividends paid (note 54)	-	-	-	-	(275)	-	(14,979)	15,248	-	-	-	-	-	(6)	(6)
Treasury shares (note 42)	-	-	-	-	-	(5,752)	-	-	-	-	-	-	-	(20,243)	(25,995)
Put options on non-controlling interests (note 5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2013	684,273	4,840	229,014	588,671	672,318	97,253	-	(10,054)	52,118	5,689	(16,644)	224,683	(123,650)	77,075	2,485,586

	Attributable to equity holders of the parent						Change in fair value of financial assets at fair value through other comprehensive income LL million	Net results of the financial period - profit LL million	Foreign currency translation reserve LL million	Non-controlling interests	Total				
	Common shares LL million	Preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves LL million	Distributable reserves LL million						Other equity instruments LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million
Balance at 1 January 2012	684,273	4,840	229,014	583,858	469,072	79,127	14,979	(25,476)	65,214	5,689	(20,556)	259,894	(31,329)	166,179	2,484,778
Profit for the year	-	-	-	-	-	-	-	-	-	-	(3,078)	246,450	(61,433)	5,812	252,262
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(48,513)	(113,024)
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	2,412	-	2,492	-	-	(90,422)	-	-	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	85,518	18,040	-	-	-	-	-	-	-	-	-
Transfer to distributable reserves (note 39)	-	-	-	-	(18,040)	-	-	-	-	-	-	-	-	-	-
Equity component on convertible subordinated loan (note 37)	-	-	-	-	31,618	-	-	-	-	-	-	-	-	-	31,618
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	179	-	-	-	-	(3,306)	(3,306)
Translation difference	-	-	-	(11)	-	-	-	-	(160,841)	-	-	-	-	-	168
Equity dividends paid (note 54)	-	-	-	-	(23)	-	-	174	-	-	-	-	-	-	(160,841)
Treasury shares (note 42)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	151
Balance at 31 December 2012	684,273	4,840	229,014	586,259	568,145	99,659	14,979	(25,302)	74,024	5,689	(23,634)	246,450	(92,762)	120,172	2,491,806

The attached notes 1 to 54 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	<i>Notes</i>	2013 <i>LL million</i>	2012 <i>LL million</i>
OPERATING ACTIVITIES			
Profit before tax		279,808	296,953
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	27 & 28	27,377	31,282
Provision for loans and advances and direct write offs, net	13	80,448	107,229
Write-back of provision for other doubtful bank accounts, net	13	(897)	(942)
Provision for financial assets at amortized cost, net	13	(419)	(19,490)
Loss on disposal of fixed assets		21	-
Gain on disposal of assets obtained in settlement of debt	12	(5,791)	(4,613)
Provisions for risks and charges, net		14,399	2,468
Unrealized fair value gains on financial instruments at fair value through profit or loss		(4,520)	(4,361)
Realized gains from financial assets		(76,407)	(75,747)
Derivative financial instruments		2,800	(5,552)
Operating profit before working capital changes		316,819	327,227
Changes in operating assets and liabilities			
Due from central banks		(490,715)	(1,957,792)
Due to central banks		32,792	763
Due from banks and financial institutions		(13,231)	35,274
Financial assets given as collateral		1,918	(3)
Financial assets at fair value through profit or loss		144,527	(31,587)
Due to banks and financial institutions		(33,291)	(23,314)
Net loans and advances to customers and related parties		(670,112)	(275,828)
Assets obtained in settlement of debt	29	(5,687)	(286)
Proceeds from sale of assets obtained in settlement of debt		8,301	7,149
Other assets		(9,587)	(3,049)
Customers' and related parties' deposits		2,059,029	979,684
Other liabilities		(99,068)	1,433
Cash from (used in) operations		1,241,695	(940,329)
Provision for risks and charges paid		(3,748)	(1,445)
Taxation paid		(47,788)	(51,014)
Net cash from (used in) operating activities		1,190,159	(992,788)
INVESTING ACTIVITIES			
Financial assets at amortized cost		(972,286)	(452,840)
Financial assets at fair value through other comprehensive income		(10)	(5,179)
Loans to banks and financial institutions and reserve purchase agreements		(156,159)	208,781
Purchase of property and equipment and intangible assets		(18,674)	(29,919)
Proceeds from sale of property and equipment		195	278
Net cash used in investing activities		(1,146,934)	(278,879)
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		(2,222)	(153,579)
Subordinated debt		1,472	135,251
Treasury shares		(6)	151
Dividends paid to equity holders of the parent (net)		(160,837)	(160,841)
Dividends paid to non-controlling interests		(3,209)	(3,306)
Net cash used in financing activities		(164,802)	(182,324)
Net effect of foreign exchange		(43,725)	(75,040)
DECREASE IN CASH AND CASH EQUIVALENTS		(165,302)	(1,529,031)
Cash and cash equivalents at 1 January		4,621,087	6,150,118
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	46	4,455,785	4,621,087
Operational cash flows from interest and dividends			
Interest paid		(925,827)	(881,733)
Interest received		1,306,114	1,269,069
Dividend received		1,715	5,043

- Operating activities include a non-cash item consisting of an increase in other liabilities by LL 25,995 million representing put options on non-controlling interests during 2013.

- Operating activities include a non-cash item consisting of a decrease in customer deposits by LL 130,459 million against an increase in other liabilities by the same amount during 2012.

The attached notes 1 to 54 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Central Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange 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 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of 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 recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised 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 Lira (LL) and all values are rounded to the nearest LL 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. 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 2013. 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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

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 recognised within equity, with changes in the carrying amount 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 derecognised as if it was acquired at that date. The liability is recognised at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognised 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:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised 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. The nature and the impact of each new standards and amendments is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to the statement of income at a future point in time now have to be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

An opening statement of financial position (known as the ‘third balance sheet’) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The Group did not include an opening statement of financial position in these financial statements as the retrospective application of new and amended accounting policies did not have a material effect on the statement of financial position at the beginning of the preceding period. The amendment did not have an impact on the Group’s financial statements.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. IAS 19R eliminates the “corridor method”, under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from re-measurements recognized immediately in other comprehensive income. In addition, IAS 19R requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year. Other amendments include new disclosures, such as, sensitivity disclosures. Sensitivity disclosures for comparative period have not been provided as permitted by IAS 19R. The adoption of IAS 19R did not have a material impact on the Group’s financial position or financial performance. As such, the adoption of IAS 19R affected disclosures only.

IAS 32 Tax Effects of Distributions to Holders of Equity Instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the Groups’ financial statements.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Group does not have investments in associates or joint ventures, IFRS 11 does not have an impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in the notes.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is also provided in the notes.

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.

IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. This amendment is not expected to have an impact on the Group's financial performance or position and affects presentation only.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 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. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IAS 39 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. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments will be considered for future novation.

2.5 Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements are presented in Lebanese Lira which is 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 recognised 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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 amortised 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 or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. 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 recognised 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 amortised cost are reflected under “Net gain (loss) from sale of financial assets at amortized cost” in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

a. Financial assets (continued)

Financial assets at amortized cost (continued)

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 amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in ‘Interest and similar income’ in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in “Net 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.

i. 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.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) *Classification and measurement of financial instruments (continued)*

a. *Financial assets (continued)*

Financial assets at fair value through other comprehensive income (continued)

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 amortised cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortised 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.
- 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 recognised less, when appropriate, cumulative amortisation recognised 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 recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

b. Financial liabilities (continued)

Debt issued and other borrowed funds and subordinated debt (continued)

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

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

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

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 recognised 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 recognised 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(iv) Reclassification of financial assets (continued)

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

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

Derecognition of financial assets and financial liabilities

(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 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 derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability 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 repledge 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements (continued)

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, 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 amortised cost are disclosed in the notes.

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

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

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

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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, 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.

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 amortised cost

For financial assets carried at amortised 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, recognised 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 realised 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 recognised; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that 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 realisable value.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised 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 recognised 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 amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised 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 recognised directly in equity in the “Cash flow hedge” reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised 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 recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of 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 recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in other comprehensive statement is transferred to the consolidated income statement.

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 recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leasing (continued)

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

(i) Interest and similar income and expense

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 continue 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 two categories:

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

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

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

Fee income from providing transaction services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee 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.

2 ACCOUNTING POLICIES (continued)**2.5 Summary of significant accounting policies (continued)****Recognition of income and expenses (continued)****(iii) Dividend income**

Dividend income is recognised 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.

(vi) Insurance revenue

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

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

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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 derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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 acquires a business, 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 remeasured 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 recognised 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 recognised 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 remeasured 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 recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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 amortisation and accumulated impairment losses.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Intangible assets (continued)

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

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

- Key money 10-15 years

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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 recognised 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 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 recognised 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 requires 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, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are 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 recognised in profit or loss on the earlier of:

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

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

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

Provisions for risks and charges

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(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 recognised for all taxable temporary differences, except:

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

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

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

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

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

Current tax and deferred tax relating to items recognized directly in equity are also recognised 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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Treasury shares (continued)

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 JUDGEMENTS

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 recognised 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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgments (continued)

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 amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**Estimates and assumptions (continued)***Impairment losses on loans and advances (continued)*

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

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.

Pensions obligation

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

4 GROUP INFORMATION

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

<i>Subsidiary</i>	<i>Percentage of ownership</i>		<i>Principal activity</i>	<i>Country of incorporation</i>
	2013	<i>2012</i>		
	%	<i>%</i>		
Byblos Bank Europe SA	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) SAL	64.00	64.00	Insurance	Lebanon
Adonis Brokerage House SAL	100.00	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	99.99	99.99	Investment banking	Lebanon
Byblos Bank Africa	56.86	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A.	52.37	52.37	Commercial Banking	Syria
Byblos Bank Armenia CJSC	65.00	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	76.00	Insurance	Syria
Byblos Bank RDC s.a.r.l. (formerly Solidaire Banque International S.B.I. SARL)	66.67	66.67	Banking activities	Democratic Republic of Congo

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

5 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:

	2013	2012
	%	%
Name		
Byblos Bank Africa	43.14	43.14
Adonis Insurance and Reinsurance Co. (ADIR) SAL	36.00	36.00
Byblos Bank Armenia CJSC	35.00	35.00
Byblos Bank Syria S.A.	47.63	47.63

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

Summarized statement of profit and loss for 2013:

	<i>Byblos Bank Africa</i> <i>LL million</i>	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i> <i>LL million</i>	<i>Byblos Bank Armenia CJSC</i> <i>LL million</i>	<i>Byblos Bank Syria S.A.</i> <i>LL million</i>
Net interest income	13,629	7,029	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	11,452	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	<u>8,248</u>	<u>13,272</u>	<u>(1,289)</u>	<u>4,752</u>
Attributable to non-controlling interests	<u>3,558</u>	<u>4,784</u>	<u>(451)</u>	<u>2,263</u>
Dividends paid to non-controlling interests	<u>1,198</u>	<u>1,803</u>	<u>-</u>	<u>-</u>

Summarized statement of profit and loss for 2012:

	<i>Byblos Bank Africa</i> <i>LL million</i>	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL</i> <i>LL million</i>	<i>Byblos Bank Armenia CJSC</i> <i>LL million</i>	<i>Byblos Bank Syria S.A.</i> <i>LL million</i>
Net interest income	13,876	6,451	6,016	20,160
Net fee and commission income	6,934	1,688	143	5,502
Net gain from financial instruments at fair value through profit loss	3,348	2,224	192	33,035
Other operating income	115	13,383	384	1,046
Net credit losses	(2,234)	(2,250)	(304)	(55,600)
Total operating expenses	(12,418)	(9,786)	(5,285)	(18,205)
Income tax expense	(2,434)	(1,693)	(400)	10,666
Profit (loss) for the year	<u>7,187</u>	<u>10,017</u>	<u>746</u>	<u>(3,396)</u>
Attributable to non-controlling interests	<u>3,100</u>	<u>3,611</u>	<u>260</u>	<u>(1,619)</u>
Dividends paid to non-controlling interests	<u>1,500</u>	<u>1,352</u>	<u>-</u>	<u>-</u>

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

5 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position as at 31 December 2013:

	<i>Byblos Bank Africa LL million</i>	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million</i>	<i>Byblos Bank Armenia CJSC LL million</i>	<i>Byblos Bank Syria S.A. LL million</i>
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 CJSC were estimated at a fair value of LL11,774 million and LL14,221 million respectively (note 35). These were recorded through partial recognition of non-controlling interests.

Summarized statement of financial position as at 31 December 2012:

	<i>Byblos Bank Africa LL million</i>	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million</i>	<i>Byblos Bank Armenia CJSC LL million</i>	<i>Byblos Bank Syria S.A. LL million</i>
Cash and balances with banks	145,270	18,639	80,036	320,251
Balances with Parent and Group entities	50,320	121,513	1,633	91,499
Financial assets at fair value through profit or loss	-	17,047	-	-
Net loans and advances at amortized cost	73,158	2,798	87,383	330,729
Financial assets at amortized cost	37,848	56,297	7,993	42,545
Property and equipment	21,243	2,572	4,190	21,408
Other assets	17,298	38,039	1,663	43,575
Due to banks	(55,445)	-	(41,434)	(44,733)
Due to Parent and Group entities	(45,704)	-	(13,180)	(638)
Deposits at amortized cost	(172,431)	(123,330)	(93,298)	(536,424)
Other liabilities	(23,139)	(89,945)	(976)	(143,849)
Total equity	48,418	43,630	34,010	124,363
Attributable to controlling interests	20,670	15,729	11,904	59,234

31 December 2013

5 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)**Summarized cash flow information for the year ended 31 December 2013:**

	<i>Byblos Bank Africa LL million</i>	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million</i>	<i>Byblos Bank Armenia CJSC LL million</i>	<i>Byblos Bank Syria S.A. LL million</i>
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 equivalent	<u>(54,427)</u>	<u>10,362</u>	<u>(2,756)</u>	<u>(50,239)</u>

Summarized cash flow information for the year ended 31 December 2012:

	<i>Byblos Bank Africa LL million</i>	<i>Adonis Insurance and Reinsurance Co. (ADIR) SAL LL million</i>	<i>Byblos Bank Armenia CJSC LL million</i>	<i>Byblos Bank Syria S.A. LL million</i>
Operating	17,411	16,290	17,288	7,632
Investing	(15,271)	(20,025)	(236)	118,247
Financing	157,690	(64)	-	-
Net increase (decrease) in cash and cash equivalent	<u>159,830</u>	<u>(3,799)</u>	<u>17,052</u>	<u>125,879</u>

6 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, funds 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 performance measure, not the gross income and expense amounts.

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

31 December 2013

6 SEGMENT INFORMATION (continued)

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

	2013				
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and capital markets</i>	<i>Other¹</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Net interest income	180,406	109,440	49,403	10,755	350,004
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	-	-	-	19,382	19,382
Net credit losses	(16,025)	(64,423)	1,316	-	(79,132)
Net operating income	229,889	110,678	219,860	35,924	596,351
	2012				
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and capital markets</i>	<i>Other¹</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Net interest income	226,134	143,873	17,466	3,057	390,530
Net fee and commission income	59,708	66,523	5,023	4,445	135,699
Net gain from financial instruments at fair value through profit or loss	-	-	88,078	-	88,078
Net gain from sale of financial assets at amortized cost	-	-	65,995	-	65,995
Revenue from financial assets at fair value through other comprehensive income	-	-	4,491	-	4,491
Other operating income	-	-	-	24,451	24,451
Net credit losses	(11,127)	(96,102)	20,432	-	(86,797)
Net operating income	274,715	114,294	201,485	31,953	622,447

Financial position information

	2013				
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and capital markets</i>	<i>Other¹</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
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
	2012				
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Treasury and capital markets</i>	<i>Other¹</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Total assets	1,991,822	4,535,330	18,730,617	392,440	25,650,209
Total liabilities	18,925,194	1,250,440	2,273,185	709,584	23,158,403

¹ Other includes certain activities related to assets obtained in settlement of debt, as well as unallocated activities.

31 December 2013

6 SEGMENT INFORMATION (continued)**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.

	2013			
	<i>Lebanon</i> <i>LL million</i>	<i>Europe</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Total operating income	527,279	53,675	94,529	675,483
Net credit losses	(30,617)	(6,191)	(42,324)	(79,132)
Net operating income²	496,662	47,484	52,205	596,351
Non-current assets³	218,880	8,994	52,546	280,420

	2012			
	<i>Lebanon</i> <i>LL million</i>	<i>Europe</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Total operating income	550,030	47,026	112,188	709,244
Net credit losses	(30,944)	2,155	(58,008)	(86,797)
Net operating income²	519,086	49,181	54,180	622,447
Non-current assets³	221,371	7,406	70,789	299,566

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 more than twelve month after the reporting date.

7 INTEREST AND SIMILAR INCOME

	2013 LL million	2012 LL million
Balances with central banks	162,273	136,179
Due from banks and financial institutions	14,233	23,575
Loans to banks and financial institutions	13,474	21,075
Financial assets given as collateral	517	600
Loans and advances to customers at amortized cost	457,980	468,374
Loans and advances to related parties at amortized cost	725	636
Financial assets at amortized cost	646,757	624,307
	1,295,959	1,274,746

8 INTEREST AND SIMILAR EXPENSE

	2013 LL million	2012 LL million
Due to central banks	1,809	597
Due to banks and financial institutions	27,503	33,440
Customers' deposits at amortized cost	840,219	778,239
Deposits from related parties at amortized cost	10,592	9,776
Debt issued and other borrowed funds	34,849	38,219
Subordinated debt	30,747	23,195
Other equity instruments	236	750
	945,955	884,216

31 December 2013

9 NET FEE AND COMMISSION INCOME

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Fee and commission income		
Loans and advances	24,849	22,275
Letters of guarantee	15,357	16,593
Acceptances	9,857	9,809
Letters of credit	31,285	31,748
Credit cards	12,457	10,765
Domiciled bills	2,185	1,816
Checks for collection	3,084	2,934
Maintenance of accounts	13,080	10,939
Transfers	9,912	10,723
Safe rental	946	842
Portfolio commission	4,321	3,315
Commission on insurance related activities	8,593	8,445
Refund of banking services	12,820	12,964
Other commissions	5,294	6,651
	<u>154,040</u>	<u>149,819</u>
Fee and commission expense		
Commissions paid on financial instruments	(2,003)	(1,581)
Other commissions	(13,044)	(12,539)
	<u>(15,047)</u>	<u>(14,120)</u>
Net fee and commission income	<u>138,993</u>	<u>135,699</u>

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

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
<i>Interest and similar income from debt instruments</i>		
- Lebanese government bonds	16,499	10,470
- Certificates of deposit issued by the Central Bank of Lebanon	700	1,039
- Other foreign government bonds	115	140
- Other debt securities	200	462
	<u>17,514</u>	<u>12,111</u>
<i>(Loss) gain from sale of debt instruments</i>		
- Lebanese government bonds	(3,004)	8,112
- Certificates of deposit issued by the Central Bank of Lebanon	(873)	24
- Other foreign government bonds	21	519
- Other debt securities	39	1,424
	<u>(3,817)</u>	<u>10,079</u>

31 December 2013

10 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
<i>Unrealized (loss) gain from revaluation of debt instruments</i>		
- Lebanese government bonds	(1,189)	20
- Certificates of deposit issued by the Central Bank of Lebanon	556	(379)
- Other debt securities	(105)	1,556
	<u>(738)</u>	<u>1,197</u>
Net gain from debt instruments	<u>12,959</u>	<u>23,387</u>
<i>Equity instruments</i>		
- Gain (loss) from sale	362	(327)
- Unrealized gain from revaluation	5,258	3,164
- Dividend income	571	552
	<u>6,191</u>	<u>3,389</u>
Net gain from equity instruments	<u>6,191</u>	<u>3,389</u>
Unrealized gain from revaluation of structural position of a subsidiary	39,748	28,983
Foreign exchange	27,200	32,319
	<u>86,098</u>	<u>88,078</u>

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

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognises some debt instruments classified at amortised 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:

	<i>2013</i>		
	<i>Gains</i> <i>LL million</i>	<i>Losses</i> <i>LL million</i>	<i>Net</i> <i>LL million</i>
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
	<u>80,198</u>	<u>(336)</u>	<u>79,862</u>

31 December 2013

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST (continued)

	2012		Net LL million
	Gains LL million	Losses LL million	
Lebanese government bonds	27,123	-	27,123
Certificates of deposit issued by the Central Bank of Lebanon	49,751	-	49,751
Other foreign government bonds	27	(9,379)	(9,352)
Other debt securities	400	(1,927)	(1,527)
	<u>77,301</u>	<u>(11,306)</u>	<u>65,995</u>

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

12 OTHER OPERATING INCOME

	2013 LL million	2012 LL million
Net gain from sale of assets obtained in settlement of debt	5,791	4,613
Rental income from assets obtained in settlement of debt	895	998
Write back of provisions for risks and charges (note 36 (b))	145	6,700
Other operating income from insurance related activities	8,843	9,526
Others	3,708	2,614
	<u>19,382</u>	<u>24,451</u>

13 NET CREDIT LOSSES

	2013 LL million	2012 LL million
<i>Charge for the year:</i>		
Loans and advances to customers at amortized cost (note 24)	115,097	119,682
Financial assets at amortized cost (note 25)	1,000	2,250
Bad debts written off	80	66
	<u>116,177</u>	<u>121,998</u>
<i>Recoveries during the year:</i>		
Loans and advances to customers (note 24)	(25,566)	(9,497)
Unrealized interest on loans and advances to customers (note 24)	(9,163)	(3,022)
Financial assets at amortized cost (note 25)	(1,419)	(21,740)
Doubtful banks (note 19)	(897)	(942)
	<u>(37,045)</u>	<u>(35,201)</u>
	<u>79,132</u>	<u>86,797</u>

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

14 PERSONNEL EXPENSES

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Salaries and related charges	135,695	134,464
Social security contributions	17,727	16,713
Provision for end of service benefits (note 36 (a))	8,804	3,144
	<u>162,226</u>	<u>154,321</u>

15 OTHER OPERATING EXPENSES

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Taxes on interest	3,721	3,438
Taxes and duties	7,522	6,795
Contribution to deposits guarantee fund	9,951	9,618
Rent and related charges	7,862	8,106
Professional fees	8,414	7,491
Telecommunications and postage expenses	8,418	8,928
Board of Directors' attendance fees	998	970
Maintenance and repairs	14,052	12,683
Electricity and fuel	6,732	6,488
Travel and entertainment	3,907	3,928
Publicity and advertising	11,829	11,055
Subscriptions	3,594	4,127
Bonuses	15,623	20,572
Legal expenses	3,273	6,308
Insurance	1,857	1,699
Guarding fees	2,085	2,301
Printing and stationery	3,159	4,309
Provisions for risks and charges (note 36 (b))	4,190	3,504
Donations	2,624	8,017
Others	7,150	9,554
	<u>126,961</u>	<u>139,891</u>

16 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2013 and 2012 are as follows:

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Current income tax expense	45,168	49,119
Deferred tax related to origination of temporary differences	(9,185)	(10,666)
Other taxes	8,376	6,238
	<u>44,359</u>	<u>44,691</u>

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

16 INCOME TAX EXPENSE (continued)

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:

	2013 <i>LL million</i>	2012 <i>LL million</i>
Operating profit before tax	279,808	296,953
<i>Of which Lebanon</i>	240,478	265,574
<i>Of which insurance companies</i>	15,582	11,710
<i>Of which foreign</i>	23,748	19,669
Income tax at Lebanese tax rate 15%	41,971	44,543
<i>Increase resulting from:</i>		
Impact of differently taxed profits	1,036	3,200
Non deductible expenses	2,799	1,863
Carried forward taxable losses of a subsidiary	5,513	5,880
	9,348	10,943
<i>Decrease resulting from:</i>		
Revenues previously subject to tax	(188)	(549)
Provision recoveries previously subject to tax	-	(1,471)
Unrealized gain from revaluation of structural position of a subsidiary	(5,963)	(4,347)
	(6,151)	(6,367)
Income tax	45,168	49,119
Effective income tax rate	16.14%	16.54%

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

	2013 <i>LL million</i>	2012 <i>LL million</i>
Balance at 1 January	36,519	32,176
Charge for the year	53,544	55,357
	90,063	87,533
<i>Less taxes paid:</i>		
Current year tax liability *	(24,522)	(25,338)
Prior years tax liabilities	(23,266)	(25,676)
	(47,788)	(51,014)
Balance at 31 December (note 35 (a))	42,275	36,519

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

16 INCOME TAX EXPENSE (continued)

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

	<i>2013</i>	
	<i>Deferred tax assets LL million</i>	<i>Deferred tax liabilities LL million</i>
Fair value of financial instruments	925	2,748
Carried forward taxable losses of a subsidiary	14,361	-
	15,286	2,748
	15,286	2,748
	<i>2012</i>	
	<i>Deferred tax assets LL million</i>	<i>Deferred tax liabilities LL million</i>
Fair value of financial instruments	1,822	2,615
Carried forward taxable losses of a subsidiary	9,601	-
	11,423	2,615
	11,423	2,615

17 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:

	<i>2013</i>	<i>2012</i>
Weighted average number of common shares outstanding during the year (*)	561,731,039	561,749,874
	<i>2013 LL million</i>	<i>2012 LL million</i>
Net profit attributable to equity holders of the parent	224,683	246,450
(Less): proposed dividends to preferred shares	(48,480)	(48,320)
Net profit attributable to equity holders of the parent	176,203	198,130
Basic earnings per share in LL	313.68	352.70

(*) 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 42).

17 EARNINGS PER SHARE (continued)**Diluted earnings per share**

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

	<i>2013</i>	<i>2012</i>
Weighted average number of ordinary shares for basic earnings per share	561,731,039	561,749,874
Effect of dilution:		
Convertible subordinated debt	117,200,000	75,209,503
Weighted average number of ordinary shares adjusted for the effect of dilution	678,931,039	636,959,377
	<i>2013</i>	<i>2012</i>
	<i>LL million</i>	<i>LL million</i>
Net profit attributable to equity holders of the parent	176,203	198,130
Interest on convertible debt	30,747	19,683
Less: income tax	(4,612)	(2,952)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	202,338	214,861
Diluted earnings per share in LL	298.02	337.32

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.

18 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2013</i>	<i>2012</i>
	<i>LL million</i>	<i>LL million</i>
Cash on hand	273,430	233,884
Balances with the Central Bank of Lebanon:		
- Current accounts	578,304	602,297
- Time deposits	4,461,128	3,871,157
	5,039,432	4,473,454
Balances with Central Banks in other countries:		
- Current accounts	428,564	718,971
- Time deposits	23,000	31,273
	451,564	750,244
Accrued interest receivable	45,504	49,990
	5,809,930	5,507,572

18 CASH AND BALANCES WITH CENTRAL BANKS (continued)*Obligatory reserves:*

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. This is not applicable for investment banks which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon 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 LL 2,349,275 million and LL 2,390,356 million respectively as at 31 December 2013 (2012: LL 2,141,301 million and LL 2,248,890 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 2013, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 119,680 million (2012: LL 124,929 million).

19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2013</i>	<i>2012</i>
	<i>LL million</i>	<i>LL million</i>
Banks:		
- Current accounts	987,038	789,837
- Time deposits	2,310,245	2,396,982
- Accrued interest receivable	917	2,787
- Doubtful bank accounts	2,377	3,193
- Provision for doubtful bank accounts	(2,377)	(3,193)
	<u>3,298,200</u>	<u>3,189,606</u>
Financial institutions:		
- Current accounts	52,243	9,364
- Cash margins	710	15,600
	<u>52,953</u>	<u>24,964</u>
Registered exchange companies:		
- Current accounts	665	444
- Doubtful exchange companies accounts	2,259	2,259
- Provision for doubtful exchange companies accounts	(2,259)	(2,259)
	<u>665</u>	<u>444</u>
Brokerage companies:		
- Current accounts	1,496	1,519
	<u>3,353,314</u>	<u>3,216,533</u>

31 December 2013

19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)*Doubtful banks and registered exchange companies*

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

	2013			2012		
	<i>Banks</i> <i>LL million</i>	<i>Registered</i> <i>exchange</i> <i>companies</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	<i>Banks</i> <i>LL million</i>	<i>Registered</i> <i>exchange</i> <i>companies</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January	3,193	2,259	5,452	4,097	2,259	6,356
Write-back (note 13)	(897)	-	(897)	(942)	-	(942)
Exchange difference	81	-	81	38	-	38
Balance at 31 December	<u>2,377</u>	<u>2,259</u>	<u>4,636</u>	<u>3,193</u>	<u>2,259</u>	<u>5,452</u>

20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2013 <i>LL million</i>	2012 <i>LL million</i>
Loans to banks and financial institutions	583,163	377,535
Accrued interest receivable	2,395	1,709
	<u>585,558</u>	<u>379,244</u>
Discounted acceptances	31,286	80,838
Interest received in advance	(1,978)	(1,375)
	<u>29,308</u>	<u>79,463</u>
	<u>614,866</u>	<u>458,707</u>

21 FINANCIAL ASSETS GIVEN AS COLLATERAL

	2013 <i>LL million</i>	2012 <i>LL million</i>
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	6,915	8,814
Accrued interest receivable	90	109
	<u>7,005</u>	<u>8,923</u>

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon during 2010 (note 31).

31 December 2013

22 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 neither indicative of 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.

	2013			2012		
	<i>Assets LL million</i>	<i>Liabilities LL million</i>	<i>Notional amount LL million</i>	<i>Assets LL million</i>	<i>Liabilities LL million</i>	<i>Notional amount LL million</i>
<i>Held for trading</i>						
Currency swaps	1,684	1,673	308,670	11,069	7,541	391,883
Forward foreign exchange contracts	2,140	1,390	154,549	1,105	1,072	143,954
	3,824	3,063	463,219	12,174	8,613	535,837

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group. Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position. The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

Forwards

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

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 IAS 39 hedge accounting criteria.

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 <i>LL million</i>	2012 <i>LL million</i>
Lebanese government bonds	104,979	256,373
Certificates of deposit issued by the Central Bank of Lebanon	329	10,704
Other debt securities	19,175	7,704
Quoted equity instruments	32,964	26,128
	157,447	300,909

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

24 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Commercial loans	4,946,685	4,491,803
Consumer loans	2,261,477	2,055,160
	<u>7,208,162</u>	<u>6,546,963</u>
Less:		
- Individual impairment allowances	(213,603)	(167,778)
- Collective impairment allowances	(130,669)	(112,733)
- Unrealized interest	(81,854)	(71,348)
	<u>6,782,036</u>	<u>6,195,104</u>

In accordance with the Banking Control Commission Circular No. 240, 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 LL 45,971 million as of 31 December 2013 (2012: LL 76,514 million).

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

	<i>2013</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
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 13)	(9,163)	-	(9,163)
- Amounts written off	(8,771)	-	(8,771)
- Difference of exchange	(4,693)	(178)	(4,871)
Balance at 31 December	<u>81,565</u>	<u>289</u>	<u>81,854</u>
	<i>2012</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	62,207	392	62,599
Add (less):			
- Unrealized interest for the year	19,972	113	20,085
- Amounts transferred to off financial position	(3,035)	-	(3,035)
- Recoveries (note 13)	(3,022)	-	(3,022)
- Amounts written off	(3,679)	-	(3,679)
- Difference of exchange	(1,480)	(120)	(1,600)
Balance at 31 December	<u>70,963</u>	<u>385</u>	<u>71,348</u>

31 December 2013

24 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

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

	2013		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	136,364	31,414	167,778
Add (less):			
- Charge for the year (note 13)	70,670	16,987	87,657
- Amounts written off	(5,203)	(296)	(5,499)
- Recoveries (note 13)	(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	<u>168,202</u>	<u>45,401</u>	<u>213,603</u>
Gross amount of loans individually determined to be impaired	<u>304,077</u>	<u>54,443</u>	<u>358,520</u>
	2012		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	68,542	21,664	90,206
Add (less):			
- Charge for the year (note 13)	78,218	13,751	91,969
- Amounts written off	(1,964)	(207)	(2,171)
- Recoveries (note 13)	(6,484)	(3,013)	(9,497)
- Transfer (to) from off financial position	(1,058)	384	(674)
- Transfer from collective impairment allowances	4,795	700	5,495
- Difference of exchange	(5,685)	(1,865)	(7,550)
Balance at 31 December	<u>136,364</u>	<u>31,414</u>	<u>167,778</u>
Gross amount of loans individually determined to be impaired	<u>326,891</u>	<u>37,044</u>	<u>363,935</u>

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

	2013		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	81,191	31,542	112,733
Add (less):			
- Charge for the year (note 13)	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	<u>98,413</u>	<u>32,256</u>	<u>130,669</u>

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

24 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

	2012		Total LL million
	Commercial loans LL million	Consumer loans LL million	
Balance at 1 January	75,573	28,155	103,728
Add (less):			
- Charge for the year (note 13)	25,520	2,193	27,713
- Transfer from commercial to consumer	(2,038)	2,038	-
- Transfer to individual impairment allowances	(4,795)	(700)	(5,495)
- Difference of exchange	(13,069)	(144)	(13,213)
Balance at 31 December	81,191	31,542	112,733

25 FINANCIAL ASSETS AT AMORTIZED COST

	2013 LL million	2012 LL million
Lebanese government bonds	5,185,252	3,821,495
Certificates of deposit issued by the Central Bank of Lebanon	4,239,042	4,248,589
Other foreign government bonds	129,695	126,960
Other debt securities	649,266	954,069
	10,203,255	9,151,113
Less: collective impairment allowances	(5,062)	(5,487)
	10,198,193	9,145,626

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

	2013		Total LL million
	Other foreign government bonds LL million	Other debt securities LL million	
Balance at 1 January	-	5,487	5,487
Write-back during the year (note 13)	-	(1,419)	(1,419)
Charge for the year (note 13)	-	1,000	1,000
Exchange difference	-	(6)	(6)
Balance at 31 December	-	5,062	5,062

	2012		Total LL million
	Other foreign government bonds LL million	Other debt securities LL million	
Balance at 1 January	14,236	10,779	25,015
Write-back during the year (note 13)	(14,236)	(7,504)	(21,740)
Charge for the year (note 13)	-	2,250	2,250
Exchange difference	-	(38)	(38)
Balance at 31 December	-	5,487	5,487

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2013 <i>LL million</i>	2012 <i>LL million</i>
Quoted shares	43,405	41,669
Unquoted shares	43,490	36,994
	86,895	78,663

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

	2013			2012		
	<i>Carrying amount</i> <i>LL million</i>	<i>Cumulative fair value changes</i> <i>LL million</i>	<i>Dividend income</i> <i>LL million</i>	<i>Carrying amount</i> <i>LL million</i>	<i>Cumulative fair value changes</i> <i>LL million</i>	<i>Dividend income</i> <i>LL million</i>
<u>Unquoted shares:</u>						
Banque de l'Habitat SAL	22,508	17,320	454	20,641	15,452	454
Intra Investment Company SAL	17,591	4,567	583	13,030	6	583
Interbank Payment Network (IPN) SAL	1,345	342	106	1,289	287	106
Arab Trade Financing Program	1,492	-	-	1,492	-	-
Others	554	105	1	542	103	44
<u>Quoted shares:</u>						
Jordan Ahli Bank	43,405	(37,009)	-	41,669	(38,745)	3,304
	86,895	(14,675)	1,144	78,663	(22,897)	4,491

Dividend income amounted to LL 1,144 million for the year ended 31 December 2013 (2012: LL 4,491 million) and resulted from equity instruments held at year end (2012: the same).

27 PROPERTY AND EQUIPMENT

	<i>Buildings</i> <i>LL million</i>	<i>Motor vehicles</i> <i>LL million</i>	<i>Furniture and equipment</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
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

31 December 2013

27 PROPERTY AND EQUIPMENT (continued)

	<i>Buildings</i> <i>LL million</i>	<i>Motor</i> <i>vehicles</i> <i>LL million</i>	<i>Furniture</i> <i>and</i> <i>equipment</i> <i>LL million</i>	<i>Deposits</i> <i>LL million</i>	<i>Advance</i> <i>payments</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost:						
At 1 January 2012	252,516	3,591	198,442	668	27,123	482,340
Additions	11,990	494	17,355	15	65	29,919
Transfers	8,262	-	11,618	-	(19,880)	-
Disposals	-	(293)	(2,258)	-	-	(2,551)
Foreign exchange difference	(26,385)	(280)	(15,490)	3	(3,773)	(45,925)
At 31 December 2012	246,383	3,512	209,667	686	3,535	463,783
Depreciation:						
At 1 January 2012	42,410	2,697	136,167	-	-	181,274
Depreciation during the year	5,619	451	25,053	-	-	31,123
Related to disposals	-	(293)	(1,980)	-	-	(2,273)
Foreign exchange difference	(2,300)	(172)	(9,263)	-	-	(11,735)
At 31 December 2012	45,729	2,683	149,977	-	-	198,389
Net carrying value:						
At 31 December 2012	200,654	829	59,690	686	3,535	265,394

The cost of buildings at 31 December 2013 and 2012 include 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 LL 5,689 million as at 31 December 2013 (2012: the same) (note 44).

28 INTANGIBLE ASSETS

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Cost:		
At 1 January and 31 December	2,303	2,303
Accumulated amortization:		
At 1 January	1,333	1,174
Amortization expense for the year	159	159
At 31 December	1,492	1,333
Net carrying value:		
At 31 December	811	970

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

29 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Cost:		
At 1 January	38,361	40,611
Additions	5,687	286
Disposals	(2,510)	(2,536)
At 31 December	<u>41,538</u>	<u>38,361</u>
Impairment:		
At 1 January and 31 December	(5,159)	(5,159)
Net carrying value:		
At 31 December	<u>36,379</u>	<u>33,202</u>

Advance payments received in connection with future sale transactions for the above assets amounted to LL 1,246 million as of 31 December 2013 (2012: LL 1,357 million) (note 35).

30 OTHER ASSETS

		<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Obligatory deposits	a	16,658	18,610
Other assets	b	75,891	64,352
Deferred tax assets (note 16)		15,286	11,423
Doubtful debtor accounts		37	37
		<u>107,872</u>	<u>94,422</u>
Less: Allowance for credit losses		(37)	(37)
		<u>107,835</u>	<u>94,385</u>

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 comprise of the following:

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Prepaid rent	3,778	4,012
Printings and stationery	3,835	3,820
Credit card balances due from customers	13,071	11,216
Insurance premiums receivable	3,558	3,094
Reinsurers' share of technical reserves of subsidiary insurance companies	27,709	23,917
Receivables from the National Social Security Fund	6,692	4,611
Other debit balances	17,248	13,682
	<u>75,891</u>	<u>64,352</u>

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

31 DUE TO CENTRAL BANKS

	2013 <i>LL million</i>	2012 <i>LL million</i>
Current accounts	1,058	613
Time deposits	6,736	6,711
Loans due to the Central Bank of Lebanon	41,945	8,814
Loan due to the Central Bank of Armenia	1,314	1,692
Accrued interest payable	449	88
	<u>51,502</u>	<u>17,918</u>

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 LL 35,030 million as of 31 December 2013. The Bank pledged as collateral against this loan, certificates of representation signed by the Bank's customers.
- During 2010, the Bank obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war. These loans were originally granted in the amount of LL 8,814 million, out of which LL 1,895 matured during 2013. These loans are secured by the pledge of Lebanese treasury bills amounting to LL 6,915 million included under financial assets given as collateral as of 31 December 2013 (2012: LL 8,814 million) (note 21).

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2013 <i>LL million</i>	2012 <i>LL million</i>
<i>Banks:</i>		
- Current accounts	187,405	150,503
- Time deposits	673,911	541,930
- Term loans	165,929	204,934
- Cash margins	129,748	192,880
- Accrued interest payable	5,370	6,874
	<u>1,162,363</u>	<u>1,097,121</u>
<i>Financial institutions:</i>		
- Current accounts	3,993	3,189
- Term loans	198,095	189,439
- Time deposits	25,879	33,877
- Accrued interest payable	1,959	2,424
	<u>229,926</u>	<u>228,929</u>
<i>Registered exchange companies:</i>		
- Current accounts	108	186
- Time deposits	131	288
	<u>239</u>	<u>474</u>
<i>Brokerage institutions:</i>		
- Current accounts	34	523
	<u>1,392,562</u>	<u>1,327,047</u>

31 December 2013

33 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Current accounts	3,357,947	3,291,348
Term deposits	17,469,444	15,617,849
Cash margins	1,045,146	963,958
Accrued interest payable	113,801	94,376
	<u>21,986,338</u>	<u>19,967,531</u>

Customers' deposits include coded deposit accounts amounting to LL 35,696 million as of 31 December 2013 (2012: LL 40,905 million).

34 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>Maturity</i>	<i>Interest rate %</i>	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Certificates of deposit				
Issue 2009 – Second Series	31/03/2014	7.25	60,978	60,978
Accrued interest payable			12	12
			<u>60,990</u>	<u>60,990</u>
Bonds (*)				
Issue 2011	24/06/2021	7.00	444,884	447,106
Accrued interest payable			615	615
			<u>445,499</u>	<u>447,721</u>
			<u>506,489</u>	<u>508,711</u>
<i>Interest and similar expense:</i>				
- Certificates of deposit			3,261	6,876
- Bonds			31,374	31,343
			<u>34,635</u>	<u>38,219</u>

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of 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.

35 OTHER LIABILITIES

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Accrued expenses	41,586	32,464
Fixed assets suppliers	2,637	6,089
Unearned commission and interest	6,283	4,242
Cash margins related to companies under establishment	1,854	3,876
Insurance premiums received in advance	2,760	2,445
Payables to the National Social Security Fund	1,939	1,668
Advance payments linked to assets obtained in settlement of debt (note 29)	1,246	1,357
Current tax liability (a)	54,142	49,207
Deferred tax liability (note 16)	2,748	2,615
Bankers' check	27,135	130,459
Put options on non-controlling interests (note 5)	25,995	-
Other creditors	27,379	28,466
	<u>195,704</u>	<u>262,888</u>

(a) Current tax liability

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Income tax due (note 16)	42,275	36,519
Withholding tax on salaries	2,132	1,987
Withholding tax on interest earned by customers	7,121	6,446
Value added tax	386	200
Other taxes	2,228	4,055
	<u>54,142</u>	<u>49,207</u>

36 PROVISIONS FOR RISKS AND CHARGES

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Technical reserves of insurance subsidiaries	84,916	81,841
Provision for employees' end of service benefits (a)	40,606	38,286
Other provisions (b)	12,853	10,338
	<u>138,375</u>	<u>130,465</u>

(a) Provision for 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.

36 PROVISIONS FOR RISKS AND CHARGES (continued)*(a) Provision for employees' end of service benefits (continued)*

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

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Balance at 1 January	38,286	37,133
<i>Costs charged to the income statement (note 14):</i>		
Service costs	3,574	3,144
Past service costs	1,976	-
Net interest	3,254	-
	<u>8,804</u>	<u>3,144</u>
<i>Re-measurement (gains) losses in other comprehensive income:</i>		
Actuarial changes arising from changes in economic assumptions	420	-
Experience adjustments	(3,161)	-
	<u>(2,741)</u>	<u>-</u>
End of service benefits paid during the year	(3,748)	(1,445)
Foreign exchange	5	(546)
Balance at 31 December	<u>40,606</u>	<u>38,286</u>

Defined benefit plans in Lebanon constitute more than 90% of the Group's retirement obligation. The principal assumptions used in determining the end of service benefit obligations these plans are shown below:

	<i>2013</i>	<i>2012</i>
Economic assumptions		
Discount rate	8.5%	8.5%
Future salary increase	5.5%	5.5%
Future expected return on contributions	5.5%	6.0% to 5.0%
Bonus	2-year average as a % of basic	Actual 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%

36 PROVISIONS FOR RISKS AND CHARGES (continued)

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2013 is shown as below:

	<u>Discount rate</u>		<u>Future salary increase</u>		<u>Future expected return on contributions</u>	
	<i>increase</i> <i>LL million</i>	<i>decrease</i> <i>LL million</i>	<i>increase</i> <i>LL million</i>	<i>decrease</i> <i>LL million</i>	<i>increase</i> <i>LL million</i>	<i>decrease</i> <i>LL million</i>
Impact on net defined benefit obligation	(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 obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

(b) Other provisions

Movement in other provisions during the year was as follows:

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
At 1 January	10,338	14,163
Charge for the year (note 15)	4,190	3,504
Write back during the year (note 12)	(145)	(6,700)
Foreign exchange	(1,530)	(629)
At 31 December	<u>12,853</u>	<u>10,338</u>

37 SUBORDINATED DEBT

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Nominal value	441,697	441,697
Unamortized discount	(29,405)	(31,618)
Accrued interest payable	76	817
	<u>412,368</u>	<u>410,896</u>

During 2012, convertible subordinated notes (maturity 30 November 2012) and subordinated notes (maturity 30 June 2012) matured. As a result, equity component amounting to LL 18,040 million was transferred from non distributable reserves (note 39) to distributable reserves (note 40).

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

Number of notes:	30,000
Note's issue price:	US\$ 10,000
Note's nominal value:	US\$ 10,000
Date of issue:	21 December 2012

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

37 SUBORDINATED DEBT (continued)

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

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

	<i>LL million</i>
Nominal value of convertible bonds	441,697
Equity component	(31,618)
Liability component	<u>410,079</u>

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 39).

38 SHARE CAPITAL

	<i>2013</i>			<i>2012</i>		
	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>	<i>No of shares</i>	<i>Share capital LL million</i>	<i>Share premium LL million</i>
Common shares	<u>565,515,040</u>	<u>684,273</u>	<u>229,014</u>	565,515,040	684,273	229,014
	<u>565,515,040</u>	<u>684,273</u>	<u>229,014</u>	<u>565,515,040</u>	<u>684,273</u>	<u>229,014</u>
<i>Preferred shares</i>						
- Series 2008	<u>2,000,000</u>	<u>2,420</u>	<u>295,154</u>	2,000,000	2,420	295,154
- Series 2009	<u>2,000,000</u>	<u>2,420</u>	<u>293,517</u>	2,000,000	2,420	291,105
	<u>4,000,000</u>	<u>4,840</u>	<u>588,671</u>	<u>4,000,000</u>	<u>4,840</u>	<u>586,259</u>

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2012: the same).

Preferred shares

i) Series 2008 Preferred Shares

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

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

31 December 2013

38 SHARE CAPITAL (continued)***Preferred shares (continued)****i) Series 2008 Preferred Shares (continued)*

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

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

ii) Series 2009 Preferred Shares

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

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

During 2013, the Bank transferred LL 2,412 million from retained earnings to the share premium on Series-2009 preferred shares (2012: LL 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:

	Stock exchange	2013	2012
		No of shares	No of shares
Ordinary shares	Beirut	501,304,190	501,164,240
Global depository receipts(*)	London SEAQ and Beirut	1,284,217	1,287,016
Preferred shares	Beirut	4,000,000	4,000,000

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

31 December 2013

39 NON DISTRIBUTABLE RESERVES

	<i>Legal reserve</i> LL million	<i>Reserves for capital increase</i> LL million	<i>Equity component of convertible subordinated debt</i> LL million	<i>Reserve for general banking risks</i> LL million	<i>Other reserves</i> LL million	<i>Total</i> LL million
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
Balance at 1 January 2012	172,250	45,716	18,040	138,609	94,457	469,072
Appropriation from retained earnings	28,570	3,952	-	41,385	11,611	85,518
Transfer to distributable reserves (note 40)	-	-	(18,040)	-	-	(18,040)
Equity component on subordinated debt (note 37)	-	-	31,618	-	-	31,618
Net loss on sale of treasury shares	-	(23)	-	-	-	(23)
Balance at 31 December 2012	200,820	49,645	31,618	179,994	106,068	568,145

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 their 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 2013, the Group appropriated LL 25,103 million from 2012 profits to the legal reserve (2012: LL 28,570 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:

	<i>2013</i> LL million	<i>2012</i> LL million
Reserve equivalent to gain on sale of assets acquired in settlement of debt	23,971	20,228
Reserve equivalent to provisions recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	11,123	9,577
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	958	1,233
	54,659	49,645

Reserve for general banking risks

According to the 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 2013 from the profits of the year 2012 amounted to LL 30,000 million (2012: LL 41,385 million).

39 NON DISTRIBUTABLE RESERVES (continued)*Other reserves*

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LL 31,077 million from retained earnings to other reserves related to the subordinate debt (2012: nil).
- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2013, the Group transferred an amount of LL 12,979 million from retained earnings to other reserves in this respect (2012: LL 11,611 million).

As of 31 December 2013, "Other reserves" include reserves of LL 82,534 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2012: LL 67,247 million).

40 DISTRIBUTABLE RESERVES

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
General reserves	91,831	94,237
Other capital reserves	5,422	5,422
	<u>97,253</u>	<u>99,659</u>

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:

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
At 1 January	94,237	73,705
Appropriation from retained earnings	3,346	2,492
Impact from derecognition of non-controlling interests (note 5)	(5,752)	-
Transfer from non-distributable reserves (note 39)	-	18,040
At 31 December	<u>91,831</u>	<u>94,237</u>

Other capital reserves

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Premium on capital increase of Byblos Bank Armenia CJSC	1,026	1,026
Premium on capital increase of Byblos Bank Africa	4,396	4,396
	<u>5,422</u>	<u>5,422</u>

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

41 OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank SAL issued 3- year notes (“3 Years Byblos Bank Note”) for a total amount of US\$ 9,936,000 (equivalent to LL 14,979 million) according to the following terms:

Number of notes:	46
Principal of one note:	US\$ 216,000
Issuing price:	100%
Total issue:	US\$ 9,936,000 (equivalent to LL 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 Meeting 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 US\$ 1.8 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 42).

42 TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2013 and 2012 was as follows:

Year ended 31 December 2013

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount US\$(000)</i>	<i>No. of shares</i>	<i>Amount US\$(000)</i>
At 1 January 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 41)	(5,520,000)	(10,028)	-	-
At 31 December 2013	<u>3,022,602</u>	<u>5,418</u>	<u>14,812</u>	<u>1,252</u>
Total treasury shares in LL million				<u>10,054</u>

Year ended 31 December 2012

	<i>Common shares</i>		<i>Global Depository Receipts</i>	
	<i>No. of shares</i>	<i>Amount US\$(000)</i>	<i>No. of shares</i>	<i>Amount US\$(000)</i>
At 1 January 2012	8,707,829	15,813	12,541	1,086
Acquisitions of treasury shares	5,845	10	866	65
Sales of treasury shares	(104,453)	(190)	-	-
At 31 December 2012	<u>8,609,221</u>	<u>15,633</u>	<u>13,407</u>	<u>1,151</u>
Total treasury shares in LL million				<u>25,302</u>

31 December 2013

43 RETAINED EARNINGS

As of 31 December, retained earnings include the following non distributable amounts:

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank	23,055	7,764
Other	143	442
	23,198	8,206

In accordance with decision 362 of the Council of Money and Credit of Syria, unrealized accumulated foreign exchange profits from the revaluation of the structural position in foreign currency maintained by the subsidiary bank in Syria are non-distributable. These are classified as non-distributable amounts in retained earnings after the closing of each financial year ending 31 December, upon transfer of the profit for the period to retained earnings.

44 REVALUATION RESERVE OF REAL ESTATE

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
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:

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
At 1 January	(23,634)	(20,556)
Net changes in fair values during the year	8,222	(3,483)
Net changes in deferred taxes	(1,232)	527
Difference on exchange	-	(122)
Balance at 31 December	(16,644)	(23,634)

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

46 CASH AND CASH EQUIVALENTS

	2013	2012
	LL million	LL million
Cash and balances with central banks	2,144,861	2,333,218
Due from banks and financial institutions	3,276,123	3,153,470
	5,420,984	5,486,688
Less: Due to banks and financial institutions	(956,992)	(858,186)
Less: Due to central banks	(8,207)	(7,415)
Cash and cash equivalents at 31 December	4,455,785	4,621,087

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

A list of the Group's principal subsidiaries is shown in note 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 Bank, directly or indirectly, including the Directors of the Bank 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:

	2013	2012
	LL million	LL million
Loans and advances	18,546	15,815
<i>of which: granted to key management personnel</i>	15,551	13,017
Deposits	248,324	208,102
Debt issued and other borrowed funds	1,889	1,984
Subordinated debt	18,542	18,241
Guarantees received	11,411	11,965
Guarantees given	8	9
Commitments (including acceptances)	7,307	14,569

31 December 2013

47 RELATED PARTY TRANSACTIONS (continued)

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

	2013 <i>LL million</i>	2012 <i>LL million</i>
Interest income on loans	725	636
Interest expense on deposits	10,592	9,776
Interest expense on debt issued and other borrowed funds	132	138
Interest expense on subordinated debt	1,192	1,851
Rent expense	544	561

In addition to the above:

- Due to banks and financial institutions include loans from related parties amounting to LL 69,357 million as of 31 December 2013 (2012: LL 60,886 million) on which interest of LL 2,158 million (2012: LL 2,250 million) was paid.
- During 2012, the Group acquired real estate properties from a related party, at a cost of LL 1,187 million.

Compensation of the Key Management Personnel of the Group

	2013 <i>LL million</i>	2012 <i>LL million</i>
Short-term benefits ¹	11,945	15,376

¹ Short-term benefits comprise of 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 recognised 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.

	2013		
	<i>Banks</i> <i>LL million</i>	<i>Customers</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	172,986	172,986
Other guarantees	413,441	1,065,181	1,478,622
	<u>413,441</u>	<u>1,238,167</u>	<u>1,651,608</u>
Commitments			
Documentary credits	442,552	342,448	785,000
Loan commitments	-	2,261,687	2,261,687
	<u>442,552</u>	<u>2,604,135</u>	<u>3,046,687</u>

31 December 2013

48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit-related commitments and contingent liabilities (continued)

	2012		
	<i>Banks</i> <i>LL million</i>	<i>Customers</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	-	186,703	186,703
Other guarantees	418,220	972,462	1,390,682
	418,220	1,159,165	1,577,385
Commitments			
Documentary credits	378,108	480,514	858,622
Loan commitments	-	2,248,925	2,248,925
	378,108	2,729,439	3,107,547

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.

31 December 2013

48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)**Lease arrangements (continued)**

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

	<i>2013</i>	<i>2012</i>
	<i>LL million</i>	<i>LL million</i>
Within one year	3,276	3,647
After one year but not more than five years	10,480	11,264
More than five years	12,545	12,594
	26,301	27,505

Other contingencies

The Bank's books and records have not been reviewed by the Department of Income Tax and the National Social Security Fund for the years 2009 to 2012 and for the years 2012 and 2013 respectively. The subsidiaries' books and records are also subject to review by the tax and social security authorities.

During the past three years, Syria, one of the significant credit markets of the Group, 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 during 2014.

49 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2013</i>	<i>2012</i>
	<i>LL million</i>	<i>LL million</i>
Assets held in custody and under administration	3,015,848	3,188,752

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.

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.

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

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**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, that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults 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.

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

	<i>2013</i>			<i>Total LL million</i>
	<i>Valuation techniques</i>			
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets:				
Derivative financial instruments:				
Currency swaps	-	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

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2012			Total LL million
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
Assets:				
Derivative financial instruments:				
Currency swaps	-	11,069	-	11,069
Forward foreign exchange contracts	-	1,105	-	1,105
Financial assets at fair value through profit or loss:				
Lebanese government bonds	237,141	19,232	-	256,373
Certificates of deposit issued by the Central Bank of Lebanon	-	10,704	-	10,704
Other debt securities	7,704	-	-	7,704
Quoted equity instruments	26,128	-	-	26,128
Financial assets at fair value through other comprehensive income	41,669	-	36,994	78,663
Liabilities:				
Derivative financial instruments:				
Currency swaps	-	7,541	-	7,541
Forward foreign exchange contracts	-	1,072	-	1,072

There were no transfers between levels during 2013 (2012: the same).

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 deposits 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:

	2013 LL million	2012 LL million
Balance at 1 January	36,994	37,040
Re-measurement recognized in other comprehensive income	6,496	(46)
	<u>43,490</u>	<u>36,994</u>

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**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.

	2013		2012	
	Fair value LL million	Carrying value LL million	Fair value LL million	Carrying value LL million
FINANCIAL ASSETS				
Cash and balances with central banks	5,809,930	5,809,930	5,507,572	5,507,572
Due from banks and financial institutions	3,353,314	3,353,314	3,216,533	3,216,533
Loans to banks and financial institutions and reverse repurchase agreement	614,970	614,866	458,804	458,707
Financial assets given as collateral	7,097	7,005	9,016	8,923
Net loans and advances to customers at amortized cost	6,776,003	6,782,036	6,190,994	6,195,104
Net loans and advances to related parties at amortized cost	18,546	18,546	15,815	15,815
<i>Financial assets at amortized cost</i>				
Lebanese government bonds	5,204,674	5,185,252	3,907,795	3,821,495
Certificates of deposit issued by the Central Bank of Lebanon	4,290,091	4,239,042	4,347,402	4,248,589
Other foreign government bonds	132,762	129,695	133,215	126,960
Other debt securities	666,459	644,204	983,144	948,582
FINANCIAL LIABILITIES				
Due to central banks	51,502	51,502	17,918	17,918
Due to banks and financial institutions	1,392,457	1,392,562	1,327,985	1,327,047
Customers' deposits at amortized cost	22,085,481	21,986,338	20,012,886	19,967,531
Deposits from related parties at amortized cost	250,888	248,324	208,102	208,102
Debt issued and other borrowed funds	512,295	506,489	514,956	508,711
Subordinated debt	412,368	412,368	410,896	410,896

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 deposits 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, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during 2013 with similar remaining maturities and to counterparties with similar credit quality.

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 remaining maturities.

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)***Debt issued and other borrowed funds and subordinated debt***

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

	2013			Total LL million
	<i>Valuation techniques</i>			
	<i>Quoted market price Level 1 LL million</i>	<i>Observable inputs Level 2 LL million</i>	<i>Unobservable inputs Level 3 LL million</i>	
Assets 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 agreement	-	614,970	-	614,970
Financial assets given as collateral	-	7,097	-	7,097
Net loans and advances to customers at amortized cost	-	-	6,776,003	6,776,003
Net loans and advances to related parties at amortized cost	-	-	18,546	18,546
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	-	22,085,481	-	22,085,481
Deposits from related parties at amortized cost	-	250,888	-	250,888
Debt issued and other borrowed funds	-	512,295	-	512,295
Subordinated debt	-	412,368	-	412,368

51 RISK MANAGEMENT**51.1 INTRODUCTION**

Risk is inherent in the Group's activities, but 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 operating risks.

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

- The 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.

51 RISK MANAGEMENT (continued)

51.1 INTRODUCTION (continued)

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 the 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 International Banking and Investment, the Head of the Group Consumer Banking Division, the Head of Group Financial Markets Division and the Head of Commercial Banking 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 equity, 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 (Middle Market Committee, Loan Recovery Committee etc.)

Assets and Liabilities Committee (ALCO): which mission is to manage 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 and approval of policies and procedures to control and limit the risks regarding liquidity and interest rate, FX and trading activities through decisions on size and duration of mismatched positions and pricing.

Risk Committee: whose task is to formulate and enforce guidelines and standards with regard to risk policies. It also reviews reports and findings identified by the Group Risk Management and issues related to the implementation of Basel II projects. The Committee acts as a forum for discussion and approval of risk policies and oversees the risk reports prepared on a quarterly basis before submission to the Board. Sub-committees have been established to discuss and approve specific risk related topics:

- Operational Risk Committee and Information Security Committee
- Compliance and Anti-Money Laundering Committee

Internal Audit Committee: whose mission is to review the audit and credit review reports issued by the Group Internal Audit Division, to ratify recommended action plans and to ensure that all recommendations have been implemented by audited parties.

51 RISK MANAGEMENT (continued)

51.1 INTRODUCTION (continued)

Group risk management structure (continued)

Group Internal Audit Division

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

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

Risk Management- Basel Perspective

The Group risk management is broadly following the guidelines of the Basel texts to measure and assess the risks identified under the pillars I and II, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

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 a more sophisticated approach to credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate its capital requirement for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for. Through addressing these three risks - credit, market, and operational risks – the Group addresses 'Pillar I' risks.

As for addressing the capital management issue in the context of Basel II, the Group has developed in 2011 a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors from the environment in which it operates. The considered key aspects of the ICAAP are qualitative (Board oversight, policies, identification of material risk, etc.) and quantitative (Capital Adequacy Ratio, Stress Testing, Economic Capital, etc.).

Risk Governance

The overall responsibility for the monitoring and the analytical management of the risk is effectively assigned to the Group Risk Management (GRM) Division, established in 2004. The GRM reports to the Chairman through the heads of the GRM Division. Risk issues and reports are submitted to the Board regularly through the Board Risk, Anti-Money Laundering & Compliance Committee, which 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, oversees ICAAP, approves risk policies.

The GRM is currently made up of the following different departments / units:

Portfolio Management and Credit Risk Analytics (PM CRA): has the responsibility to develop and update the Group's credit policies and procedures and include frameworks for credit risk measurement and management. The department also designs, implements and validates credit ratings and scoring models and reports on capital composition and credit exposure in terms of size, concentrations and quality. It is also responsible for the implementation of Basel II credit programs including CAR (capital adequacy ratio) calculation.

51 RISK MANAGEMENT (continued)

51.1 INTRODUCTION (continued)

Risk Governance (continued)

Operational Risk Management (ORM): sets the framework necessary for identification, measurement and management of operational risk across the Group, including clear definition of risks, developing ORM policies, developing ORM programs and tools, interacting internally with business lines and assisting them in the implementation of ORM programs.

Market Risk Unit (MRU): sets the framework necessary for identification, measurement and management of market risk across the Group, including developing market risk policies and procedures, developing risk measurement methodologies, reviewing limits on the Bank's liquidity, interest rate risk and equity risk positions, stress testing and reporting on excesses to Senior Management.

Risk Modelling Unit (RMU): is responsible for providing a quantitative analytic support to the respective risk-related departments and coordinating with them in the development of respective credit and market portfolio models for Group Risk Management and models for stress testing and scenario analysis.

The *Information Security* department provides the policies to initiate and control the implementation of information security within the Group, monitors security related events, provides support to the Business on all incoming security requests and develops and maintains the Business Continuity Plan for the Group.

The main role of the *Group Risk Support* department at the bank is to provide Technical and Business support to the Group Risk Management to ensure the implementation of major Group risk projects, perform project management for Basel II compliance related solutions, data gap analysis, requirements definition etc. and maintain databases and reports required to support the Group Risk Management.

Risk Management Framework

The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are being reviewed annually 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 establish tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

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

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

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

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

51 RISK MANAGEMENT (continued)

51.1 INTRODUCTION (continued)

Risk management in overseas branches and subsidiaries

The management of the risks in the Group's overseas entities is done through the GRM where relating to risk governance, policies, write-ups, risk measurement, awareness and reporting, an Basel II CAR calculation. Each entity has a Country Risk Manager / Coordinator appointed in consultation with the Head of GRM, with the primary responsibility to measure and report the risks of that entity. The policies and procedures defined by the GRM also apply to these entities in terms of basic rules and standards, while local modifications are being usually brought in order to comply with national discretions / requirements. The Country Risk Managers report to the entity general manager and also have a functional reporting to the Group Risk Management.

Risk measurement and reporting systems

The Group's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board, and Senior Management.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A briefing is given to the Board and all other relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

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.

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

Credit initiation

Target markets and customers and products' strategy are identified in the yearly business plan deriving 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). CPPM consolidates the principles for the credit origination and follow-up process based on Risk Acceptance Criteria (RACs) and equity warning signals, and includes the credit committee charters and related approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the credit application forms.

Commercial lending is handled by the Commercial Division which oversees the 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 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 client.

The *Financial Institution* department (FI) is a separate business line that sets the strategy for banks limits and manages the relationship 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 to design and implement the strategy and document 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 Division (CRD), a function independent from the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by CRD prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into four departments, servicing each a different business segment (corporate, international, middle market and financial institutions). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed-on with a post-approval review on a sampling basis. The latter aims at identifying and reporting weaknesses in credit assessment and deviation from pre-set criteria.

The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the bank's risk acceptance criteria and CPPM

Evaluation of a credit proposal includes an assessment of the borrower's:

- a) Business model
- b) Sector / Industry / Sovereign risk
- c) Management capabilities and organizational structure
- d) Financial standing
- e) Past credit history
- f) Legal aspect
- g) Facility risk
- h) Collateral and guarantees

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

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 Credit Risk 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 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 recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- 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 reorganisation.
- 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). These components are also important parameters in determining portfolio risk, not only for internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which the Group intends to adopt.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, include 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 realisable 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.

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

Collectively assessed allowances (continued)

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 utilisation, 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 the Group overall 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 honours 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

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

	2013					
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
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	4,598,505	421,964	107,027	11,907	786,179	3,271,428
Consumer loans	2,183,531	257,739	1,498	-	1,038,610	885,684
Net loans and advances to related parties at amortized cost	18,546	9,059	-	-	1,987	7,500
Financial assets at amortized cost	10,198,193	-	-	-	-	10,198,193
	<u>26,638,767</u>	<u>692,087</u>	<u>108,525</u>	<u>11,907</u>	<u>1,826,776</u>	<u>23,999,472</u>
Financial guarantees	172,986	9,589	-	-	-	163,397
Documentary credits (including acceptances)	1,230,957	64,848	-	-	-	1,166,109
	<u>28,042,710</u>	<u>766,524</u>	<u>108,525</u>	<u>11,907</u>	<u>1,826,776</u>	<u>25,328,978</u>
Utilized collateral		766,524	108,525	11,907	1,826,776	
Surplus of collateral before undrawn credit lines		86,924	192,397	156,055	2,689,453	
Guarantees received from banks, financial institutions and customers	<u>853,448</u>	<u>300,922</u>	<u>300,922</u>	<u>167,962</u>	<u>4,516,229</u>	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,261,687 million as at 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

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

	2012					
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
Balances with central banks	5,273,688	-	-	-	-	5,273,688
Due from banks and financial institutions	3,216,533	55,782	-	-	-	3,160,751
Loans to banks and financial institutions and reverse repurchase agreements	458,707	16,321	-	-	-	442,386
Financial assets given as collateral	8,923	-	-	-	-	8,923
Derivative financial instruments	12,174	-	-	-	-	12,174
Financial assets at fair value through profit or loss	274,781	-	-	-	-	274,781
Net loans and advances to customers at amortized cost:						
Commercial loans	4,203,285	306,170	277,831	24,055	757,911	2,837,318
Consumer loans	1,991,819	185,786	1,155	-	796,715	1,008,163
Net loans and advances to related parties at amortized cost	15,815	8,537	-	-	2,099	5,179
Financial assets at amortized cost	9,145,626	-	-	-	-	9,145,626
	24,601,351	572,596	278,986	24,055	1,556,725	22,168,989
Financial guarantees	186,703	19,859	-	-	-	166,844
Documentary credits (including acceptances)	1,174,854	55,986	-	-	-	1,118,868
	25,962,908	648,441	278,986	24,055	1,556,725	23,454,701
Utilized collateral		648,441	278,986	24,055	1,556,725	
Surplus of collateral before undrawn credit lines		159,992	102,346	80,516	1,609,130	
Guarantees received from banks, financial institutions and customers		808,433	381,332	104,571	3,165,855	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,248,925 million as at 31 December 2012.

51 RISK MANAGEMENT (continued)**51.2 CREDIT RISK (continued)****Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Management 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 guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

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.

	2013					
	<i>Neither past due nor impaired</i>	<i>High grade</i>	<i>Standard grade</i>	<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
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
<i>Financial assets at fair value through profit or loss:</i>						
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
<i>Net loans and advances to customers at amortized cost:</i>						
Commercial loans	4,351,968	198,737	91,903	304,077	-	4,946,685
Consumer loans	1,992,547	16,227	198,260	54,443	-	2,261,477
Net loans and advances to related parties at amortized cost	18,546	-	-	-	-	18,546
Debtors by acceptances	440,652	5,305	-	-	-	445,957
<i>Financial assets at amortized cost:</i>						
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

31 December 2013

51 RISK MANAGEMENT (continued)**51.2 CREDIT RISK (continued)****Credit quality per class of financial assets (continued)**

	2012				
	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Balances with central banks	4,663,254	610,434	-	-	5,273,688
Due from banks and financial institutions	2,428,245	788,288	-	5,452	3,221,985
Loans to banks and financial institutions and reverse repurchase agreements	65,179	393,528	-	-	458,707
Financial assets given as collateral	8,923	-	-	-	8,923
Derivative financial instruments	12,174	-	-	-	12,174
<i>Financial assets at fair value through profit or loss:</i>					
Lebanese government bonds	256,373	-	-	-	256,373
Certificates of deposit issued by the Central Bank of Lebanon	10,704	-	-	-	10,704
Other debt securities	7,704	-	-	-	7,704
<i>Net loans and advances to customers at amortized cost:</i>					
Commercial loans	3,833,539	248,012	83,361	326,891	4,491,803
Consumer loans	1,837,020	28,410	152,686	37,044	2,055,160
Net loans and advances to related parties at amortized cost	15,815	-	-	-	15,815
Debtors by acceptances	285,766	30,466	-	-	316,232
<i>Financial assets at amortized cost:</i>					
Lebanese government bonds	3,821,495	-	-	-	3,821,495
Certificates of deposit issued by the Central Bank of Lebanon	4,248,589	-	-	-	4,248,589
Other foreign government bonds	76,980	49,980	-	-	126,960
Other debt securities	726,573	227,496	-	-	954,069
	<u>22,298,333</u>	<u>2,376,614</u>	<u>236,047</u>	<u>369,387</u>	<u>25,280,381</u>

Aging analysis of past due but not impaired loans per class of financial assets:

	2013			
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>More than 181 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
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
	<u>202,697</u>	<u>44,299</u>	<u>43,167</u>	<u>290,163</u>
	2012			
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>More than 181 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Loans and advances to customers at amortized cost:				
- Commercial loans	37,270	30,038	16,053	83,361
- Consumer loans	136,077	6,407	10,202	152,686
	<u>173,347</u>	<u>36,445</u>	<u>26,255</u>	<u>236,047</u>

31 December 2013

51 RISK MANAGEMENT (continued)**51.2 CREDIT RISK (continued)****Mapping to external credit rating**

	<i>Financial assets</i>	<i>Loans and advances to customers</i>	
	<i>External credit rating</i>	<i>Supervisory rating</i>	<i>Characteristics</i>
<i>High grade</i>	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.
<i>Standard grade</i>	BBB+ and below unrated	Follow up and regularization	Credit worthy 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 .
<i>Individually impaired</i>	Impaired	Substandard	Signals of incapacity to repay from identified cash flows; full repayments supposes the liquidation of assets / collateral; recurrent late payments; late interests; losses incurred for over 3 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.

The classification of loans and advances to customers and related parties at amortised cost as in accordance with the ratings of Central Bank of Lebanon circular 58 are as follows:

	<i>2013</i>			
	<i>Gross balance LL million</i>	<i>Unrealised interest LL million</i>	<i>Impairment allowances LL million</i>	<i>Net balance LL million</i>
Regular	6,259,095	-	-	6,259,095
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)	-
	7,208,162	(81,854)	(213,603)	6,912,705
Collective impairment	(130,669)	-	-	(130,669)
	7,077,493	(81,854)	(213,603)	6,782,036
	<i>2012</i>			
	<i>Gross balance LL million</i>	<i>Unrealised interest LL million</i>	<i>Impairment allowances LL million</i>	<i>Net balance LL million</i>
Regular	5,218,167	-	-	5,218,167
Follow up	622,093	-	-	622,093
Follow up and regularization	342,768	-	-	342,768
Substandard	13,146	(2,392)	-	10,754
Doubtful	223,128	(11,807)	(97,266)	114,055
Bad	127,661	(57,149)	(70,512)	-
	6,546,963	(71,348)	(167,778)	6,307,837
Collective impairment	(112,733)	-	-	(112,733)
	6,434,230	(71,348)	(167,778)	6,195,104

31 December 2013

51 RISK MANAGEMENT (continued)**51.2 CREDIT RISK (continued)****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.

	<i>2013</i>	<i>2012</i>
	<i>LL million</i>	<i>LL million</i>
Commercial loans	26,381	23,609

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 2013 was LL 80,464 million (2012: LL 146,936 million) before taking account of collateral or other credit enhancements and LL 80,464 million (2012: nil) 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.

Geographic analysis

	<i>2013</i>			
	<i>Lebanon</i>	<i>Europe</i>	<i>Others</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
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
<i>Financial assets at fair value through profit or loss:</i>				
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
<i>Net loans and advances to customers at amortized cost</i>				
Commercial loans	3,630,699	242,818	724,988	4,598,505
Consumer loans	2,059,017	43,510	81,004	2,183,531
Net loans and advances to related parties at amortized cost	18,546	-	-	18,546
Debtors by acceptances	233,298	4,042	208,617	445,957
<i>Financial assets at amortized cost:</i>				
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	333,617	281,121	644,204
	20,732,441	3,323,759	3,028,524	27,084,724

51 RISK MANAGEMENT (continued)**51.2 CREDIT RISK (continued)****Analysis of risk concentration (continued)***Geographic analysis (continued)*

	2012			
	<i>Lebanon</i> LL million	<i>Europe</i> LL million	<i>Others</i> LL million	<i>Total</i> LL million
Balances with central banks	4,523,437	124,496	625,755	5,273,688
Due from banks and financial institutions	187,831	1,926,865	1,101,837	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	20,599	264,197	173,911	458,707
Financial assets given as collateral	8,923	-	-	8,923
Derivative financial instruments	4,811	4,292	3,071	12,174
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese government bonds	256,373	-	-	256,373
Certificates of deposit issued by the Central Bank of Lebanon	10,704	-	-	10,704
Other debt securities	-	1,746	5,958	7,704
<i>Net loans and advances to customers at amortized cost</i>				
Commercial loans	3,159,531	236,369	807,385	4,203,285
Consumer loans	1,863,092	33,045	95,682	1,991,819
Net loans and advances to related parties at amortized cost	14,006	-	1,809	15,815
Debtors by acceptances	187,450	14,512	114,270	316,232
<i>Financial assets at amortized cost:</i>				
Lebanese government bonds	3,821,495	-	-	3,821,495
Certificates of deposit issued by the Central Bank of Lebanon	4,248,589	-	-	4,248,589
Other foreign government bonds	-	61,265	65,695	126,960
Other debt securities	146,737	383,682	418,163	948,582
	<u>18,453,578</u>	<u>3,050,469</u>	<u>3,413,536</u>	<u>24,917,583</u>

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

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.

31 December 2013

51 RISK MANAGEMENT (continued)**51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)***Regulatory ratios and limits*

In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio, the core funding ratio and the liquidity tolerance level of the Group, also referred to as Liquidity Coverage Ratio.

Loans to deposits	2013	2012
Year-end	30.59%	30.78%
Maximum	30.59%	30.97%
Minimum	29.25%	30.75%
Average	29.71%	30.84%

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 2013 and 2012 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.

	2013					
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
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	2,927,258	455,798	1,075,723	1,875,646	1,012,323	7,346,748
Net loans and advances to related parties at amortized cost	15,551	-	-	-	2,995	18,546
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	13,209,142	2,665,822	4,373,724	1,980,587	52,193	22,281,468
Deposits from related parties at amortized cost	214,743	16,463	17,613	7,080	926	256,825
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

31 December 2013

51 RISK MANAGEMENT (continued)**51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)***Analysis of financial assets and liabilities by remaining contractual maturities (continued)*

	2012					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	1,603,352	792,069	75,451	2,690,996	1,285,236	6,447,104
Due from banks and financial institutions	2,384,987	772,104	62,820	1,036	-	3,220,947
Loans to banks and financial institutions and reverse repurchase agreements	45,795	196,531	209,261	8,593	995	461,175
Financial assets given as collateral	-	-	2,218	7,718	-	9,936
Derivative financial instruments	11,459	625	90	-	-	12,174
Financial assets at fair value through profit or loss	18	2,321	39,200	91,808	352,083	485,430
Net loans and advances to customers at amortized cost	2,461,526	419,319	755,223	1,898,151	1,183,872	6,718,091
Net loans and advances to related parties at amortized cost	13,017	-	-	2,798	-	15,815
Debtors by acceptances	165,909	77,378	72,890	55	-	316,232
Financial assets at amortized cost	500,089	264,116	1,732,688	6,458,732	2,185,143	11,140,768
Financial assets at fair value through other comprehensive income	-	-	-	-	78,663	78,663
Total undiscounted financial assets	7,186,152	2,524,463	2,949,841	11,159,887	5,085,992	28,906,335
Financial liabilities						
Due to central banks	7,391	24	2,418	8,648	1	18,482
Due to banks and financial institutions	737,969	144,292	95,659	140,917	266,706	1,385,543
Derivative financial instruments	8,121	352	140	-	-	8,613
Customers' deposits at amortized cost	12,492,539	2,860,961	3,797,211	1,094,591	12,519	20,257,821
Deposits from related parties at amortized cost	159,779	18,846	27,096	8,425	-	214,146
Debt issued and other borrowed funds	-	1,090	34,988	188,711	558,522	783,311
Engagements by acceptances	165,909	77,378	72,890	55	-	316,232
Subordinated debt	-	8,084	22,047	110,236	564,492	704,859
Total undiscounted financial liabilities	13,571,708	3,111,027	4,052,449	1,551,583	1,402,240	23,689,007
Net undiscounted financial assets / (liabilities)	(6,385,556)	(586,564)	(1,102,608)	9,608,304	3,683,752	5,217,328

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.

	2013					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	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	2,261,687	-	-	-	-	2,261,687
	2,297,235	416,085	431,538	73,986	829	3,219,673
	2012					Total LL million
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	2,257	4,621	106,086	72,630	1,109	186,703
Documentary credits	31,221	397,653	405,346	24,402	-	858,622
Commitments to lend	2,248,925	-	-	-	-	2,248,925
	2,282,403	402,274	511,432	97,032	1,109	3,294,250

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

31 December 2013

51 RISK MANAGEMENT (continued)**51.4 MARKET RISK**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market 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 and Market Risk Unit.

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

The Market Risk Unit sets the framework necessary for identification, measurement and management of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or are repriced in a given period. The Group manages the risk by matching the repricing 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.

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

<i>Currency</i>	<i>Increase in basis points</i>	<i>2013</i>	<i>2012</i>
		<i>Effect on net interest income LL million</i>	<i>Effect on net interest income LL million</i>
LBP	50 basis point	(16,433)	(15,929)
US Dollar	50 basis point	648	560
Euro	50 basis point	(238)	(236)

31 December 2013

51 RISK MANAGEMENT (continued)**51.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

The Group's interest sensitivity position based on the contractual re-pricing date at 31 December was as follows:

	2013						Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Non interest bearing items LL million	
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	2,982,222	293,399	72,151	4,625	-	917	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	-	-	96	17,281	106,037	34,033	157,447
Net loans and advances to customers at amortized cost	3,171,567	580,034	1,748,082	1,096,037	268,340	(82,024)	6,782,036
Net loans and advances to related parties at amortized cost	15,552	-	-	-	2,798	196	18,546
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	7,406,064	1,516,268	3,781,069	8,373,666	4,787,149	1,613,797	27,478,013
LIABILITIES							
Due to central banks	483	2	-	11,490	31,730	7,797	51,502
Due to banks and financial institutions	610,698	346,693	109,963	174,143	143,256	7,809	1,392,562
Derivative financial instruments	-	-	-	-	-	3,063	3,063
Customers' deposits at amortized cost	13,177,262	2,615,465	4,230,841	1,800,255	48,600	113,915	21,986,338
Deposits from related parties at amortized cost	213,857	15,599	13,639	1,787	-	3,442	248,324
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	14,002,300	3,038,737	4,354,443	1,987,675	1,080,755	582,693	25,046,603
Total interest sensitivity gap	(6,596,236)	(1,522,469)	(573,374)	6,385,991	3,706,394	1,031,104	2,431,410

31 December 2013

51 RISK MANAGEMENT (continued)**51.4 MARKET RISK (continued)****Interest rate risk (continued)***Interest rate sensitivity (continued)*

	2012						Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Non interest bearing items LL million	
ASSETS							
Cash and balances with central banks	416,248	738,675	-	2,144,856	980,000	1,227,793	5,507,572
Due from banks and financial institutions	2,382,244	770,261	61,746	1,036	-	1,246	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	105,036	171,314	179,742	1,282	995	338	458,707
Financial assets given as collateral	-	-	1,899	6,915	-	109	8,923
Derivative financial instruments	-	-	-	-	-	12,174	12,174
Financial assets at fair value through profit or loss	-	611	1,255	26,651	243,564	28,828	300,909
Net loans and advances to customers at amortized cost	2,746,271	512,441	1,401,935	1,125,626	384,534	24,297	6,195,104
Net loans and advances to related parties at amortized cost	13,017	-	-	2,260	-	538	15,815
Debtors by acceptances	-	-	-	-	-	316,232	316,232
Financial assets at amortized cost	396,992	121,880	1,266,292	5,356,235	1,855,538	148,689	9,145,626
Financial assets at fair value through other comprehensive income	-	-	-	-	-	78,663	78,663
Total	6,059,808	2,315,182	2,912,869	8,664,861	3,464,631	1,838,907	25,256,258
LIABILITIES							
Due to central banks	506	24	2,267	8,307	1	6,813	17,918
Due to banks and financial institutions	766,913	144,989	99,882	215,895	90,064	9,304	1,327,047
Derivative financial instruments	-	-	-	-	-	8,613	8,613
Customers' deposits at amortized cost	12,322,430	2,825,013	3,689,762	1,028,718	7,242	94,366	19,967,531
Deposits from related parties at amortized cost	157,634	17,674	23,621	6,587	1,507	1,079	208,102
Debt issued and other borrowed funds	-	-	-	60,990	447,721	-	508,711
Engagements by acceptances	-	-	-	-	-	316,232	316,232
Subordinated debt	-	-	-	-	410,079	817	410,896
Total	13,247,483	2,987,700	3,815,532	1,320,497	956,614	437,224	22,765,050
Total interest sensitivity gap	(7,187,675)	(672,518)	(902,663)	7,344,364	2,508,017	1,401,683	2,491,208

Currency risk

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

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

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.

31 December 2013

51 RISK MANAGEMENT (continued)**51.4 MARKET RISK (continued)****Currency risk (continued)**

Following is the consolidated statement of financial position as of 31 December 2013 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2013		
	<i>LL million</i>	<i>Foreign currencies in LL million</i>	<i>Total LL million</i>
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	1,529,434	5,252,602	6,782,036
Net loans and advances to related parties at amortized cost	2,187	16,359	18,546
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	8,536,319	13,450,019	21,986,338
Deposits from related parties at amortized cost	85,645	162,679	248,324
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
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	211,521	13,162	224,683
Foreign currency translation reserves	(123,650)	-	(123,650)
NON-CONTROLLING INTERESTS	18,711	58,364	77,075
TOTAL EQUITY	1,425,507	1,060,079	2,485,586
TOTAL LIABILITIES AND EQUITY	10,333,835	17,532,433	27,866,268

31 December 2013

51 RISK MANAGEMENT (continued)**51.4 MARKET RISK (continued)****Currency risk (continued)**

Following is the consolidated statement of financial position as of 31 December 2012 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2012		Total LL million
	LL million	Foreign currencies in LL million	
ASSETS			
Cash and balances with central banks	1,615,769	3,891,803	5,507,572
Due from banks and financial institutions	19,436	3,197,097	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	6,887	451,820	458,707
Financial assets given as collateral	8,923	-	8,923
Derivative financial instruments	4,958	7,216	12,174
Financial assets at fair value through profit or loss	29,936	270,973	300,909
Net loans and advances to customers at amortized cost	1,411,296	4,783,808	6,195,104
Net loans and advances to related parties at amortized cost	1,398	14,417	15,815
Debtors by acceptances	-	316,232	316,232
Financial assets at amortized cost	5,751,149	3,394,477	9,145,626
Financial assets at fair value through other comprehensive income	22,163	56,500	78,663
Property and equipment	187,199	78,195	265,394
Intangible assets	970	-	970
Assets obtained in settlement of debt	(8,474)	41,676	33,202
Other assets	29,748	64,637	94,385
TOTAL ASSETS	9,081,358	16,568,851	25,650,209
LIABILITIES AND EQUITY			
Due to central banks	8,859	9,059	17,918
Due to banks and financial institutions	12,561	1,314,486	1,327,047
Derivative financial instruments	4,039	4,574	8,613
Customers' deposits at amortized cost	7,909,778	12,057,753	19,967,531
Deposits from related parties at amortized cost	105,289	102,813	208,102
Debt issued and other borrowed funds	-	508,711	508,711
Engagement by acceptances	-	316,232	316,232
Other liabilities	81,273	181,615	262,888
Provisions for risks and charges	111,926	18,539	130,465
Subordinated debt	-	410,896	410,896
TOTAL LIABILITIES	8,233,725	14,924,678	23,158,403
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	-	586,259	586,259
Non distributable reserves	402,933	165,212	568,145
Distributable reserves	71,907	27,752	99,659
Other equity instruments	-	14,979	14,979
Treasury shares	-	(25,302)	(25,302)
Retained earnings	45,625	28,399	74,024
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	13,183	(36,817)	(23,634)
Net results of the financial period - profit	219,672	26,778	246,450
Foreign currency translation reserves	(92,762)	-	(92,762)
NON-CONTROLLING INTERESTS	15,735	104,437	120,172
TOTAL EQUITY	1,371,095	1,120,711	2,491,806
TOTAL LIABILITIES AND EQUITY	9,604,820	16,045,389	25,650,209

51 RISK MANAGEMENT (continued)**51.4 MARKET RISK (continued)****Currency risk (continued)***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 Lira, 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 increase.

<i>Currency</i>	<i>Change in currency rate %</i>	<i>2013</i>		<i>2012</i>	
		<i>Effect on profit before tax LL million</i>	<i>Effect on equity LL million</i>	<i>Effect on profit before tax LL million</i>	<i>Effect on equity LL million</i>
US Dollar	+1	22	-	(182)	-
Euro	+1	18	1,409	9	1,231
SYP	+1	-	869	-	1,515

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 per cent increase in the value of the Group's equities at 31 December 2013 would have increased other comprehensive income by LL 2,170 million and net income by LL 1,648 million (2012: LL 2,083 million and LL 1,306 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 systems failure, human error, fraud 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 loss.

To raise quality of Operational Risk Management (ORM) and reduce operational risk, the Bank has implemented policies, tools and communication means, and has standardized them for its subsidiaries.

The Group's operational risk policy was designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level. The operational risk publications and guidelines were placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee which meetings are attended by business lines senior managers including the Chief Risk Officer and the General Manager.

31 December 2013

51 RISK MANAGEMENT (continued)**51.5 OPERATIONAL RISK (continued)**

The Group is undertaking a proactive approach to minimize operational risk loss. This is reflected in its operational risk approval for new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

The Group has built up a decentralized operational risk framework, whereby each business line /support function is assigned a "Risk Champion" with a dotted line reporting to the Group ORM department (Core ORM Function) for managing and mitigating operational risks each in their areas of responsibility. This structure is set to confirm the effective implementation of the operational risk framework in the business lines and to ensure transparent assessment and reporting of operational risks. As to the Core ORM function, its main task is to develop ORM tools and programs and facilitate their implementation across business lines (through training), and continuously promote the ORM culture across the Group.

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

(Amounts in LL million)	2013							
	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	2,914,303	425,653	976,328	4,316,284	1,619,548	846,204	2,465,752	6,782,036
Net loans and advances to related parties at amortized cost	15,551	-	-	15,551	-	2,995	2,995	18,546
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	27,304	42,088	5	65,742	65,747	107,835
TOTAL ASSETS	8,306,013	1,591,307	3,164,939	13,062,259	8,945,882	5,858,127	14,804,009	27,866,268
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	13,214,688	2,643,898	4,267,075	20,125,661	1,811,473	49,204	1,860,677	21,986,338
Deposits from related parties at amortized cost	214,774	16,119	15,155	246,048	2,276	-	2,276	248,324
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	116,488	1,861	47,264	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	14,368,368	3,225,299	4,529,141	22,122,808	2,031,526	1,226,348	3,257,874	25,380,682
Net liquidity gap	(6,062,355)	(1,633,992)	(1,364,202)	(9,060,549)	6,914,356	4,631,779	11,546,135	2,485,586

31 December 2013

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(Amounts in LL million)	2012							
	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	1,594,058	739,160	-	2,333,218	2,165,518	1,008,836	3,174,354	5,507,572
Due from banks and financial institutions	2,382,508	770,963	62,026	3,215,497	1,036	-	1,036	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	45,723	195,978	207,842	449,543	8,169	995	9,164	458,707
Financial assets given as collateral	-	-	1,919	1,919	7,004	-	7,004	8,923
Derivative financial instruments	11,459	625	90	12,174	-	-	-	12,174
Financial assets at fair value through profit or loss	9	1,210	3,315	4,534	26,651	269,724	296,375	300,909
Net loans and advances to customers at amortized cost	2,445,450	389,669	653,187	3,488,306	1,657,085	1,049,713	2,706,798	6,195,104
Net loans and advances to related parties at amortized cost	13,017	-	-	13,017	2,798	-	2,798	15,815
Debtors by acceptances	165,909	77,378	72,890	316,177	55	-	55	316,232
Financial assets at amortized cost	432,623	169,418	1,301,329	1,903,370	5,379,596	1,862,660	7,242,256	9,145,626
Financial assets at fair value through other comprehensive income	-	-	-	-	-	78,663	78,663	78,663
Property and equipment	-	-	-	-	-	265,394	265,394	265,394
Intangible assets	-	-	-	-	-	970	970	970
Assets obtained in settlement of debt	-	-	-	-	-	33,202	33,202	33,202
Other assets	1,143	568	25,185	26,896	-	67,489	67,489	94,385
TOTAL ASSETS	7,091,899	2,344,969	2,327,783	11,764,651	9,247,912	4,637,646	13,885,558	25,650,209
LIABILITIES								
Due to central banks	7,391	24	2,194	9,609	8,308	1	8,309	17,918
Due to banks and financial institutions	733,566	143,004	84,003	960,573	107,614	258,860	366,474	1,327,047
Derivative financial instruments	8,121	352	140	8,613	-	-	-	8,613
Customers' deposits at amortized cost	12,402,089	2,826,706	3,701,955	18,930,750	1,029,539	7,242	1,036,781	19,967,531
Deposits from related parties at amortized cost	159,452	18,110	23,184	200,746	7,356	-	7,356	208,102
Debt issued and other borrowed funds	-	-	-	-	60,990	447,721	508,711	508,711
Engagements by acceptances	165,909	77,378	72,890	316,177	55	-	55	316,232
Other liabilities	214,887	3,876	41,003	259,766	-	3,122	3,122	262,888
Provisions for risks and charges	-	-	-	-	-	130,465	130,465	130,465
Subordinated debt	-	-	-	-	-	410,896	410,896	410,896
TOTAL LIABILITIES	13,691,415	3,069,450	3,925,369	20,686,234	1,213,862	1,258,307	2,472,169	23,158,403
Net liquidity gap	(6,599,516)	(724,481)	(1,597,586)	(8,921,583)	8,034,050	3,379,339	11,413,389	2,491,806

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 for the year ended 31 December 2013 and thereafter:

	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 %

Byblos Bank SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

53 CAPITAL (continued)

Risk weighted assets

As of 31 December 2013 and 2012, risk weighted assets are as follows:

	2013	<i>Restated</i> 2012
	<i>LL million</i>	<i>LL million</i>
Risk weighted assets	16,139,378	15,315,380

Regulatory capital

At 31 December 2013 and 2012, regulatory capital consists of the following:

	<i>Excluding profit for the year</i>		<i>Including profit for the year less proposed dividends</i>	
	2013	<i>Restated</i> 2012	2013	<i>Restated</i> 2012
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Common Tier 1 capital	1,534,004	1,486,461	1,597,136	1,571,360
Additional Tier 1 capital	601,286	611,301	601,286	611,301
Tier 2 capital	464,967	465,632	464,967	465,632
Total capital	2,600,257	2,563,394	2,663,389	2,648,293

Capital adequacy ratio

As of 31 December 2013 and 2012, capital adequacy ratio is as follows:

	<i>Excluding profit for the year</i>		<i>Including profit for the year less proposed dividends</i>	
	2013	<i>Restated</i> 2012	2013	<i>Restated</i> 2012
Common Tier 1 capital	9.50%	9.71%	9.90%	10.26%
Total Tier 1 capital ratio	13.23%	13.70%	13.62%	14.25%
Total capital ratio	16.11%	16.74%	16.50%	17.29%

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 the previous years, however, they are under constant scrutiny of the Board.

31 December 2013

54 DIVIDENDS PAID AND PROPOSED

	<i>2013</i> <i>LL million</i>	<i>2012</i> <i>LL million</i>
<i>Dividends paid or recognized as a liability as at 31 December</i>		
Equity dividends on ordinary shares LL 200 per share	113,103	113,103
Distributions to preferred shares – 2008 series US\$ 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: US\$ 8.00 per share	24,224	24,224
	161,551	161,551
Less: dividends on treasury shares	(714)	(710)
	160,837	160,841
<i>Proposed for approval at Annual General Assembly</i> <i>(not recognized as a liability as at 31 December)</i>		
Equity dividends on ordinary shares LL 200 per share	113,103	113,103
Distributions to preferred shares – 2008 series US\$ 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: US\$ 8.00 per share	24,224	24,224
	161,551	161,551