BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Ernst & Young

Semaan, Gholam & Co.

21 April 2015
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	*2014* **LL million**	*2013* *LL million*
ASSETS			
Cash and balances with central banks	19	**7,048,785**	5,809,930
Due from banks and financial institutions	20	**2,913,279**	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	21	**393,712**	614,866
Financial assets given as collateral	22	**7,005**	7,005
Derivative financial instruments	23	**6,715**	3,824
Financial assets at fair value through profit or loss	24	**155,582**	157,447
Net loans and advances to customers at amortized cost	25	**7,099,163**	6,776,850
Net loans and advances to related parties at amortized cost	47	**28,033**	23,732
Debtors by acceptances		**302,939**	445,957
Financial assets at amortized cost	26	**10,260,119**	10,198,193
Financial assets at fair value through other comprehensive income	27	**98,718**	86,895
Property and equipment	28	**236,379**	243,230
Intangible assets	29	**652**	811
Assets obtained in settlement of debt	30	**36,677**	36,379
Other assets	31	**106,780**	107,835
TOTAL ASSETS		**28,694,538**	27,866,268
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	32	**71,146**	51,502
Due to banks and financial institutions	33	**911,173**	1,392,562
Derivative financial instruments	23	**5,427**	3,063
Customers' deposits at amortized cost	34	**23,377,789**	21,970,185
Deposits from related parties at amortized cost	47	**312,813**	264,477
Debt issued and other borrowed funds	35	**445,387**	506,489
Engagements by acceptances		**302,939**	445,957
Other liabilities	36	**163,903**	195,704
Provisions for risks and charges	37	**145,429**	138,375
Subordinated debt	38	**414,580**	412,368
TOTAL LIABILITIES		**26,150,586**	25,380,682
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	39	**684,273**	684,273
Share capital – preferred shares	39	**4,840**	4,840
Share premium – common shares	39	**229,014**	229,014
Share premium – preferred shares	39	**591,083**	588,671
Non distributable reserves	40	**748,879**	672,318
Distributable reserves	41	**95,943**	97,253
Treasury shares	43	**(6,425)**	(10,054)
Retained earnings		**39,899**	52,118
Revaluation reserve of real estate	44	**5,689**	5,689
Change in fair value of financial assets at fair value through other comprehensive income	45	**(7,533)**	(16,644)
Net results of the financial period – profit		**252,792**	224,683
Foreign currency translation reserve		**(164,357)**	(123,650)
		2,474,097	2,408,511
NON-CONTROLLING INTERESTS		**69,855**	77,075
TOTAL EQUITY		**2,543,952**	2,485,586
TOTAL LIABILITIES AND EQUITY		**28,694,538**	27,866,268

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

Dr Francois Bassil	Mr Ziad El-Zoghbi
Chairman/ General Manager	Financial and Administrative Manager

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity holders of the parent														*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*	*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*	*Total LL million*	*LL million*	*LL million*
Balance at 1 January 2014	684,273	4,840	229,014	588,671	672,318	97,253	-	(10,054)	52,118	5,689	(16,644)	224,683	(123,650)	2,408,511	77,075	2,485,586
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	252,792	-	252,792	11,740	264,532
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	977	-	9,111	-	(35,538)	(25,450)	(11,922)	(37,372)
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	977	-	9,111	252,792	(35,538)	227,342	(182)	227,160
Transfer to retained earnings	-	-	-	-	-	(7,000)	-	-	231,683	-	-	(224,683)	-	-	-	-
Transfer to reserves and premiums	-	-	-	2,412	76,764	4,691	-	-	(83,867)	-	-	-	-	-	-	-
Dividends paid – subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,225)	(4,225)
Equity dividends paid (note 54)	-	-	-	-	-	-	-	-	(161,012)	-	-	-	-	(161,012)	-	(161,012)
Treasury shares (note 43)	-	-	-	-	(203)	-	-	3,629	-	-	-	-	-	3,426	-	3,426
Put options on non-controlling interests (note 6)	-	-	-	-	-	999	-	-	-	-	-	-	-	999	2,571	3,570
Acquisition of additional non-controlling interests (note 5)	-	-	-	-	-	-	-	-	-	-	-	-	(5,169)	(5,169)	(5,384)	(10,553)
Balance at 31 December 2014	**684,273**	**4,840**	**229,014**	**591,083**	**748,879**	**95,943**	**-**	**(6,425)**	**39,899**	**5,689**	**(7,533)**	**252,792**	**(164,357)**	**2,474,097**	**69,855**	**2,543,952**

	Attributable to equity holders of the parent														*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*	*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*	*Total LL million*	*LL million*	*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)	2,371,634	120,172	2,491,806
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	224,683	-	224,683	10,766	235,449
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	2,741	-	6,990	-	(30,888)	(21,157)	(30,411)	(51,568)
Total comprehensive income (loss)	-	-	-	-	-	-	-	-	2,741	-	6,990	224,683	(30,888)	203,526	(19,645)	183,881
Transfer to retained earnings	-	-	-	-	-	-	-	-	246,450	-	-	(246,450)	-	-	-	-
Transfer to reserves and premiums	-	-	-	2,412	104,448	3,346	-	-	(110,206)	-	-	-	-	-	-	-
Dividends paid – subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,209)	(3,209)
Translation difference	-	-	-	-	-	-	-	-	(54)	-	-	-	-	(54)	-	(54)
Equity dividends paid (note 54)	-	-	-	-	-	-	-	-	(160,837)	-	-	-	-	(160,837)	-	(160,837)
Treasury shares (note 43)	-	-	-	-	(275)	-	(14,979)	15,248	-	-	-	-	-	(6)	-	(6)
Put options on non-controlling interests (note 6)	-	-	-	-	-	(5,752)	-	-	-	-	-	-	-	(5,752)	(20,243)	(25,995)
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)	2,408,511	77,075	2,485,586

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	***2014*** ***LL million***	*2013* *LL million*
OPERATING ACTIVITIES			
Profit before tax		**331,809**	279,808
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	28 & 29	**25,041**	27,377
Provision for loans and advances and direct write offs, net	14	**43,361**	80,448
Write-back of provision for other doubtful bank accounts, net	14	**(446)**	(897)
Write-back of provision for financial assets at amortized cost, net	14	**(3,487)**	(419)
Gain on disposal of property and equipment		**(20)**	(21)
Gain on disposal of assets obtained in settlement of debt	13	**(2,190)**	(5,791)
Provisions for risks and charges, net		**10,957**	14,399
Unrealized fair value gains on financial instruments at fair value through profit or loss		**(4,574)**	(4,520)
Realized gains from financial assets		**(108,936)**	(76,407)
Derivative financial instruments		**(527)**	2,800
Operating profit before working capital changes		**290,988**	316,777
Changes in operating assets and liabilities			
Due from central banks		**(969,530)**	(490,715)
Due to central banks		**17,911**	32,792
Due from banks and financial institutions		**(37,020)**	(13,231)
Financial assets given as collateral		**-**	1,918
Financial assets at fair value through profit or loss		**10,557**	144,527
Due to banks and financial institutions		**(76,022)**	(33,291)
Net loans and advances to customers and related parties		**(369,975)**	(670,112)
Assets obtained in settlement of debt	30	**(2,563)**	(5,687)
Proceeds from sale of assets obtained in settlement of debt		**4,455**	8,301
Other assets		**(6,648)**	(9,587)
Customers’ and related parties’ deposits		**1,455,940**	2,059,029
Other liabilities		**(36,796)**	(99,068)
Cash from operations		**281,297**	1,241,653
Provision for risks and charges paid		**(1,816)**	(3,748)
Taxation paid		**(56,494)**	(47,788)
Net cash from operating activities		**222,987**	1,190,117
INVESTING ACTIVITIES			
Financial assets at amortized cost		**46,379**	(972,286)
Financial assets at fair value through other comprehensive income		**(1,431)**	(10)
Loans to banks and financial institutions and reserve purchase agreements		**221,154**	(156,159)
Purchase of property and equipment and intangible assets		**(23,834)**	(18,674)
Proceeds from sale of property and equipment		**182**	237
Net cash from (used in) investing activities		**242,450**	(1,146,892)
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		**(61,102)**	(2,222)
Subordinated debt		**2,212**	1,472
Treasury shares		**3,426**	(6)
Dividends paid to equity holders of the parent (net)		**(161,012)**	(160,837)
Dividends paid to non-controlling interests		**(4,225)**	(3,209)
Acquisition of additional non-controlling interests		**(10,553)**	-
Net cash used in financing activities		**(231,254)**	(164,802)
Net effect of foreign exchange		**(38,725)**	(43,725)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**195,458**	(165,302)
Cash and cash equivalents at 1 January		**4,455,785**	4,621,087
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	46	**4,651,243**	4,455,785
Operational cash flows from interest and dividends			
Interest paid		**(1,043,104)**	(925,827)
Interest received		**1,415,702**	1,306,114
Dividend received		**3,293**	1,715

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

2.2 Basis of consolidation

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

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

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.

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

Non-controlling interests

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

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

Put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. Non-controlling interest continues to be recognised within equity, with changes in the carrying amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then 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 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of ’currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

Impairment of Assets – Amendments to IAS 36
The IASB has amended IAS 36 to (i) remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment; (ii) to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognized or reversed; and (iii) to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. The amendments will impact all preparers who recognize or reverse an impairment loss on non-financial assets.

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective

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

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

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

Annual improvements 2010-2012 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Annual improvements 2010-2012 Cycle (continued)
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

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

Annual improvements 2011-2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

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

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group’s consolidated financial statements.

2.5 Summary of significant accounting policies

Foreign currency translation
The consolidated financial statements are presented in Lebanese 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.

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.

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

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.

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”.

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

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

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

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

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

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

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

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

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

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)

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.

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.

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)

b. Financial liabilities (continued)

Debt issued and other borrowed funds and subordinated debt (continued)
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 makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is 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 of 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.

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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgments (continued)

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and assumptions (continued)

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:

Subsidiary	Percentage of ownership 2014 %	2013 %	Principal activity	Country of incorporation
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.	**59.87**	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

5 BUSINESS COMBINATIONS

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

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

6 MATERIAL PARTLY-OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

	2014	*2013*
	%	*%*
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.	**40.13**	47.63

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

Summarized income statement for 2014:

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

Summarized income statement for 2013:

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

6 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position as at 31 December 2014:

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

Summarized statement of financial position as at 31 December 2013:

	Byblos Bank Africa *LL million*	*Adonis Insurance and Reinsurance Co. (ADIR) SAL* *LL million*	*Byblos Bank Armenia CJSC* *LL million*	*Byblos Bank Syria S.A.* *LL million*
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 LL 13,213 million and LL 9,212 million respectively as at 31 December 2014 (2013: LL 11,774 million and LL 14,221 million respectively) (note 36). These were recorded through partial recognition of non-controlling interests.

6 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized cash flow information for the year ended 31 December 2014:

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

Summarized cash flow information for the year ended 31 December 2013:

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

7 SEGMENT INFORMATION

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

Retail banking provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, 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.

7 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

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

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

Financial position information

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

2013	*Retail banking LL million*	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Other[1] LL million*	*Total LL million*
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

[1] Other includes all non-banking activities.

7 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.

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

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

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

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

8 INTEREST AND SIMILAR INCOME

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

9 INTEREST AND SIMILAR EXPENSE

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

10 NET FEE AND COMMISSION INCOME

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

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

	2014 LL million	*2013 LL million*
Interest and similar income from debt instruments		
- Lebanese government bonds	**6,802**	16,499
- Certificates of deposit issued by the Central Bank of Lebanon	**10**	700
- Other foreign government bonds	**231**	115
- Other debt securities	**596**	200
	7,639	17,514
Gain (loss) from sale of debt instruments		
- Lebanese government bonds	**3,439**	(3,004)
- Certificates of deposit issued by the Central Bank of Lebanon	**2**	(873)
- Other foreign government bonds	**388**	21
- Other debt securities	**76**	39
	3,905	(3,817)

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

	2014	*2013*
	LL million	*LL million*
Unrealized gain (loss) from revaluation of debt instruments		
- Lebanese government bonds	**1,490**	(1,189)
- Certificates of deposit issued by the Central Bank of Lebanon	**16**	556
- Other foreign government bonds	**(38)**	-
- Other debt securities	**322**	(105)
	1,790	(738)
Net gain from debt instruments	**13,334**	12,959
Equity instruments		
- Gain from sale	**213**	362
- Unrealized gain from revaluation	**2,784**	5,258
- Dividend income	**557**	571
Net gain from equity instruments	**3,554**	6,191
Unrealized gain from revaluation of structural position of a subsidiary	**23,758**	39,748
Foreign exchange	**26,296**	27,200
	66,942	86,098

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

12 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:

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

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

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

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

13 OTHER OPERATING INCOME

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

14 NET CREDIT LOSSES

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

15 PERSONNEL EXPENSES

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

16 OTHER OPERATING EXPENSES

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

17 INCOME TAX EXPENSE

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

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

17 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:

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

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

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

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

17 INCOME TAX EXPENSE (continued)

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

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

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

18 EARNINGS PER SHARE

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

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

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

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

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

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

18 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:

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

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

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

19 CASH AND BALANCES WITH CENTRAL BANKS

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

19 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 2,476,029 million and LL 2,557,673 million respectively as at 31 December 2014 (2013: LL 2,349,275 million and LL 2,390,356 million respectively).

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

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

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

20 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:

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

21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

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

22 FINANCIAL ASSETS GIVEN AS COLLATERAL

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

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

23 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are 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.

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

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

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

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

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

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

25 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

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

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

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

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

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

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

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

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

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

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

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

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

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

26 FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

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

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

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

28 PROPERTY AND EQUIPMENT

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

28 PROPERTY AND EQUIPMENT (continued)

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

The cost of buildings at 31 December 2014 and 2013 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 2014 (2013: the same) (note 44).

29 INTANGIBLE ASSETS

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

30 ASSETS OBTAINED IN SETTLEMENT OF DEBT

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

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

31 OTHER ASSETS

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

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

b) Other assets comprise of the following:

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

32 DUE TO CENTRAL BANKS

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

Loans due to the Central Bank of Lebanon:

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

- During 2010, the Bank obtained 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 2014 (2013: LL 6,915 million) (note 22).

33 DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

34 CUSTOMERS' DEPOSITS AT AMORTIZED COST

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

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

35 DEBT ISSUED AND OTHER BORROWED FUNDS

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

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

36 OTHER LIABILITIES

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

(a) Current tax liability

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

37 PROVISIONS FOR RISKS AND CHARGES

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

(a) Employees' end of service benefits

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

37 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:

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

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

	2014	*2013*
Economic assumptions		
Discount rate	**8.5%**	8.5%
Future salary increase	**5.5%**	5.5%
Future expected return on contributions	**5.0%**	5.0%
Bonus	**Last 2-years average as a % of basic**	Last 2-years average 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%

37 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 2014 is shown as below:

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

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit 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:

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

38 SUBORDINATED DEBT

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

On 21 December 2012, the Bank signed a 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

38 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:

	LL million
Nominal value of convertible bonds	**441,520**
Equity component	**(31,618)**
Liability component	**409,902**

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

39 SHARE CAPITAL

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

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

Preferred shares

i) Series 2008 Preferred Shares

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

Number of shares:	2,000,000
Share's issue price:	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.

39 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 2014, the Bank transferred LL 2,412 million from retained earnings to the share premium on Series-2009 preferred shares (2013: 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:

		2014	*2013*
	Stock exchange	**No of shares**	No of shares
Ordinary shares	Beirut	**502,644,196**	501,304,190
Global depository receipts (*)	London SEAQ and Beirut	**1,257,417**	1,284,217
Preferred shares	Beirut	**4,000,000**	4,000,000

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

40 NON DISTRIBUTABLE RESERVES

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

Legal reserve
According to the Lebanese Code of Commerce and to the Code of Money and Credit, the Bank is required to transfer 10% of 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 2014, the Group appropriated LL 21,443 million from 2013 profits to the legal reserve (2013: LL 25,103 million).

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

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

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 2014 from the profits of the year 2013 amounted to LL 34,131 million (2013: LL 30,000 million).

40 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.

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

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

41 DISTRIBUTABLE RESERVES

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

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:

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

Other capital reserves

	2014	*2013*
	LL million	*LL million*
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
	5,422	5,422

42 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 43).

43 TREASURY SHARES

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

Year ended 31 December 2014

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

Year ended 31 December 2013

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

44 REVALUATION RESERVE OF REAL ESTATE

	2014 ***LL million***	*2013* *LL million*
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:

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

46 CASH AND CASH EQUIVALENTS

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

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.

47 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

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

In addition to the above:

- Due to banks and financial institutions include loans from related parties amounting to LL 62,001 million as of 31 December 2014 (2013: LL 69,357 million) on which interest of LL 2,139 million (2013: LL 2,158 million) was paid.

- Due from banks and financial institutions include balances with a related party amounting to LL 10,889 million as of 31 December 2014 (2013: nil)

- Loans to banks and financial institutions and reverse repurchase agreements include loan to a related party amounting to LL 9,986 million as of 31 December 2014 (2013: nil) on which interest and commissions of LL 145 million (2013: nil) were received.

Compensation of the Key Management Personnel of the Group

	2014 ***LL million***	*2013* *LL million*
Short-term benefits[1]	**17,407**	11,945

[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.

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

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

Guarantees

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

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

Documentary credits

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

Loan commitments

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

48 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

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.

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

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

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

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

49 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2014	*2013*
	LL million	*LL million*
Assets held in custody and under administration	**3,196,496**	3,216,525

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

50 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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:

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

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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:

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

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.

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

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

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

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.

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

	2013			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
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	-	-	6,770,954	6,770,954
Net loans and advances to related parties at amortized cost	-	-	23,732	23,732
Financial assets at amortized cost:				
Lebanese government bonds	2,500,673	2,704,001	-	5,204,674
Certificates of deposit issued by the Central Bank of Lebanon	227,837	4,062,254	-	4,290,091
Other foreign government bonds	77,835	54,927	-	132,762
Other debt securities	666,459	-	-	666,459
Liabilities for which fair values are disclosed:				
Due to central banks	-	51,502	-	51,502
Due to banks and financial institutions	-	1,392,457	-	1,392,457
Customers' deposits at amortized cost	-	22,061,710	-	22,061,710
Deposits from related parties at amortized cost	-	268,115	-	268,115
Debt issued and other borrowed funds	-	512,295	-	512,295
Subordinated debt	-	412,368	-	412,368

51 RISK MANAGEMENT

51.1 INTRODUCTION

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

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

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

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

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

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

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

The above Board Committees are composed of mostly independent / non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to 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 the Group Consumer Banking Division, the Head of Group Financial Markets and Financial Institutions Division, the Head of Group Commercial Banking Division, and the Head of Group Risk Management Division.

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

Assets and Liabilities Committee (ALCO): 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, approval and implementation of the Group's strategies regarding liquidity and interest rate, FX and trading activities through decisions on size and duration of mismatched positions and on pricing.

51 RISK MANAGEMENT (continued)

51.1 INTRODUCTION (continued)

Group risk management structure (continued)

Risk Committee: whose task is to formulate and enforce guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by the Group Risk Management and issues related to the implementation of Basel II/ Basel III projects. The Committee discusses and approves the risk policies, the risk measurement tools such as rating and scoring, and risk-based processes including stress testing, economic capital, and risk-based profitability. It oversees the risk reports prepared and ICAAP framework before submission to the Board.

The Group also established two other committees concerned with the risk management and compliance, being: *The Operational Risk Management Committee* and the *Compliance and Anti-Money Laundering Committee*. The Operational Risk Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Group's KYC and sanction policies.

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's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel II/ III) to measure and assess the risks identified under 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 more sophisticated steps towards credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate expected credit loss and ultimately capital requirements for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for.

As for addressing the capital management issue in the context of Basel II, the Group develops annually a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document, disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors emanating from the environment in which it operates.

51 RISK MANAGEMENT (continued)

51.1 INTRODUCTION (continued)

The overall responsibility for the monitoring and the analytical management of the risk is effectively assigned to the Group Risk Management division (GRM). The GRM reports to the Vice Chairman and General Manager through the head of the GRM division. Risk issues and reports are submitted to the Board regularly through the Board Risk, Anti-Money Laundering & Compliance Committee.

The GRM has a dedicated team, *Financial and Operational Risk Management department*, that fulfils the analytical part of risk management and is thereby in direct charge of identifying, measuring, monitoring and controlling Pillar 1 and 2 risks faced by the Group. The department is split into three main functions:

Risk Policies and Analytics that is responsible for the preparation and reporting of Basel II regulatory CAR report, the development of stress testing scenarios, the write-up of risk reports and ICAAP documents. It handles as well the measurement of PD (probability of default), LGD (loss given default), EL (expected credit loss) and UL (unexpected loss). The units develop and support risk-based profitability measurements, risk measurement tools (retail scoring and commercial rating), and risk related policies.

Market Risk sets the firm-wide framework necessary for identification, measurement and management of market risk across the Group, including developing policies, procedures, and risk measurement methodologies. Market Risk is also in charge of monitoring the Group's limits regarding liquidity, interest rate risk and securities investment positions, stress test and report on breaches to Senior Management.

Operational Risk Management is responsible for establishing the necessary framework for identifying, measuring and managing operational risk across the Group, including clear definition of risks, developing ORM policies, and enhancing ORM programs and tools.

Risk Management Framework
The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are 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 a written procedure.

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK

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

Credit initiation
Target markets and customers and 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 early warning signals, and includes the credit committee approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the structuring of credit packages.

Commercial lending is handled by the Commercial 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 analysis team within the GRM division, acting independently from the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the credit risk analysis team prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into five departments, servicing each a different business segment (corporate, international, middle market, financial institutions and retail). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed-on with a post-approval review on a sampling basis. The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the Group's risk acceptance criteria and CPPM.

Loan follow up and monitoring
Each business line manager who originated the loan remains vested with the responsibility of monitoring the exposure and reviewing the file on an annual basis or more frequently if needed. Annual reviews consist of a full update of the credit package and follow the same process as the initiation of the loan.

Outstanding loans are subject as well to a constant monitoring by the GRM division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow-up on the prompt and remedial management of spotted deteriorations in borrowers' financial positions, value of collateral and related sector / industry. Early warning signals are derived from a set of system generated reports.

Impairment assessment
For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be 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.

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

Impairment assessment (continued)
In measuring credit risk at a counterparty level, the Group reflects three components – the "probability of default" (PD) by the client or counterparty on its contractual obligations; the Group's current exposure to the counterparty and its likely future development, from which the Group derives the "exposure at default" (EAD); and the likely recovery ratio on the defaulted obligations to give the "loss given default" (LGD).

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

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.

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

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

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

	2014					
	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	**6,819,919**	**-**	**-**	**-**	**-**	**6,819,919**
Due from banks and financial institutions	**2,913,279**	**(663)**	**-**	**-**	**-**	**2,912,616**
Loans to banks and financial institutions and reverse repurchase agreements	**393,712**	**(11,567)**	**-**	**-**	**-**	**382,145**
Financial assets given as collateral	**7,005**	**-**	**-**	**-**	**-**	**7,005**
Derivative financial instruments	**6,715**	**-**	**-**	**-**	**-**	**6,715**
Financial assets at fair value through profit or loss	**119,640**	**-**	**-**	**-**	**-**	**119,640**
Net loans and advances to customers at amortized cost:						
Commercial loans	**4,790,011**	**(449,073)**	**(117,564)**	**(94,971)**	**(1,021,599)**	**3,106,804**
Consumer loans	**2,309,152**	**(222,697)**	**-**	**-**	**(1,079,004)**	**1,007,451**
Net loans and advances to related parties at amortized cost	**28,033**	**(10,353)**	**-**	**-**	**(3,082)**	**14,598**
Financial assets at amortized cost	**10,260,119**	**-**	**-**	**-**	**-**	**10,260,119**
	27,647,585	**(694,353)**	**(117,564)**	**(94,971)**	**(2,103,685)**	**24,637,012**
Financial guarantees	**185,758**	**(17,539)**	**-**	**-**	**-**	**168,219**
Documentary credits (including acceptances)	**867,688**	**(62,973)**	**-**	**-**	**-**	**804,715**
	28,701,031	**(774,865)**	**(117,564)**	**(94,971)**	**(2,103,685)**	**25,609,946**
Utilized collateral		**(774,865)**	**(117,564)**	**(94,971)**	**(2,103,685)**	
Surplus of collateral before undrawn credit lines		**(85,130)**	**(327,231)**	**(72,991)**	**(1,646,979)**	
Guarantees received from banks, financial institutions and customers		**(859,995)**	**(444,795)**	**(167,962)**	**(3,750,664)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,354,802 million as at 31 December 2014.

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	4,593,829	(457,074)	(108,525)	(11,907)	(786,179)	3,230,144
Consumer loans	2,183,021	(222,619)	-	-	(1,025,604)	934,798
Net loans and advances to related parties at amortized cost	23,732	(9,069)	-	-	(2,241)	12,422
Financial assets at amortized cost	10,198,193	-	-	-	-	10,198,193
	26,638,767	(692,087)	(108,525)	(11,907)	(1,814,024)	24,012,224
Financial guarantees	172,986	(9,589)	-	-	-	163,397
Documentary credits (including acceptances)	1,230,957	(64,848)	-	-	-	1,166,109
	28,042,710	(766,524)	(108,525)	(11,907)	(1,814,024)	25,341,730
Utilized collateral		(766,524)	(108,525)	(11,907)	(1,814,024)	
Surplus of collateral before undrawn credit lines		(86,924)	(192,397)	(156,055)	(1,506,506)	
Guarantees received from banks, financial institutions and customers		(853,448)	(300,922)	(167,962)	(3,320,530)	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,080,962 million as at 31 December 2013.

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 from its clients proxy to mortgage a residential or commercial property, guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of proceeds and revenues, which are not reflected in the above table.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

	2014				
	Neither past due nor impaired				
	High grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Individually impaired LL million*	*Total LL million*
Balances with central banks	**6,436,888**	**383,031**	**-**	**-**	**6,819,919**
Due from banks and financial institutions	**2,623,543**	**289,736**	**-**	**3,960**	**2,917,239**
Loans to banks and financial institutions and reverse repurchase agreements	**86,022**	**307,690**	**-**	**-**	**393,712**
Financial assets given as collateral	**7,005**	**-**	**-**	**-**	**7,005**
Derivative financial instruments	**6,715**	**-**	**-**	**-**	**6,715**
Financial assets at fair value through profit or loss:					
Lebanese government bonds	**113,672**	**-**	**-**	**-**	**113,672**
Certificates of deposit issued by the Central Bank of Lebanon	**3,190**	**-**	**-**	**-**	**3,190**
Other debt securities	**2,068**	**-**	**-**	**-**	**2,068**
Other foreign government bonds	**710**	**-**	**-**	**-**	**710**
Net loans and advances to customers at amortized cost:					
Commercial loans	**4,465,167**	**264,382**	**131,999**	**312,251**	**5,173,799**
Consumer loans	**2,093,810**	**22,310**	**172,139**	**105,382**	**2,393,641**
Net loans and advances to related parties at amortized cost	**28,033**	**-**	**-**	**-**	**28,033**
Debtors by acceptances	**292,101**	**10,838**	**-**	**-**	**302,939**
Financial assets at amortized cost:					
Lebanese government bonds	**5,673,700**	**-**	**-**	**-**	**5,673,700**
Certificates of deposit issued by the Central Bank of Lebanon	**3,913,360**	**-**	**-**	**-**	**3,913,360**
Other foreign government bonds	**75,240**	**59,427**	**-**	**-**	**134,667**
Other debt securities	**420,533**	**119,433**	**-**	**-**	**539,966**
	26,241,757	**1,456,847**	**304,138**	**421,593**	**28,424,335**

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

	2013				
	Neither past due nor impaired				
	High grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Individually impaired LL million*	*Total LL million*
Balances with central banks	5,121,166	415,334	-		5,536,500
Due from banks and financial institutions	2,794,667	558,647	-	4,636	3,357,950
Loans to banks and financial institutions and reverse repurchase agreements	31,226	583,640	-	-	614,866
Financial assets given as collateral	7,005	-	-	-	7,005
Derivative financial instruments	3,824	-	-	-	3,824
Financial assets at fair value through profit or loss:					
Lebanese government bonds	104,979	-	-	-	104,979
Certificates of deposit issued by the Central Bank of Lebanon	329	-	-	-	329
Other debt securities	19,175	-	-	-	19,175
Net loans and advances to customers at amortized cost:					
Commercial loans	4,347,292	198,737	91,903	304,077	4,942,009
Consumer loans	1,992,037	16,227	198,260	54,443	2,260,967
Net loans and advances to related parties at amortized cost	23,732	-	-	-	23,732
Debtors by acceptances	440,652	5,305	-	-	445,957
Financial assets at amortized cost:					
Lebanese government bonds	5,185,252	-	-	-	5,185,252
Certificates of deposit issued by the Central Bank of Lebanon	4,239,042	-	-	-	4,239,042
Other foreign government bonds	78,588	51,107	-	-	129,695
Other debt securities	439,164	210,102	-	-	649,266
	24,828,130	2,039,099	290,163	363,156	27,520,548

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

	2014			
	Less than 90 days LL million	***91 to 180 days LL million***	***More than 181 days LL million***	***Total LL million***
Loans and advances to customers at amortized cost:				
- Commercial loans	**59,243**	**42,885**	**29,871**	**131,999**
- Consumer loans	**141,627**	**20,143**	**10,369**	**172,139**
	200,870	**63,028**	**40,240**	**304,138**

	2013			
	Less than 90 days LL million	*91 to 180 days LL million*	*More than 181 days LL million*	*Total LL million*
Loans and advances to customers at amortized cost:				
- Commercial loans	57,127	20,022	14,754	91,903
- Consumer loans	145,570	24,277	28,413	198,260
	202,697	44,299	43,167	290,163

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

Mapping to external credit rating

	Financial assets	*Loans and advances to customers*	
	External credit rating	***Supervisory rating***	***Characteristics***
High grade	Lebanese Sovereign AAA to A-	Regular	Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral / guarantee (if required).
		Follow up	Lack of documentation related to borrower's activity.
Standard grade	BBB+ and below unrated	Follow up and regularization	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 .
Individually impaired	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 in accordance with the ratings of Central Bank of Lebanon Circular 58 are as follows:

	2014			
	Gross balance LL million	***Unrealised interest LL million***	***Impairment allowances LL million***	***Net balance LL million***
Regular	**6,251,227**	**-**	**-**	**6,251,227**
Follow up	**532,598**	**-**	**-**	**532,598**
Follow up and regularization	**365,982**	**-**	**-**	**365,982**
Substandard	**30,618**	**(1,260)**	**-**	**29,358**
Doubtful	**138,017**	**(13,661)**	**(56,223)**	**68,133**
Bad	**248,998**	**(82,541)**	**(166,457)**	**-**
	7,567,440	**(97,462)**	**(222,680)**	**7,247,298**
Collective impairment	**(148,135)**	**-**	**-**	**(148,135)**
	7,419,305	**(97,462)**	**(222,680)**	**7,099,163**

	2013			
	Gross balance LL million	*Unrealised interest LL million*	*Impairment allowances LL million*	*Net balance LL million*
Regular	6,253,909	-	-	6,253,909
Follow up	314,135	-	-	314,135
Follow up and regularization	276,412	-	-	276,412
Substandard	3,486	(917)	-	2,569
Doubtful	124,545	(14,491)	(49,560)	60,494
Bad	230,489	(66,446)	(164,043)	-
	7,202,976	(81,854)	(213,603)	6,907,519
Collective impairment	(130,669)	-	-	(130,669)
	7,072,307	(81,854)	(213,603)	6,776,850

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.

	2014 ***LL million***	*2013* *LL million*
Commercial loans	**24,449**	26,381

Analysis of risk concentration
The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2014 was LL 98,570 million (2013: LL 80,464 million) before taking account of collateral or other credit enhancements and LL 98,570 million (2013: LL 80,464 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of netting and collateral agreements.

Geographic analysis

	2014			
	Lebanon ***LL million***	***Europe*** ***LL million***	***Others*** ***LL million***	***Total*** ***LL million***
Balances with central banks	**6,397,781**	**41,073**	**381,065**	**6,819,919**
Due from banks and financial institutions	**126,607**	**880,144**	**1,906,528**	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	**14,694**	**97,344**	**281,674**	**393,712**
Financial assets given as collateral	**7,005**	**-**	**-**	**7,005**
Derivative financial instruments	**4,401**	**2,252**	**62**	**6,715**
Financial assets at fair value through profit or loss:				
Lebanese government bonds	**113,672**	**-**	**-**	**113,672**
Certificates of deposit issued by the Central Bank of Lebanon	**3,190**	**-**	**-**	**3,190**
Other debt securities	**-**	**385**	**1,683**	**2,068**
Other foreign government bonds	**-**	**-**	**710**	**710**
Net loans and advances to customers at amortized cost				
Commercial loans	**3,891,820**	**185,725**	**712,466**	**4,790,011**
Consumer loans	**2,168,812**	**48,025**	**92,315**	**2,309,152**
Net loans and advances to related parties at amortized cost	**24,175**	**568**	**3,290**	**28,033**
Debtors by acceptances	**215,144**	**1,827**	**85,968**	**302,939**
Financial assets at amortized cost:				
Lebanese government bonds	**5,673,700**	**-**	**-**	**5,673,700**
Certificates of deposit issued by the Central Bank of Lebanon	**3,913,360**	**-**	**-**	**3,913,360**
Other foreign government bonds	**-**	**72,975**	**61,692**	**134,667**
Other debt securities	**33,147**	**190,760**	**314,485**	**538,392**
	22,587,508	**1,521,078**	**3,841,938**	**27,950,524**

51 RISK MANAGEMENT (continued)

51.2 CREDIT RISK (continued)

Analysis of risk concentration (continued)

Geographic analysis (continued)

	2013			
	Lebanon LL million	*Europe LL million*	*Others LL million*	*Total LL million*
Balances with central banks	5,084,934	37,310	414,256	5,536,500
Due from banks and financial institutions	121,767	2,291,098	940,449	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	16,866	308,022	289,978	614,866
Financial assets given as collateral	7,005	-	-	7,005
Derivative financial instruments	1,241	1,873	710	3,824
Financial assets at fair value through profit or loss:				
Lebanese government bonds	104,979	-	-	104,979
Certificates of deposit issued by the Central Bank of Lebanon	329	-	-	329
Other debt securities	-	377	18,798	19,175
Net loans and advances to customers at amortized cost				
Commercial loans	3,626,925	242,818	724,086	4,593,829
Consumer loans	2,058,507	43,510	81,004	2,183,021
Net loans and advances to related parties at amortized cost	22,830	-	902	23,732
Debtors by acceptances	233,298	4,042	208,617	445,957
Financial assets at amortized cost:				
Lebanese government bonds	5,185,252	-	-	5,185,252
Certificates of deposit issued by the Central Bank of Lebanon	4,239,042	-	-	4,239,042
Other foreign government bonds	-	61,092	68,603	129,695
Other debt securities	29,466	289,123	325,615	644,204
	20,732,441	3,279,265	3,073,018	27,084,724

51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

51 RISK MANAGEMENT (continued)

51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

The Group stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the loans to deposits ratio, which compare loans and advances to customers as a percentage of deposits from customers.

Loans to deposits	*2014*	*2013*
Year-end	**30.08%**	30.59%
Maximum	**30.68%**	30.59%
Minimum	**30.08%**	29.25%
Average	**30.34%**	29.71%

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

	2014					
	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	**2,412,387**	**26,749**	**631,903**	**2,523,953**	**3,593,026**	**9,188,018**
Due from banks and financial institutions	**2,573,021**	**225,691**	**114,868**	**-**	**-**	**2,913,580**
Loans to banks and financial institutions and reverse repurchase agreements	**114,348**	**131,768**	**116,499**	**35,830**	**-**	**398,445**
Financial assets given as collateral	**-**	**-**	**7,005**	**-**	**-**	**7,005**
Derivative financial instruments	**3,914**	**768**	**2,033**	**-**	**-**	**6,715**
Financial assets at fair value through profit or loss	**408**	**2,033**	**7,217**	**51,777**	**148,378**	**209,813**
Net loans and advances to customers at amortized cost	**3,044,456**	**588,427**	**1,193,239**	**1,842,754**	**1,063,796**	**7,732,672**
Net loans and advances to related parties at amortized cost	**19,364**	**1,050**	**818**	**4,206**	**3,455**	**28,893**
Debtors by acceptances	**105,505**	**116,814**	**80,620**	**-**	**-**	**302,939**
Financial assets at amortized cost	**178,432**	**424,976**	**1,280,962**	**6,312,566**	**5,346,804**	**13,543,740**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**98,718**	**98,718**
Total undiscounted financial assets	**8,451,835**	**1,518,276**	**3,435,164**	**10,771,086**	**10,254,177**	**34,430,538**
Financial liabilities						
Due to central banks	**9,394**	**547**	**10,739**	**34,554**	**18,247**	**73,481**
Due to banks and financial institutions	**374,240**	**182,403**	**128,338**	**188,316**	**77,872**	**951,169**
Derivative financial instruments	**4,150**	**327**	**950**	**-**	**-**	**5,427**
Customers' deposits at amortized cost	**13,724,877**	**2,823,203**	**5,084,265**	**2,182,138**	**74,048**	**23,888,531**
Deposits from related parties at amortized cost	**292,080**	**3,985**	**6,297**	**29,855**	**-**	**332,217**
Debt issued and other borrowed funds	**-**	**-**	**31,658**	**126,630**	**492,257**	**650,545**
Engagements by acceptances	**105,505**	**116,814**	**80,620**	**-**	**-**	**302,939**
Subordinated debt	**-**	**7,349**	**22,047**	**117,585**	**501,952**	**648,933**
Total undiscounted financial liabilities	**14,510,246**	**3,134,628**	**5,364,914**	**2,679,078**	**1,164,376**	**26,853,242**
Net undiscounted financial assets / (liabilities)	**(6,058,411)**	**(1,616,352)**	**(1,929,750)**	**8,092,008**	**9,089,801**	**7,577,296**

51 RISK MANAGEMENT (continued)

51.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

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

	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	2,926,054	454,689	1,075,349	1,873,906	1,010,628	7,340,626
Net loans and advances to related parties at amortized cost	16,755	1,109	374	1,740	4,690	24,668
Debtors by acceptances	195,762	158,039	89,994	2,104	58	445,957
Financial assets at amortized cost	390,706	287,021	1,522,758	6,200,964	5,036,636	13,438,085
Financial assets at fair value through other comprehensive income	-	-	-	-	86,895	86,895
Total undiscounted financial assets	8,372,801	1,748,800	3,830,248	11,242,828	6,661,561	31,856,238
Financial liabilities						
Due to central banks	8,235	59	473	12,662	31,997	53,426
Due to banks and financial institutions	618,080	345,204	117,452	201,629	148,697	1,431,062
Derivative financial instruments	2,878	179	6	-	-	3,063
Customers’ deposits at amortized cost	13,197,571	2,667,924	4,376,187	1,966,639	52,187	22,260,508
Deposits from related parties at amortized cost	226,314	14,361	15,150	21,028	932	277,785
Debt issued and other borrowed funds	-	62,068	31,658	126,630	524,027	744,383
Engagements by acceptances	195,762	158,039	89,994	2,104	58	445,957
Subordinated debt	-	7,186	22,210	117,422	529,300	676,118
Total undiscounted financial liabilities	14,248,840	3,255,020	4,653,130	2,448,114	1,287,198	25,892,302
Net undiscounted financial assets / (liabilities)	(5,876,039)	(1,506,220)	(822,882)	8,794,714	5,374,363	5,963,936

The table below shows the contractual expiry by maturity of the Group’s contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	2014					
	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***	***Total LL million***
Financial guarantees	**302**	**755**	**112,135**	**72,566**	**-**	**185,758**
Documentary credits	**36,488**	**249,786**	**262,180**	**16,295**	**-**	**564,749**
Commitments to lend	**2,354,802**	**-**	**-**	**-**	**-**	**2,354,802**
	2,391,592	**250,541**	**374,315**	**88,861**	**-**	**3,105,309**

	2013					
	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*	*Total 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	2,080,962	-	-	-	-	2,080,962
	2,116,510	416,085	431,538	73,986	829	3,038,948

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

51 RISK MANAGEMENT (continued)

51.4 MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market variables such as interest rates, foreign exchange rates and equity prices.

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

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

The Group Risk Management division sets the framework necessary for identification, measurement and management of market risk.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. 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 rated financial assets and liabilities at the assumed rates. 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.

		2014	*2013*
Currency	***Increase in basis points***	***Effect on net interest income LL million***	*Effect on net interest income LL million*
LBP	50 basis point	**(20,492)**	(16,433)
US Dollar	50 basis point	**159**	648
Euro	50 basis point	**(1,078)**	(238)

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:

	2014						
	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*	*Total LL million*
ASSETS							
Cash and balances with central banks	**1,269,880**	**-**	**376,875**	**1,581,375**	**2,635,580**	**1,185,075**	**7,048,785**
Due from banks and financial institutions	**1,046,034**	**225,532**	**114,528**	**-**	**-**	**1,527,185**	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	**165,960**	**87,997**	**107,305**	**32,450**	**-**	**-**	**393,712**
Financial assets given as collateral	**-**	**-**	**6,915**	**-**	**-**	**90**	**7,005**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**6,715**	**6,715**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**155,582**	**155,582**
Net loans and advances to customers at amortized cost	**3,235,005**	**743,263**	**2,072,263**	**962,736**	**134,388**	**(48,492)**	**7,099,163**
Net loans and advances to related parties at amortized cost	**26,217**	**-**	**-**	**-**	**1,816**	**-**	**28,033**
Debtors by acceptances	**-**	**-**	**-**	**-**	**-**	**302,939**	**302,939**
Financial assets at amortized cost	**147,952**	**351,006**	**798,345**	**4,556,327**	**4,267,055**	**139,434**	**10,260,119**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**98,718**	**98,718**
Total	**5,891,048**	**1,407,798**	**3,476,231**	**7,132,888**	**7,038,839**	**3,367,246**	**28,314,050**
LIABILITIES							
Due to central banks	**32**	**1**	**5,697**	**8,712**	**47,357**	**9,347**	**71,146**
Due to banks and financial institutions	**186,596**	**176,569**	**99,805**	**134,151**	**160,657**	**153,395**	**911,173**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**5,427**	**5,427**
Customers' deposits at amortized cost	**10,975,572**	**2,737,367**	**4,874,817**	**1,944,739**	**68,655**	**2,776,639**	**23,377,789**
Deposits from related parties at amortized cost	**253,422**	**1,431**	**6,984**	**12,461**	**-**	**38,515**	**312,813**
Debt issued and other borrowed funds	**-**	**-**	**-**	**-**	**444,771**	**616**	**445,387**
Engagements by acceptances	**-**	**-**	**-**	**-**	**-**	**302,939**	**302,939**
Subordinated debt	**-**	**-**	**-**	**-**	**414,498**	**82**	**414,580**
Total	**11,415,622**	**2,915,368**	**4,987,303**	**2,100,063**	**1,135,938**	**3,286,960**	**25,841,254**
Total interest sensitivity gap	**(5,524,574)**	**(1,507,570)**	**(1,511,072)**	**5,032,825**	**5,902,901**	**80,286**	**2,472,796**

51 RISK MANAGEMENT (continued)

51.4 MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

	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*	*Non interest bearing items LL million*	*Total 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	1,940,071	293,398	72,151	4,625	-	1,043,069	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	65,009	142,026	402,080	5,300	-	451	614,866
Financial assets given as collateral	-	-	-	6,915	-	90	7,005
Derivative financial instruments	-	-	-	-	-	3,824	3,824
Financial assets at fair value through profit or loss	-	-	-	-	-	157,447	157,447
Net loans and advances to customers at amortized cost	3,166,381	580,034	1,748,082	1,096,037	268,340	(82,024)	6,776,850
Net loans and advances to related parties at amortized cost	20,738	-	-	-	2,798	196	23,732
Debtors by acceptances	-	-	-	-	-	445,957	445,957
Financial assets at amortized cost	292,177	161,621	985,906	4,496,418	4,109,974	152,097	10,198,193
Financial assets at fair value through other comprehensive income	-	-	-	-	-	86,895	86,895
Total	6,363,913	1,516,267	3,780,973	8,356,385	4,681,112	2,779,363	27,478,013
LIABILITIES							
Due to central banks	-	2	-	11,490	31,730	8,280	51,502
Due to banks and financial institutions	419,159	346,692	109,963	174,143	143,256	199,349	1,392,562
Derivative financial instruments	-	-	-	-	-	3,063	3,063
Customers' deposits at amortized cost	10,440,533	2,618,299	4,234,875	1,789,000	48,600	2,838,878	21,970,185
Deposits from related parties at amortized cost	168,941	12,765	9,604	13,041	-	60,126	264,477
Debt issued and other borrowed funds	-	60,978	-	-	444,883	628	506,489
Engagements by acceptances	-	-	-	-	-	445,957	445,957
Subordinated debt	-	-	-	-	412,286	82	412,368
Total	11,028,633	3,038,736	4,354,442	1,987,674	1,080,755	3,556,363	25,046,603
Total interest sensitivity gap	(4,664,720)	(1,522,469)	(573,469)	6,368,711	3,600,357	(777,000)	2,431,410

Currency risk

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

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored constantly to ensure they are maintained within established limits.

51 RISK MANAGEMENT (continued)

51.4 MARKET RISK (continued)

Currency risk (continued)

Following is the consolidated statement of financial position as of 31 December 2014 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2014		
	LL million	*Foreign currencies in LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	**1,558,455**	**5,490,330**	**7,048,785**
Due from banks and financial institutions	**41,233**	**2,872,046**	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	**3,852**	**389,860**	**393,712**
Financial assets given as collateral	**7,005**	**-**	**7,005**
Derivative financial instruments	**4,656**	**2,059**	**6,715**
Financial assets at fair value through profit or loss	**31,051**	**124,531**	**155,582**
Net loans and advances to customers at amortized cost	**1,643,551**	**5,455,612**	**7,099,163**
Net loans and advances to related parties at amortized cost	**2,335**	**25,698**	**28,033**
Debtors by acceptances	**-**	**302,939**	**302,939**
Financial assets at amortized cost	**7,099,440**	**3,160,679**	**10,260,119**
Financial assets at fair value through other comprehensive income	**26,309**	**72,409**	**98,718**
Property and equipment	**185,643**	**50,736**	**236,379**
Intangible assets	**652**	**-**	**652**
Assets obtained in settlement of debt	**(9,346)**	**46,023**	**36,677**
Other assets	**58,859**	**47,921**	**106,780**
TOTAL ASSETS	**10,653,695**	**18,040,843**	**28,694,538**
LIABILITIES AND EQUITY			
Due to central banks	**61,724**	**9,422**	**71,146**
Due to banks and financial institutions	**22,996**	**888,177**	**911,173**
Derivative financial instruments	**5,010**	**417**	**5,427**
Customers' deposits at amortized cost	**9,238,897**	**14,138,892**	**23,377,789**
Deposits from related parties at amortized cost	**85,003**	**227,810**	**312,813**
Debt issued and other borrowed funds	**-**	**445,387**	**445,387**
Engagement by acceptances	**-**	**302,939**	**302,939**
Other liabilities	**103,553**	**60,350**	**163,903**
Provisions for risks and charges	**133,146**	**12,283**	**145,429**
Subordinated debt	**-**	**414,580**	**414,580**
TOTAL LIABILITIES	**9,650,329**	**16,500,257**	**26,150,586**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	**684,273**	**-**	**684,273**
Share capital – preferred shares	**4,840**	**-**	**4,840**
Share premium – common shares	**-**	**229,014**	**229,014**
Share premium – preferred shares	**-**	**591,083**	**591,083**
Non distributable reserves	**563,839**	**185,040**	**748,879**
Distributable reserves	**76,482**	**19,461**	**95,943**
Treasury shares	**-**	**(6,425)**	**(6,425)**
Retained earnings	**7,486**	**32,413**	**39,899**
Revaluation reserve of real estate	**5,689**	**-**	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	**16,986**	**(24,519)**	**(7,533)**
Net results of the financial period - profit	**228,664**	**24,128**	**252,792**
Foreign currency translation reserves	**(164,357)**	**-**	**(164,357)**
NON-CONTROLLING INTERESTS	**21,886**	**47,969**	**69,855**
TOTAL EQUITY	**1,445,788**	**1,098,164**	**2,543,952**
TOTAL LIABILITIES AND EQUITY	**11,096,117**	**17,598,421**	**28,694,538**

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		
	LL million	*Foreign currencies in LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	1,362,175	4,447,755	5,809,930
Due from banks and financial institutions	54,960	3,298,354	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	5,370	609,496	614,866
Financial assets given as collateral	7,005	-	7,005
Derivative financial instruments	2,552	1,272	3,824
Financial assets at fair value through profit or loss	1,835	155,612	157,447
Net loans and advances to customers at amortized cost	1,529,035	5,247,815	6,776,850
Net loans and advances to related parties at amortized cost	2,586	21,146	23,732
Debtors by acceptances	-	445,957	445,957
Financial assets at amortized cost	6,617,392	3,580,801	10,198,193
Financial assets at fair value through other comprehensive income	24,087	62,808	86,895
Property and equipment	183,032	60,198	243,230
Intangible assets	811	-	811
Assets obtained in settlement of debt	(8,403)	44,782	36,379
Other assets	50,583	57,252	107,835
TOTAL ASSETS	9,833,020	18,033,248	27,866,268
LIABILITIES AND EQUITY			
Due to central banks	42,492	9,010	51,502
Due to banks and financial institutions	17,386	1,375,176	1,392,562
Derivative financial instruments	2,247	816	3,063
Customers' deposits at amortized cost	8,542,280	13,427,905	21,970,185
Deposits from related parties at amortized cost	79,684	184,793	264,477
Debt issued and other borrowed funds	-	506,489	506,489
Engagement by acceptances	-	445,957	445,957
Other liabilities	101,474	94,230	195,704
Provisions for risks and charges	122,765	15,610	138,375
Subordinated debt	-	412,368	412,368
TOTAL LIABILITIES	8,908,328	16,472,354	25,380,682
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	588,671	588,671
Non distributable reserves	513,377	158,941	672,318
Distributable reserves	71,907	25,346	97,253
Treasury shares	1	(10,055)	(10,054)
Retained earnings	23,950	28,168	52,118
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	14,888	(31,532)	(16,644)
Net results of the financial period - profit	199,818	24,865	224,683
Foreign currency translation reserves	(123,650)	-	(123,650)
NON-CONTROLLING INTERESTS	18,711	58,364	77,075
TOTAL EQUITY	1,413,804	1,071,782	2,485,586
TOTAL LIABILITIES AND EQUITY	10,322,132	17,544,136	27,866,268

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.

		2014		2013	
Currency	***Change in currency rate %***	***Effect on profit before tax LL million***	***Effect on equity LL million***	*Effect on profit before tax LL million*	*Effect on equity LL million*
US Dollar	+1	826	-	22	-
Euro	+1	27	1,341	18	1,409
SYP	+1	-	718	-	869

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 2014 would have increased other comprehensive income by LL 2,549 million and net income by LL 1,797 million (2013: LL 2,170 million and LL 1,648 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

51.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To reduce operational risk, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines 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.

51 RISK MANAGEMENT (continued)

51.5 OPERATIONAL RISK (continued)

The framework for managing and controlling operational risks encompass various tools including Risk & Control Assessment (RCA), operational risk event and key risk indicators. The RCA is used by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group’s profits and reputations for further mitigation and avoidance. As to key risk indicators, they are employed to facilitate the operational risk monitoring in a forward looking manner with pre-defined escalation triggers.

The Group’s operational risk mitigation program involves both business continuity management and insurance management program, whereby the former is set to oversee the business continuity of essential business service during unforeseen events mainly business disruption and system failures events - with enterprise wide impact – along with natural disasters and terrorism/ vandalism events. As to the latter the Group purchases group wide insurance policies to mitigate significant losses. These policies cover fraud, property damage and general liability, and Director’s and officers’ liability.

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.

	2014							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	**2,403,232**	**10,953**	**407,122**	**2,821,307**	**1,583,336**	**2,644,142**	**4,227,478**	**7,048,785**
Due from banks and financial institutions	**2,572,980**	**225,641**	**114,658**	**2,913,279**	**-**	**-**	**-**	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	**114,299**	**131,270**	**115,693**	**361,262**	**32,450**	**-**	**32,450**	**393,712**
Financial assets given as collateral	**-**	**-**	**7,005**	**7,005**	**-**	**-**	**-**	**7,005**
Derivative financial instruments	**3,914**	**768**	**2,033**	**6,715**	**-**	**-**	**-**	**6,715**
Financial assets at fair value through profit or loss	**190**	**756**	**746**	**1,692**	**24,062**	**129,828**	**153,890**	**155,582**
Net loans and advances to customers at amortized cost	**3,031,407**	**552,847**	**1,084,448**	**4,668,702**	**1,562,682**	**867,779**	**2,430,461**	**7,099,163**
Net loans and advances to related parties at amortized cost	**19,352**	**1,005**	**748**	**21,105**	**3,896**	**3,032**	**6,928**	**28,033**
Debtors by acceptances	**105,505**	**116,814**	**80,620**	**302,939**	**-**	**-**	**-**	**302,939**
Financial assets at amortized cost	**173,758**	**389,994**	**811,538**	**1,375,290**	**4,578,409**	**4,306,420**	**8,884,829**	**10,260,119**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**98,718**	**98,718**	**98,718**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**236,379**	**236,379**	**236,379**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**652**	**652**	**652**
Assets obtained in settlement of debt	**-**	**-**	**-**	**-**	**-**	**36,677**	**36,677**	**36,677**
Other assets	**4,780**	**26**	**61,827**	**66,633**	**-**	**40,147**	**40,147**	**106,780**
TOTAL ASSETS	**8,429,417**	**1,430,074**	**2,686,438**	**12,545,929**	**7,784,835**	**8,363,774**	**16,148,609**	**28,694,538**
LIABILITIES								
Due to central banks	**9,394**	**546**	**10,226**	**20,166**	**33,358**	**17,622**	**50,980**	**71,146**
Due to banks and financial institutions	**370,047**	**181,578**	**120,623**	**672,248**	**166,351**	**72,574**	**238,925**	**911,173**
Derivative financial instruments	**4,150**	**327**	**950**	**5,427**	**-**	**-**	**-**	**5,427**
Customers’ deposits at amortized cost	**13,667,419**	**2,766,219**	**4,918,081**	**21,351,719**	**1,956,827**	**69,243**	**2,026,070**	**23,377,789**
Deposits from related parties at amortized cost	**291,393**	**1,852**	**7,068**	**300,313**	**12,500**	**-**	**12,500**	**312,813**
Debt issued and other borrowed funds	**-**	**-**	**616**	**616**	**-**	**444,771**	**444,771**	**445,387**
Engagements by acceptances	**105,505**	**116,814**	**80,620**	**302,939**	**-**	**-**	**-**	**302,939**
Other liabilities	**50,898**	**1,652**	**85,078**	**137,628**	**22,439**	**3,836**	**26,275**	**163,903**
Provisions for risks and charges	**-**	**-**	**-**	**-**	**-**	**145,429**	**145,429**	**145,429**
Subordinated debt	**-**	**82**	**-**	**82**	**-**	**414,498**	**414,498**	**414,580**
TOTAL LIABILITIES	**14,498,806**	**3,069,070**	**5,223,262**	**22,791,138**	**2,191,475**	**1,167,973**	**3,359,448**	**26,150,586**
Net	**(6,069,389)**	**(1,638,996)**	**(2,536,824)**	**(10,245,209)**	**5,593,360**	**7,195,801**	**12,789,161**	**2,543,952**

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2013							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	1,804,864	339,997	573,392	2,718,253	2,781,312	310,365	3,091,677	5,809,930
Due from banks and financial institutions	2,955,137	320,986	72,605	3,348,728	4,586	-	4,586	3,353,314
Loans to banks and financial institutions and reverse repurchase agreements	65,444	142,388	401,664	609,496	5,370	-	5,370	614,866
Financial assets given as collateral	-	-	-	-	7,005	-	7,005	7,005
Derivative financial instruments	3,270	312	242	3,824	-	-	-	3,824
Financial assets at fair value through profit or loss	5	83	1,066	1,154	17,281	139,012	156,293	157,447
Net loans and advances to customers at amortized cost	2,913,113	424,569	976,028	4,313,710	1,618,209	844,931	2,463,140	6,776,850
Net loans and advances to related parties at amortized cost	16,741	1,084	300	18,125	1,339	4,268	5,607	23,732
Debtors by acceptances	195,762	158,039	89,993	443,794	2,104	59	2,163	445,957
Financial assets at amortized cost	337,297	203,445	1,022,345	1,563,087	4,508,671	4,126,435	8,635,106	10,198,193
Financial assets at fair value through other comprehensive income	-	-	-	-	-	86,895	86,895	86,895
Property and equipment	-	-	-	-	-	243,230	243,230	243,230
Intangible assets	-	-	-	-	-	811	811	811
Assets obtained in settlement of debt	-	-	-	-	-	36,379	36,379	36,379
Other assets	14,380	404	51,117	65,901	5	41,929	41,934	107,835
TOTAL ASSETS	8,306,013	1,591,307	3,188,752	13,086,072	8,945,882	5,834,314	14,780,196	27,866,268
LIABILITIES								
Due to central banks	8,205	2	10	8,217	11,555	31,730	43,285	51,502
Due to banks and financial institutions	615,573	344,211	109,638	1,069,422	178,104	145,036	323,140	1,392,562
Derivative financial instruments	2,878	179	6	3,063	-	-	-	3,063
Customers' deposits at amortized cost	13,204,057	2,646,685	4,270,055	20,120,797	1,800,184	49,204	1,849,388	21,970,185
Deposits from related parties at amortized cost	225,405	13,332	12,175	250,912	13,565	-	13,565	264,477
Debt issued and other borrowed funds	-	60,990	-	60,990	-	445,499	445,499	506,489
Engagements by acceptances	195,762	158,039	89,993	443,794	2,104	59	2,163	445,957
Other liabilities	73,132	1,861	90,620	165,613	26,014	4,077	30,091	195,704
Provisions for risks and charges	-	-	-	-	-	138,375	138,375	138,375
Subordinated debt	-	-	-	-	-	412,368	412,368	412,368
TOTAL LIABILITIES	14,325,012	3,225,299	4,572,497	22,122,808	2,031,526	1,226,348	3,257,874	25,380,682
Net	(6,018,999)	(1,633,992)	(1,383,745)	(9,036736)	6,914,356	4,607,966	11,522,322	2,485,586

53 CAPITAL

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets to be achieved gradually by year-end 2015 as follows:

	Common Tier 1 capital ratio	**Tier 1 capital ratio**	**Total capital ratio**
Year ended 31 December 2013	6.0 %	8.5 %	10.5 %
Year ended 31 December 2014	7.0 %	9.5 %	11.5 %
Year ended 31 December 2015	8.0 %	10.0 %	12.0 %

53 CAPITAL (continued)

Risk weighted assets
As of 31 December 2014 and 2013, risk weighted assets are as follows:

	2014	*2013*
	LL million	*LL million*
Risk weighted assets	**15,810,239**	16,139,378

Regulatory capital

At 31 December 2014 and 2013, regulatory capital consists of the following:

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2014	*2013*	***2014***	*2013*
	LL million	*LL million*	***LL million***	*LL million*
Common Tier 1 capital	**1,568,174**	1,534,004	**1,659,415**	1,597,136
Additional Tier 1 capital	**601,580**	601,286	**601,580**	601,286
Tier 2 capital	**463,616**	464,967	**463,616**	464,967
Total capital	**2,633,370**	2,600,257	**2,724,611**	2,663,389

Capital adequacy ratio
As of 31 December 2014 and 2013, capital adequacy ratio is as follows:

	Excluding profit for the year		*Including profit for the year less proposed dividends*	
	2014	*2013*	***2014***	*2013*
Common Tier 1 capital	**9.92%**	9.50%	**10.50%**	9.90%
Total Tier 1 capital ratio	**13.72%**	13.23%	**14.30%**	13.62%
Total capital ratio	**16.66%**	16.11%	**17.23%**	16.50%

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years, however, they are under constant scrutiny of the Board.

54 DIVIDENDS PAID AND PROPOSED

	2014	*2013*
	LL million	*LL million*
Dividends paid during the year		
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	**(539)**	(714)
	161,012	160,837
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary shares 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