BANQUE MISR LIBAN S.A.L.

Report and financial statements
for the year ended 31 December 2013

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Independent Auditors' Report
to the shareholders of Banque Misr Liban S.A.L.

Report on the financial statements

We have audited the accompanying stand-alone financial statements of Banque Misr Liban S.A.L. ("the Bank") which comprise the balance sheet as at 31 December 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the stand-alone financial position of the Bank at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

PricewaterhouseCoopers

KPMG

PricewaterhouseCoopers

KPMG

Beirut, Lebanon
5 May 2014

Balance sheet
at 31 December 2013

	Note	2013 LL Million	2012 LL Million
Assets			
Cash and balances with the Central bank	5	**253,596**	165,197
Loans and advances to banks	6	**94,987**	148,205
Advances to parent and sister banks	7	**413**	106
Loans and advances to customers	8	**294,583**	256,415
Debtors by acceptances	9	**2,099**	16,594
Investment securities:			
- At fair value through profit or loss	10	**60,376**	3,214
- At fair value through other comprehensive income	10	**1,400**	1,438
- At amortised cost	10	**1,045,999**	1,001,987
Property and equipment	12	**24,760**	26,769
Intangible assets	13	**718**	952
Investment properties	14	**21**	24
Investment in a subsidiary	15	**29**	29
Other assets	16	**3,316**	1,600
		1,782,297	1,622,530
Non-current assets held for sale	11	**3,091**	4,327
Total assets		**1,785,388**	1,626,857
Liabilities			
Due to Central Bank	17	**3,693**	-
Deposits from banks	18	**69,858**	71,064
Deposits from parent and sister banks	19	**17,449**	81,988
Deposits from customers	20	**1,532,685**	1,299,383
Engagements by acceptances	9	**2,099**	16,594
Retirement benefit obligations	23	**3,326**	3,278
Provisions for liabilities and charges	22	**524**	501
Other liabilities	21	**8,146**	10,400
Total liabilities		**1,637,780**	1,483,208
Shareholders' equity			
Share capital	24	**100,000**	100,000
Legal reserve	24	**6,638**	5,786
Reserve for unspecified banking risks	24	**13,343**	10,371
Fair value reserve	24	**355**	393
Profit for the year	24	**7,497**	8,524
Free reserve	24	**19,642**	18,575
Other reserve	24	**133**	-
Total shareholders' equity		**147,608**	143,649
Total shareholders' equity and liabilities		**1,785,388**	1,626,857

The financial statements on pages 3 to 78 were approved for issue and signed by Mr. Hadi Naffi, the Executive General Manager, on 5 May 2014 on behalf of the Board of Directors.

The notes on pages 8 to 78 are an integral part of these separate financial statements.

Statement of comprehensive income for the year ended 31 December 2013

	Note	2013 LL Million	2012 LL Million
Interest and similar income	25	**90,660**	87,204
Interest and similar expenses	25	**(61,112)**	(57,495)
Net interest and similar income		**29,548**	29,709
Net loan impairment charges	27	**(1,717)**	(1,074)
Net interest and similar income after loan impairment charges		**27,831**	28,635
Fee and commission income	26	**4,989**	4,664
Fee and commission expense	26	**(833)**	(402)
Net fee and commission income		**4,156**	4,262
Net trading gains		**597**	596
Net gains on investment securities	28	**3,989**	5,453
Personnel expenses	29	**(16,031)**	(16,464)
General and administrative expenses	30	**(6,886)**	(6,864)
Depreciation and amortisation expenses	31	**(5,329)**	(5,893)
Other operating income	32	**1,268**	1,039
Profit before income tax		**9,595**	10,764
Income tax expense	33	**(2,098)**	(2,240)
Profit for the year		**7,497**	8,524
Other comprehensive income			
Net unrealised loss on financial assets at fair value through other comprehensive income		**(38)**	(60)
Total comprehensive income for the year		**7,459**	8,464
Basic and diluted earnings per share (expressed in LL per share)	37	**94**	107

The notes on pages 8 to 78 are an integral part of these separate financial statements.

BANQUE MISR LIBAN S.A.L.

Statement of changes in equity
for the year ended 31 December 2013

	Share capital LL Million	Legal reserve LL Million	Reserve for unspecified banking risks LL Million	Fair value reserve LL Million	Appropriation of profit for the year LL Million	Free reserve LL Million	Other reserve LL Million	Total LL Million
Balance at 1 January 2012	100,000	4,860	7,787	453	9,260	16,325	-	138,685
Profit for the year	-	-	-	-	8,524	-	-	8,524
Net unrealised loss on financial assets at fair value through OCI	-	-	-	(60)	-	-	-	(60)
Total comprehensive income	-	-	-	(60)	8,524	-	-	8,464
Dividends declared (note 24)	-	-	-	-	(3,500)	-	-	(3,500)
Transfers (note 24)	-	926	2,584	-	(5,760)	2,250	-	-
Total transactions with owners recognised directly - equity	-	926	2,584	-	(9,260)	2,250	-	(3,500)
Balance at 31 December 2012	**100,000**	**5,786**	**10,371**	**393**	**8,524**	**18,575**	**-**	**143,649**
Balance at 1 January 2013	100,000	5,786	10,371	393	8,524	18,575	-	143,649
Profit for the year	-	-	-	-	7,497	-	-	7,497
Net unrealised loss on financial assets at fair value through OCI	-	-	-	(38)	**-**	**-**	**-**	**(38)**
Total comprehensive income	**-**	**-**	**-**	**(38)**	7,497	-	-	7,459
Dividends declared (note 24)	-	-	-	-	(3,500)	-	-	(3,500)
Transfers (note 24)	-	852	2,972	-	(5,024)	1,067	133	-
Total transactions with owners recognised directly - equity	-	852	2,972	-	(8,524)	1,067	133	(3,500)
Balance at 31 December 2013	**100,000**	**6,638**	**13,343**	**355**	**7,497**	**19,642**	**133**	**147,608**

The notes on pages 8 to 78 are an integral part of these separate financial statements.

Statement of cash flows
for the year ended 31 December 2013

	Note	**2013 LL Million**	2012 LL Million
Cash flows from operating activities			
Profit before income tax		**9,595**	10,764
Adjustments for:			
Depreciation expense	31	**4,988**	5,536
Amortisation expense	31	**341**	357
Net (gain) loss on disposal of property and equipment		**(66)**	42
Net gain on disposal of intangible assets		**(2)**	-
Gain on sale of non-current assets held for sale	32	**(189)**	(522)
Net loan impairment charges	27	**1,717**	1,074
Net interest income	25	**(29,548)**	(29,709)
Net fee and commission income	26	**(4,156)**	(4,262)
Changes in operating assets and liabilities:			
Cash and balances with the Central bank		**(81,411)**	22,555
Loans and advances to banks		**14,870**	(4,594)
Loans and advances to customers		**(39,943)**	(57,170)
Investment securities		**(101,342)**	(70,942)
Other assets	16	**(1,716)**	1,827
Deposits from banks		**(1,220)**	31,212
Deposits from parent and sister banks		**(64,508)**	(11,215)
Due to the Central Bank		**3,686**	-
Deposits from customers		**232,155**	153,958
Net change in retirement benefit obligations	23	**48**	900
Net change in provisions for liabilities and charges	22	**23**	(25)
Other liabilities	21	**(2,254)**	2,450
Cash (used in) generated from operating activities		**(58,932)**	52,236
Interest received		**90,983**	85,601
Interest paid		**(61,652)**	(58,404)
Net fee and commission income	26	**4,156**	4,262
Income tax paid	33	**(2,098)**	(2,240)
Net cash (used in) generated from operating activities		**(27,543)**	81,455
Cash flows from investing activities			
Purchase of property and equipment	12	**(3,063)**	(12,174)
Proceeds from sale of property and equipment		**153**	4
Proceeds from sale of non-current assets held for sale		**1,425**	2,404
Proceeds from sale of intangible assets		**2**	-
Purchase of intangible assets	13	**(107)**	(611)
Net cash used in investing activities		**(1,590)**	(10,377)

The notes on pages 8 to 78 are an integral part of these separate financial statements.

Statement of cash flows (continued)
for the year ended 31 December 2013

	Note	**2013 LL Million**	2012 LL Million
Cash flows used in financing activities			
Dividends paid		**(3,500)**	(3,500)
Net (decrease) increase in cash and cash equivalents		**(32,633)**	67,578
Cash and cash equivalents at beginning of year	34	**149,681**	82,103
Cash and cash equivalents at end of year	34	**117,048**	149,681

The notes on pages 8 to 78 are an integral part of these separate financial statements.

Notes to the financial statements for the year ended 31 December 2013

1 General information

Banque Misr Liban S.A.L. ("the Bank") was incorporated in Lebanon in 1929 and registered at the Lebanese Commercial Register in Beirut under No. 104. It appears under number 3 in the list of Lebanese banks regulated by the Central Bank of Lebanon.

The Bank is involved in corporate and retail banking services. The Bank's head office is located in Beirut Central District, Bank Misr building.

The parent bank is Banque Misr – Cairo which owns 92% (2012 – 92%) of the Bank and is incorporated in Egypt. The address of the parent bank is street no. 151, Mohammad Farid, Cairo, Egypt.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Bank has prepared these stand-alone financial statements in accordance with International Financial Reporting Standards ("IFRS") and IFRS interpretations committee (IFRS IC) applicable to Banks reporting under IFRS.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiary (the "Group"). In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The consolidated financial statements can be obtained from Banque Misr Liban S.A.L. registered in Beirut under No. 104.

Users of these stand-alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2013 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The financial statements of Banque Misr Liban S.A.L. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value.

The financial statements comprise the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes.

The Bank classifies its expenses by the nature of expense method.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 34 shows the balance sheet captions in which cash and cash equivalents items are included.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Bank

The following standards have been adopted by the Bank for the financial year beginning or after 1 January 2013:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The impact of this amendment will not be significant on the Bank's financial statements.

- IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Bank's accounting policies have been to immediately recognise all past service costs, and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). This standard will not have a material impact on the Bank's financial statements.

- IFRS 10, 'Consolidated financial statements', (effective from 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity to present consolidated financial statements. This standard will not have a material impact on the Bank's financial statements.

- IFRS 12, 'Disclosures of interests in other entities', (effective from 1 January 2013). The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard will not have a material impact on the Bank's financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standards adopted by the Bank (continued)

The following standards have been adopted by the Bank for the financial year beginning or after 1 January 2013 (continued):

- IFRS 13, 'Fair value measurement', (effective from 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard requires additional disclosures on the Bank's financial statements.

- IAS 27 (Revised 2011), 'Separate financial statements', (effective from 1 January 2013). The standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This standard will not have a material impact on the Bank's financial statements.

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2013 but not early adopted by the Bank*:

The Bank's assessment of the impact of these new standards and interpretations is set out below:

- Amendments to IAS 36, 'Impairment of assets ', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Bank until 1 January 2014. The impact of this amendment is not expected to be significant on the Bank's financial statements.

There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Investment in subsidiary

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investment in subsidiary is accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its recoverable amount.

Details of the Bank's subsidiary are shown in note 15.

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Lebanese Pounds, which is the Bank's functional and presentation currency except as otherwise stated, the figures shown in the financial statements are stated in LL million.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

In the case of changes in the fair value of monetary assets denominated in foreign currency a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments such as equities classified as fair value through other comprehensive income are included in the fair value reserves in equity.

2.4 Financial assets and liabilities

2.4.1 Classification of financial assets

The Bank classifies its financial assets as measured at fair value or at amortised cost.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Classification of financial assets (continued)

Debt instruments

(a) Financial assets at amortised cost

A debt instrument is classified as 'amortised cost' only if both of the following criteria are met: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt instrument are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

(b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as at "fair value through profit or loss".

Equity instruments

All equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Bank can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

(c) Recognition, measurement, derecognition and reclassification

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value though profit or loss are expensed in the profit or loss.

A gain or loss on a debt instrument that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of comprehensive income within "Net trading gains" in the period in which they arise.

A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.1 Classification of financial assets (continued)

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present unrealised and realised fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

(d) Classes of financial instruments

<table>
<tr><th colspan="2">Category
(as defined by IFRS 9)</th><th colspan="2">Class
(as determined by the Bank)</th><th>Subclass</th></tr>
<tr><td rowspan="7">Financial assets</td><td rowspan="5">At amortised cost</td><td colspan="3">Advances to parent and sister banks</td></tr>
<tr><td colspan="3">Loans and advances to banks</td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Loans to individuals</td><td>- Overdrafts
- Credit cards
- Personal loans
- Housing loans</td></tr>
<tr><td>Loans to corporate entities</td><td>- SMEs
- Large corporate entities</td></tr>
<tr><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and Listed</td></tr>
<tr><td>At fair value through other comprehensive income</td><td colspan="2">Investment securities - equity instruments</td><td>Unlisted and Listed</td></tr>
<tr><td>At fair value through profit or loss</td><td colspan="2">Investment securities - debt instruments</td><td>Listed</td></tr>
<tr><td rowspan="4">Financial liabilities</td><td rowspan="4">At amortised cost</td><td colspan="3">Due to Central Bank</td></tr>
<tr><td colspan="3">Deposits from banks</td></tr>
<tr><td colspan="3">Deposits from parent and sister banks</td></tr>
<tr><td colspan="3">Deposits from customers</td></tr>
<tr><td rowspan="2">Off balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

2.4.2 Financial liabilities

The Bank holds financial liabilities at amortised cost. Financial liabilities measured at amortised cost are due to Central bank, deposits from banks, and deposits from parent and sister banks or customers. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

2.6 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "Interest and similar income" and "Interest and similar expenses" in the statement of profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

2.7 Fee and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided and mainly comprise commissions on client transactions such as the processing fees for opening and executing letters of credit and letters of guarantees.

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.8 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(b) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.11 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner-occupied is accounted for as PPE, and the portion that is held for rental income or capital appreciation or both is treated as investment property. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment if any.

Depreciation is calculated using the straight-line method to allocate their residual values over their estimated useful lives of 20 years.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the balance sheet. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the statement of profit or loss.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.13 Property and equipment

Property and equipment comprise buildings comprise mainly branches and offices. All property and equipment used by the Bank are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to other operating expenses during the financial period in which they are incurred.

Depreciation of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	20
Improvements	4
Computer and office equipment	5
Furniture and fixtures	4
Vehicles	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of the balance sheet. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the statement of profit or loss.

2.14 Intangible assets

Intangible assets comprise mainly computer software licences. Intangible assets are stated cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.14 Intangible assets (continued)

Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.15 Non-current assets held for sale

Non-current assets held for sale are acquired from customers in settlement of their debt. The Bank exercises its ownership rights over the real estate collateral or acquires the customer's real estate property when it exhausts all other reasonable means for collecting non-performing loans.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell since their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.16 Income tax

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law and is recognised as an expense for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity. The Bank's profit is subject to a tax rate of 15%. In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Bank's tax charge is determined as the higher of corporate tax and tax on interest income withheld during the year.

2.17 Retirement benefit obligations

The Bank provides for End-of-Service Indemnity ("EoSI") to its employees, which varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total EoSI contributions paid to National Social Security Fund ("NSSF"). End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.18 Provisions

Provisions for restructuring costs and legal claims are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognises no provisions for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Fee income earned are amortised on a straight line basis over the life of the guarantee.

2.20 Share capital

(a) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

2.21 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Notes to the financial statements (continued)

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Bank's risk management department under policies approved by the Board of Directors. The risk management department evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and the use of derivative financial instruments and non-derivative financial instruments. The Bank's Audit committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit committee is assisted in these functions by the internal audit department.

Internal audit undertakes both regular and ad-hoc reviews for risk management controls and procedures, the results of which are reported to the Bank's Audit committee.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks mainly arising from investments in debt securities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised with the credit administration unit, which reports to the head of risk management department.

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Bank rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon ("BDL") and the Banking Control Commission of Lebanon ("BCC") requirements as follows:

- Normal – type of loan is expected to be repaid on a timely and consistent basis;
- Follow-up - the loan is expected to be repaid but the client's file is not complete;
- Special mention – type of loan is expected to be repaid but with lack of current financial information about the client;
- Substandard – type of loan where the client is witnessing a difficult financial condition;
- Doubtful – type of loan where there is no movement in the clients' balance;
- Bad – type of loan where the probability of repayment is low and almost nil.

These credit risk measurements reflect the impairment allowances required under IAS 39, which are based on losses that have been incurred at the end of the reporting period (the 'incurred loss model').

(b) Debt securities and other bills

For debt securities and other bills, external ratings are used by the Bank's Treasury department for managing credit risk exposure. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3.1.2 Risk limit control and mitigation policies

The Bank manages limits and control concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

(a) Collateral (continued)

The principal collateral types for loans and advances are:

- Real Estate Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory, machinery and vehicles;
- Personal Guarantees;
- Salary domiciliation;
- Letters of Credit and Documentary collections;
- Cash collaterals; and
- Shares collaterals.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are either settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate, in addition to a required credit margin set by the credit committee based on the credit rating of each customer and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.3 Impairment and provisioning policies

The rating system described in note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the end of the reporting period based on objective evidence of impairment (see note 2.8).

The categorisation of loans follows the BCC grading system. The impairment provision shown in the balance sheet at year-end is derived from each of the six internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings shown under "Bad and doubtful" below. Performing category includes (Normal, follow-up and special mention gradings).The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2013 Credit risk exposure (%)	**2013 Impairment allowance (%)**	2012 Credit risk exposure (%)	2012 Impairment allowance (%)
1. Performing	85.66%	1.47%	86.13%	1.60%
2. Substandard	2.26%	47.73%	2.08%	51.12%
3. Doubtful	9.74%	57.55%	9.34%	59.63%
4. Bad	2.34%	99.15%	2.45%	100.00%
	100%		100%	

The total impairment constitutes 10.29% (2012 – 10.48%) of the total facilities provided to clients.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	2013 LL Million	2012 LL Million
Assets		
Balances with the Central Bank	**235,889**	152,783
Loans and advances to banks	**94,987**	148,205
Advances to parent and sister banks	**413**	106
Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	**8,134**	7,884
- Personal loans	**80,713**	68,374
- Mortgages	**75,668**	62,851
Loans to corporate entities:		
- Large corporate entities	**74,689**	65,088
- Small and medium size enterprises (SMEs)	**55,379**	52,218
Debtors by acceptances	**2,099**	16,594
Investment securities:		
- At amortised cost	**1,045,999**	1,001,987
- At fair value through profit or loss	**60,376**	3,214
Other assets	**1,781**	601
	1,736,127	1,579,905

Credit risk exposures relating to off-balance sheet items are as follows:

	2013 LL Million	2012 LL Million
Letters of guarantee - clients	**35,953**	29,698
Documentary and commercial letters of credit with banks	**3,100**	2,662
Loan commitments	**63,680**	48,210
	102,733	80,570
	1,838,859	1,660,475

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2013 and 2012, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

As shown above, 63.7% of the total maximum on balance sheet exposure is derived from investment securities (2012 – 63.8%), 5.47% is derived from loans and advances to banks (2012 – 9.3%) and 16.9% is derived from loans and advances to customers (2012 – 16.2%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its investments in Lebanese debt securities and placements at the Central Bank of Lebanon, from its investment in other banks and from its loans and advances to customers based on the following:

- 85.7% of the loans and advances portfolio is categorised in performing category of the internal rating system (2012 – 86.1%);
- 79.47% of the loans and advances portfolio are considered to be neither past due nor impaired (2012 – 75.7%);
- Investments in other banks are placed in highly rated banks;
- The Bank has introduced a more stringent selection process upon granting loans and advances;
- Approximately all investment securities are allocated to Lebanese Treasury bills, and Certificates of deposit issued by BDL; and
- All investment securities are neither past due nor impaired.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2013. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Lebanon LL Million	Arab countries LL Million	United States LL Million	European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with the Central Bank	235,889	-	-	-	-	235,889
Loans and advances to banks	60,210	428	30,696	3,585	68	94,987
Advances to parent and sister banks	-	-	-	413	-	413
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	7,967	151	-	14	2	8,134
- Personal loans	79,923	750	40	-	-	80,713
- Mortgages	75,668	-	-	-	-	75,668
Loans to corporate entities:						
- Large corporate entities	65,491	5,421	-	3,777	-	74,689
- Small and medium size enterprises (SMEs)	52,647	254	-	2,478	-	55,379
Debtors by acceptances	2,099	-	-	-	-	2,099
Investment securities:						
- At amortised cost	1,045,999	-	-	-	-	1,045,999
- At fair value through profit or loss	60,376	-	-	-	-	60,376
Other assets	1,781	-	-	-	-	1,781
At 31 December 2013	**1,688,050**	**7,004**	**30,736**	**10,267**	**70**	**1,736,127**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors (continued)

	Lebanon LL Million	Arab countries LL Million	United States LL Million	European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with the Central Bank	152,783	-	-	-	-	152,783
Loans and advances to banks	81,876	702	61,853	3,774	-	148,205
Advances to parent and sister banks	-	-	-	106	-	106
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	7,598	250	6	30	-	7,884
- Personal loans	66,615	1,709	-		50	68,374
- Mortgages	62,755	96	-	-	-	62,851
Loans to corporate entities:						
- Large corporate entities	40,754	20,655	-	3,679	-	65,088
- Small and medium size enterprises (SMEs)	51,566	250	-	-	402	52,218
Debtors by acceptances	16,594	-	-	-	-	16,594
Investment securities:						
- At amortised cost	1,001,987	-	-	-	-	1,001,987
- At fair value through profit or loss	3,214	-	-	-	-	3,214
Other assets	601	-	-	-	-	601
At 31 December 2012	**1,486,343**	**23,662**	**61,859**	**7,589**	**452**	**1,579,905**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors (continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Lebanon LL Million	Arab countries LL Million	European countries LL Million	Other LL Million	Total LL Million
Letters of guarantee - clients	35,586	2	338	27	35,953
Documentary and commercial letters of credit with banks	3,100	-	-	-	3,100
Loan commitments	53,390	10,212	43	35	63,680
At 31 December 2013	**92,076**	**10,214**	**381**	**62**	**102,733**
Letters of guarantee - clients	16,039	13,632	-	27	29,698
Documentary and commercial letters of credit with banks	2,662	-	-	-	2,662
Loan commitments	47,821	217	46	126	48,210
At 31 December 2012	**66,522**	**13,849**	**46**	**153**	**80,570**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors

The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

	Financial institutions LL Million	Manufacturing LL Million	Real estate LL Million	Commercial LL Million	Other LL Million	Total LL Million
Assets						
Balances with the Central Bank	235,889	-	-	-	-	235,889
Loans and advances to banks	94,987	-	-	-	-	94,987
Advances to parent and sister banks	413	-	-	-	-	413
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	-	-	-	8,134	8,134
- Personal loans	-	-	-	-	80,713	80,713
- Mortgages	-	-	-	-	75,668	75,668
Loans to corporate entities:						
- Large corporate entities	4,028	3,009	16,629	41,808	9,215	74,689
- Small and medium size enterprises (SMEs)	35	6,641	15,817	17,616	15,270	55,379
Debtors by acceptances	-	354	-	1,745	-	2,099
Investment securities:						
- At amortised cost	1,045,999	-	-	-	-	1,045,999
- At fair value through profit or loss	60,376	-	-	-	-	60,376
Other assets	-	-	-	-	1,781	1,781
At 31 December 2013	**1,441,727**	**10,004**	**32,446**	**61,169**	**190,781**	**1,736,127**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors (continued)

	Financial institutions LL Million	Manufacturing LL Million	Real estate LL Million	Commercial LL Million	Other LL Million	Total LL Million
Assets						
Balances with the Central Bank	152,783	-	-	-	-	152,783
Loans and advances to banks	148,205	-	-	-	-	148,205
Advances to parent and sister banks	106	-	-	-	-	106
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	-	-	-	7,884	7,884
- Personal loans	-	-	-	-	68,374	68,374
- Mortgages	-	-	-	-	62,851	62,851
Loans to corporate entities:						
- Large corporate entities	18,554	3,851	4,724	26,853	11,106	65,088
- Small and medium size enterprises (SMEs)	-	5,006	20,045	10,598	16,569	52,218
Debtors by acceptances	-	-	-	6,429	10,165	16,594
Investment securities:						
- At amortised cost	1,001,987	-	-	-	-	1,001,987
- At fair value through profit or loss	3,214	-	-	-	-	3,214
Other assets	-	-	-	-	601	601
At 31 December 2012	**1,324,849**	**8,857**	**24,769**	**43,880**	**177,550**	**1,579,905**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors (continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Financial institutions LL Million	Manufacturing LL Million	Real estate LL Million	Commercial LL Million	Other LL Million	Total LL Million
Letters of guarantee - clients	136	938	422	24,688	9,769	35,953
Documentary and commercial letters of credit with banks	-	-	-	3,100	-	3,100
Loan commitments	-	4,504	4,484	21,793	32,899	63,680
At 31 December 2013	**136**	**5,442**	**4,906**	**49,581**	**42,668**	**102,733**
Letters of guarantee - clients	135	174	198	20,203	8,988	29,698
Documentary and commercial letters of credit with banks	-	188	-	2,390	84	2,662
Loan commitments	15	5,319	1,496	26,804	14,576	48,210
At 31 December 2012	**150**	**5,681**	**1,694**	**49,397**	**23,648**	**80,570**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2013 Loans and advances to customers LL Million	**2013 Loans and advances to the Central Bank and banks LL Million**	2012 Loans and advances to customers LL Million	2012 Loans and advances to the Central Bank and banks LL Million
Neither past due nor impaired	**260,973**	**330,876**	217,037	300,988
Past due but not impaired	**20,191**	**-**	29,590	-
Individually impaired	**47,206**	**-**	39,818	-
Gross	**328,370**	**330,876**	286,445	300,988
Less:				
Allowance for impairment	**(33,787)**	**-**	(30,030)	-
Net	**294,583**	**330,876**	256,415	300,988
Individually impaired	**(29,640)**	**-**	(26,065)	-
Portfolio allowance	**(4,147)**	**-**	(3,965)	-
Total	**(33,787)**	**-**	(30,030)	-

During the year ended 31 December 2013, the Bank's total loans and advances increased by 14.8% as a result of the expansion of the lending business (mainly retail), especially in Lebanon. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with large corporate enterprises, retail loans, or banks with good credit rating or retail customers providing sufficient collateral.

None of the investment securities totaling to LL 1.1 billion at 31 December 2013 (2012 – LL 1 billion) were either past due or impaired.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(a) Loans and advances neither past due nor impaired (continued)

	Loans to individuals			Loans to corporate entities			Loans and advances to the Central Bank and banks
	Overdrafts	Personal loans	Mortgages	SMEs	Large corporate entities	Total	
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
31 December 2013							
Grades							
Normal	6,737	76,317	75,923	40,382	49,100	248,459	330,876
Special mention	196	849	855	1,681	8,933	12,514	-
	6,933	**77,166**	**76,778**	**42,063**	**58,033**	**260,973**	**330,876**
31 December 2012							
Grades							
Normal	7,511	62,849	62,676	24,882	37,982	195,900	300,988
Special mention	226	2,688	244	9,947	8,032	21,137	-
	7,737	**65,537**	**62,920**	**34,829**	**46,014**	**217,037**	**300,988**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Loans and advances less than 90 days past due are not considered impaired, unless other information indicates the contrary. Past due loans over 90 days are not considered to be impaired if the collateral covers adequately the loans and/or based on the stage of collection of amounts owed to the Bank.

Gross amount of loans by class of customers at 31 December 2013 that were past due but not impaired were as follows:

	Overdrafts LL Million	Personal Loans LL Million	Mortgages LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million
At 31 December 2013						
Past due up to 30 days	57	-	54	987	380	1,478
Past due 30 – 60 days	133	37	6	317	75	568
Past due 60 – 90 days	30	49	39	575	1,938	2,631
Over 90 days	257	3,250	318	3,070	8,619	15,514
Total	**477**	**3,336**	**417**	**4,949**	**11,012**	**20,191**
Fair value of collateral	**17**	**47**	**15,015**	**36,321**	**19,426**	**70,826**
Amount of undercollateralisation	**460**	**3,289**	**(14,598)**	**(31,372)**	**(8,414)**	**(50,635)**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(b) Loans and advances past due but not impaired (continued)

Gross amount of loans by class of customers at 31 December 2012 that were past due but not impaired were as follows:

	Overdrafts LL Million	Personal Loans LL Million	Mortgages LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million
At 31 December 2012						
Past due up to 30 days	86	-	-	65	-	151
Past due 30 – 60 days	45	53	3	176	524	801
Past due 60 – 90 days	34	12	-	116	-	162
Over 90 days	48	1,188	67	10,838	16,335	28,476
Total	**213**	**1,253**	**70**	**11,195**	**16,859**	**29,590**
Fair value of collateral	**-**	**-**	**-**	**10,815**	**995**	**11,810**
Amount of under collateralisation	**213**	**1,253**	**70**	**380**	**15,864**	**17,780**

Upon initial recognition of loans and advances, the fair value of the collateral is based on valuation techniques commonly used for the corresponding assets.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers, before taking into consideration the cash flows from collateral held, is LL 47,206 million (2012 - LL 39,818 million).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	Loans to Individuals		Loans to Corporate entities		
	Overdrafts LL Million	Personal Loans LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million
31 December 2013					
Individually impaired loans	502	4,235	28,256	14,213	47,206
Fair value of collateral	-	57	22,744	6,852	29,653
31 December 2012					
Individually impaired loans	414	3,283	25,538	10,583	39,818
Fair value of collateral	-	57	17,761	6,852	24,670

(ii) Loans and advances to the Central Bank and banks

The gross amount of loans and advances to the Central Bank and banks as at 31 December 2013 is LL 330,876 million (2012 - LL 300,988 million). No collateral is held by the Bank except for loans and advances to Banque de L'Habitat which is fully secured. No impairment provision has been provided against the gross amount.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification, and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired amounted to LL 5,647 million at 31 December 2013 (2012 – LL 4,493 million).

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2013, based on Standard & Poor's ratings or their equivalent:

	Treasury bills LL Million	Eurobonds LL Million	Certificate of deposits LL Million	Investment Funds LL Million	Total LL Million
31 December 2013					
B+ to B-	**415,934**	**375,603**	**278,582**	**36,256**	**1,106,375**
31 December 2012					
B+ to B-	382,619	287,110	335,472	-	1,005,201

3.1.7 Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within non current assets held for sale (note 11).

The Bank obtained assets by taking possession of collateral held as security, as follows:

	2013 LL Million	2012 LL Million
Nature of assets		
Residential property - carrying amount	**3,091**	4,327

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by the Treasury department. Regular reports are submitted to the Board of Directors, Asset Liability Committee ("ALCO") and senior management.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.1 Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is carried out by the Bank's risk management department. The Bank's treasury is responsible for managing the market exposure within the limits as approved by ALCO and as stipulated by the circulars of Central Bank of Lebanon no. 32 and 81. The major measurement technique used to measure and control market risk is outlined below.

Sensitivity analysis

A technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions. The Bank performs this analysis for each type of market risk to which the Bank is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

At the reporting date, the result of the sensitivity analysis is not material to the Bank's financial performance.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its balance sheet and cash flows. The Board of Directors sets limits on the level of exposure by currency as follows:

- Net exposure by currencies should not exceed 1% of Tier I capital.
- Gross exposure (in absolute terms) by currencies should not exceed 40% of Tier I capital.

The following tables summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2013 and 31 December 2012. The table includes the Bank's financial instruments at carrying amounts, categorised by currency.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued) - Concentration of currency risk
As at 31 December 2013

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Other LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank	42,115	208,695	2,749	37	-	-	253,596
Loans and advances to banks	16,767	67,235	9,980	301	-	704	94,987
Advances to parent and sister banks	-	215	135	8	55	-	413
Loans and advances to customers	146,717	143,953	3,912	1	-	-	294,583
Debtors by acceptances	-	2,065	34	-	-	-	2,099
Investment securities:							
- At amortised cost	523,041	487,443	35,515	-	-	-	1,045,999
- At fair value through OCI	520	880	-	-	-	-	1,400
- At fair value through profit or loss	26,535	33,841	-	-	-	-	60,376
Other assets	1,714	1,474	128	-	-	-	3,316
Total financial assets	**757,409**	**945,801**	**52,453**	**347**	**55**	**704**	**1,756,769**
Liabilities							
Deposits from banks	14,956	42,372	12,530	-	-	-	69,858
Deposits from the Central Bank	3,693	-	-	-	-	-	3,693
Deposits from parent and sister banks	-	17,237	-	212	-	-	17,449
Deposits from customers	619,314	868,504	42,859	1,371	3	634	1,532,685
Engagements by acceptances	-	2,065	34	-	-	-	2,099
Other liabilities	5,227	2,896	11	6	1	5	8,146
Total financial liabilities	**643,190**	**933,074**	**55,434**	**1,589**	**4**	**639**	**1,633,930**
Net on-balance sheet financial position	**114,219**	**12,727**	**(2,981)**	**(1,242)**	**51**	**65**	**122,839**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued) - Concentration of currency risk
As at 31 December 2012

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Other LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank	39,107	121,967	3,983	140	-	-	165,197
Loans and advances to banks	12,061	118,372	14,320	496	-	2,956	148,205
Advances to parent and sister banks	-	16	19	9	62	-	106
Loans and advances to customers	126,563	125,592	4,260	-	-	-	256,415
Debtors by acceptances	-	6,429	10,165	-	-	-	16,594
Investment securities:							
- At amortised cost	526,421	441,528	34,038	-	-	-	1,001,987
- At fair value through OCI	524	914	-	-	-	-	1,438
- At fair value through profit or loss	3,214	-	-	-	-	-	3,214
Other assets	850	634	116	-	-	-	1,600
Total financial assets	**708,740**	**815,452**	**66,901**	**645**	**62**	**2,956**	**1,594,756**
Liabilities							
Deposits from banks	12,225	46,867	11,972	-	-	-	71,064
Deposits from parent and sister banks	-	70,841	10,940	207	-	-	81,988
Deposits from customers	578,749	681,699	33,761	2,266	18	2,890	1,299,383
Engagements by acceptances	-	6,429	10,165	-	-	-	16,594
Other liabilities	7,813	2,535	51	-	1	-	10,400
Total financial liabilities	**598,787**	**808,371**	**66,889**	**2,473**	**19**	**2,890**	**1,479,429**
Net on-balance sheet financial position	**109,953**	**7,081**	**12**	**(1,828)**	**43**	**66**	**115,327**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by the Treasury department.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)

As at 31 December 2013

	Less than 3 months LL Million	3 – 6 months LL Million	6 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non-interest bearing LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank	68,549	16,130	18,844	47,410	52,763	49,900	253,596
Loans and advances banks	40,143	-	9,157	-	-	45,687	94,987
Advances to parent and sister banks	-	-	-	-	-	413	413
Loans and advances to customers	61,940	45,117	54,541	93,005	22,086	17,894	294,583
Debtors by acceptances	-	-	-	-	-	2,099	2,099
Investment securities:							
- At amortised cost	16,555	84,375	50,250	550,993	309,625	34,201	1,045,999
- At fair value through profit or loss	-	-	-	1,714	23,508	35,154	60,376
Other assets	-	-	-	-	-	3,316	3,316
Total financial assets	**187,187**	**145,622**	**132,792**	**693,122**	**407,982**	**188,664**	**1,755,369**
Liabilities							
Deposits from banks	69,577	-	-	-	-	281	69,858
Due to Central Bank	-	-	-	-	3,686	7	3,693
Deposits from parent and sister banks	14,799	-	-	-	-	2,650	17,449
Deposits from customers	1,101,075	71,884	132,970	83,606	-	143,150	1,532,685
Engagements by acceptances	-	-	-	-	-	2,099	2,099
Other liabilities	-	-	-	-	-	8,146	8,146
Total financial liabilities	**1,185,451**	**71,884**	**132,970**	**83,606**	**3,686**	**156,333**	**1,633,930**
Total interest repricing gap	**(998,264)**	**73,738**	**(178)**	**609,516**	**404,296**		

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)
As at 31 December 2012

	Less than 3 months LL Million	3 – 6 months LL Million	6 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non-interest bearing LL Million	Total LL Million
Assets							
Cash and balances with the Central Bank	51,656	6,784	2,261	62,486	-	42,010	165,197
Loans and advances banks	63,045	-	-	10,526	-	74,634	148,205
Advances to parent and sister banks	-	-	-	-	-	106	106
Loans and advances to customers	76,827	32,428	31,435	87,720	14,645	13,360	256,415
Debtors by acceptances	-	-	-	-	-	16,594	16,594
Investment securities:							
- At amortised cost	83,458	27,356	63,515	562,704	264,954	-	1,001,987
- At fair value through profit or loss	-	-	-	-	3,214	-	3,214
Other assets	-	-	-	-	-	1,600	1,600
Total financial assets	**274,986**	**66,568**	**97,211**	**723,436**	**282,813**	**148,304**	**1,593,318**
Liabilities							
Deposits from banks	70,959	-	-	-	-	105	71,064
Deposits from parent and sister banks	72,033	-	-	7,262	-	2,693	81,988
Deposits from customers	931,616	32,926	88,886	108,513	-	137,442	1,299,383
Engagements by acceptances	-	-	-	-	-	16,594	16,594
Other liabilities	-	-	-	-	-	10,400	10,400
Total financial liabilities	**1,074,608**	**32,926**	**88,886**	**115,775**	**-**	**167,234**	**1,479,429**
Total interest repricing gap	**(799,622)**	**33,642**	**8,325**	**607,661**	**282,813**		

3 Financial risk management (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars no. 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, semi-annual and annual basis respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

3.3.2 Funding approach

Sources of liquidity are regularly set by the Treasury department, while the risk management department and the Assets and Liabilities Committee ("ALCO") monitors those sources to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Bank manages the liquidity risk based on a different basis (see Note 3.3.1 for details), not resulting in a significantly different analysis.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

	Up to 1 month LL Million	1-3 months LL Million	3-12 months LL Million	1-5 years LL Million	Over 5 years LL Million	Total LL Million
At 31 December 2013						
Liabilities						
Deposits from banks	22,219	47,583	56	-	-	69,858
Due to Central Bank	-	-	-	-	3,693	3,693
Deposits from parent and sister banks	10,188	7,261	-	-	-	17,449
Deposits from customers	807,257	387,133	268,794	96,909	-	1,560,093
Engagement by acceptances	240	586	1,273	-	-	2,099
Other liabilities	8,146	-	-	-	-	8,146
Total liabilities (contractual maturity dates)	**848,050**	**442,563**	**270,123**	**96,909**	**3,693**	**1,661,338**
Assets held for managing liquidity risk (contractual maturity dates)	**227,848**	**56,350**	**254,751**	**754,699**	**463,221**	**1,756,869**

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

	Up to 1 month LL Million	1-3 months LL Million	3-12 months LL Million	1-5 years LL Million	Over 5 years LL Million	Total LL Million
At 31 December 2012						
Liabilities						
Deposits from banks	232	70,832	-	-	-	71,064
Deposits from parent and sister banks	2,740	71,987	-	7,261	-	81,988
Deposits from customers	147,179	926,644	124,608	120,660	-	1,319,091
Engagement by acceptances	-	9,185	7,409	-	-	16,594
Other liabilities	10,400	-	-	-	-	10,400
Total liabilities (contractual maturity dates)	**160,551**	**1,078,648**	**132,017**	**127,921**	**-**	**1,499,137**
Assets held for managing liquidity risk (contractual maturity dates)	**222,720**	**136,988**	**147,975**	**756,329**	**330,744**	**1,594,756**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality, highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Central Bank;
- Cash and balances with banks;
- Certificates of deposit; and
- Lebanese treasury bills.

3.3.5 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to customers and other facilities (note 35) are summarised in the table below.

(b) Other financial facilities and guarantees

Other financial facilities and guarantees (note 35) are also included in the table below based on the earliest contractual maturity date.

	No later than 1 year LL Million	1-5 years LL Million	Total LL Million
At 31 December 2013			
Loan commitments	53,628	10,052	63,680
Documentary and commercial letters of credit with banks	3,100	-	3,100
Letters of guarantee - clients	35,887	66	35,953
Total	**92,615**	**10,118**	**102,733**
At 31 December 2012			
Loan commitments	48,210	-	48,210
Documentary and commercial letters of credit with banks	2,662	-	2,662
Letters of guarantee - clients	9,256	20,442	29,698
Total	**60,128**	**20,442**	**80,570**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

(a) Valuation models

Effective 1 January 2013, the Bank adopted IFRS 13 in respect of disclosures about the degree of reliability of fair value measurements. This requires the Bank to classify, for disclosure purposes, fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Quoted market prices – Level 1

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

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

Valuation technique using observable inputs – Level 2

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

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

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

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

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair values of financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Bank's financial instruments.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December 2013				
Assets				
Cash and balances with the Central Bank (i)	17,707	235,889	253,596	253,596
Loans and advances to banks (i)	-	94,987	94,987	94,987
Advances to parent and sister banks (i)	-	413	413	413
Loans and advances to customers (ii)	-	295,993	295,993	294,583
Investment securities at amortised cost (iii)	374,946	679,050	1,053,996	1,045,999
Debt securities at fair value through pofit or loss	60,376	-	60,376	60,376
Equity securities at fair value through other comprehensive income	651	750	1,401	1,401
Debtors by acceptances	-	2,099	2,099	2,099
Total financial assets	**453,680**	**1,309,181**	**1,762,861**	**1,753,454**
Liabilities				
Deposits from banks (iv)	-	69,858	69,858	69,858
Due to Central Bank (iv)	-	3,693	3,693	3,693
Deposits from parent and sister banks (iv)	-	17,449	17,449	17,449
Deposits from customers (v)	-	1,537,155	1,537,155	1,532,685
Engagement by acceptances	-	2,099	2,099	2,099
	-	**1,630,254**	**1,630,254**	**1,625,784**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair values of financial instruments (continued)

The following table provides the fair value measurement hierarchy of the Bank's financial instruments.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December 2012				
Assets				
Cash and balances with the Central Bank (i)	12,414	152,783	165,197	165,197
Loans and advances to banks (i)	-	148,205	148,205	148,205
Advances to parent and sister banks (i)	-	106	106	106
Loans and advances to customers (ii)	-	260,959	260,959	256,415
Investment securities at amortised cost (iii)	293,651	726,000	1,019,651	1,001,987
Debt securities at fair value through pofit or loss	3,214	-	3,214	3,214
Equity securities at fair value through other comprehensive income	688	750	1,438	1,438
Debtors by acceptances	-	16,594	16,594	16,594
Total financial assets	**309,967**	**1,305,397**	**1,615,364**	**1,593,156**
Liabilities				
Deposits from banks (iv)	-	71,064	71,064	71,064
Deposits from parent and sister banks (iv)	-	81,988	81,988	81,988
Deposits from customers (v)	-	1,304,849	1,304,849	1,299,383
Engagement by acceptances	-	10,400	10,400	10,400
	-	**1,468,301**	**1,468,301**	**1,462,835**

There were no transfers between levels during 2013 (2012 - no transfer).

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

3 Financial risk management (continued)

3.4 Fair values of financial instruments (continued)

(i) Balances with the Central Bank, Loans and advances to banks, and advances to parent and sister banks

Balances with the Central Bank, and loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for financial assets measured at amortised cost is based on market prices or broker/dealer price quotations. Where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. Expected cash flows are discounted at current market rates issued by the Central Bank of Lebanon to determine the fair value.

(iv) Deposits from banks, deposits from parent and sister banks

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Deposits from customers

The estimated fair value of deposits from customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial reputational loss. The Bank has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Bank as part of overall risk management activities.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To apply mitigation techniques that may help lower the capital requirements;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by BDL, for supervisory purposes. The required information is filed with the authority on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel Ratio') above a minimum level agreed with the authority which takes into account the risk profile of the Bank. The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Board of Directors and monitored by the Risk Management department.

In accordance with BDL circular no. 43, the Bank's capital is constituted of the following:

- Tier 1 capital: mainly includes share capital, retained earnings and reserves created by appropriations of retained earnings, less the net book value of the intangible assets; and
- Tier 2 capital: mainly includes 50% of the fair value reserve relating to financial assets at fair value through other comprehensive income.

Investment in insurance companies is deducted from Tier 1 capital and capital adequacy ratio is computed on deconsolidated basis (i.e. without taking into consideration the assets of the insurance company). Any shortfalls in required provisions for non-performing loans and any violation of the set limit on granting facilities to related parties are also deducted from the regulatory capital.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.6 Capital management (continued)

Off-balance-sheet credit related commitments are taken into account by applying different categories of conversion factors, designed to convert these items into on-balance-sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2013 and 2012.

	2013	2012
	LL Million	LL Million
Tier 1 Capital		
Share capital	**100,000**	100,000
Retained earnings and reserves	**39,625**	34,732
Less: intangible assets	**(727)**	(953)
Less: shares and participation in insurance companies	**(699)**	(699)
Unrealised loss on revaluation of securities at fair value through OCI	**(60)**	(56)
Total qualifying Tier 1 Capital	**138,139**	133,024
Tier 2 Capital		
Unrealised gain on revaluation of securities at fair value through OCI	**218**	225
Total qualifying Tier 2 Capital	**218**	225
Total regulatory Capital	**138,357**	133,249
Risk - weighted assets		
On-balance sheet	**846,128**	898,022
Off-balance sheet	**39,673**	24,175
Market risk components	**82,094**	342
Operational risk components	**73,506**	67,831
Total risk-weighted assets	**1,041,401**	990,370
BIS Capital ratios (%)[1]		
Tier 1 Capital	**13.26%**	13.45%
(Tier 1 + Tier 2) Capital	**13.29%**	13.43%

As per BCC memo 3/2014 dated 1 April 2014, the risk weight applied on foreign currency investments with the Central bank of Lebanon including certificate of deposits was decreased from 100% to 50%.

[1] Capital adequacy level for 2013 was computed in accordance to the computation method of Basel II as per BCC memo 3/2014 dated 1 April 2014.

Notes to the financial statements (continued)

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 5% increase or decrease in actual loss experience on a portfolio basis, compared to the loss estimates used, would result in an increase or decrease in loan impairment losses of LL 154 million (2012 – LL 160 million), respectively.

Impairment losses for individually significant loans have taken into account repayment and realisation of any assets held as collateral against the loans which typically cover a significant portion of the outstanding balance of each loan.

Notes to the financial statements (continued)

5 Cash and balances with the Central Bank

	2013 LL Million	2012 LL Million
Cash on hand	**17,707**	12,414
Term placements with the Central Bank of Lebanon other than mandatory reserve deposits	**6,700**	7,150
Current accounts with the Central Bank of Lebanon other than mandatory reserve deposits	**6,555**	6,087
Included in cash and cash equivalents (note 34)	**30,962**	25,651
Mandatory reserve deposits with Central Bank of Lebanon	**167,202**	138,558
Term placements (with original maturities exceeding three months)	**53,490**	723
Interest receivable - Central Bank of Lebanon	**1,942**	265
	253,596	165,197
Current	**117,505**	70,615
Non-current	**136,091**	94,582
	253,596	165,197

In compliance with the laws of the Central Bank of Lebanon, the Bank is required to deposit a non-interest earning mandatory reserve in local currency at the rate of 15% and 25% of the average weekly term placements, current accounts and demand deposits denominated in local currency. In addition, the Bank is required to deposit an interest earning mandatory reserve in foreign currency at the rate of 15% of foreign currency deposits.

Mandatory reserve deposits with the Central Bank of Lebanon are not available for use in the Bank's day-to-day operations. Term placements generate fixed interest. Current accounts with Central Bank of Lebanon do not generate interest.

At 31 December 2013, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese Pounds amounting to LL 27 billion and deposits denominated in US Dollar that earn interest at 1.56% per annum with a counter value of LL 140 billion (US$ 93 million).

At 31 December 2012, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese Pounds amounting to LL 26 billion and deposits denominated in US Dollar that earn interest at 2.15% per annum with a counter value of LL 113 billion (US$ 75 million).

Notes to the financial statements (continued)

6 Loans and advances to banks

	2013 LL Million	2012 LL Million
Items in course of collection from other banks	**7,487**	4,035
Current accounts with other banks	**17,842**	12,532
Placements with other banks (with original maturities not exceeding three months)	**60,344**	107,357
Included in cash and cash equivalents (note 34)	**85,673**	123,924
Placements with other banks (with original maturities exceeding three months)	**9,157**	24,027
Interest receivable	**157**	254
	94,987	148,205
Current	**87,199**	137,679
Non-current	**7,788**	10,526
	94,987	148,205

7 Advances to parent and sister banks

Current accounts (notes 34 and 36)	**413**	106

Notes to the financial statements (continued)

8 Loans and advances to customers

	2013 **LL Million**	2012 LL Million
Overdrafts	**92,028**	76,071
Bills to the order of the Bank	**71,824**	59,385
Short term loans	**67,378**	60,787
Medium and long term loans	**41,426**	41,454
Creditors accidentally debtors	**4,765**	4,576
Loan to a related party (note 36)	**3,543**	3,834
Discounted bills	**200**	520
Non-performing loans:		
- Substandard	**7,422**	5,961
- Doubtful and bad debts	**39,784**	33,857
Gross loans and advances to customers	**328,370**	286,445
Less: specific allowance for impairment	**(29,640)**	(26,065)
Less: collective allowance for impairment	**(4,147)**	(3,965)
Net loans and advances to customers	**294,583**	256,415
Current	**148,725**	106,760
Non-current	**145,858**	149,655
	294,583	256,415

Reconciliation of allowance account for losses and advances to customers is as follows:

	Gross loans and advances LL Million	**Impairment provision LL Million**	**Net loans and advances LL Million**
At 31 December 2013			
Normal, follow-up and special mention loans	**281,164**	**(4,147)**	**277,017**
Substandard	**7,422**	**(3,552)**	**3,870**
Doubtful and bad debts	**39,784**	**(26,088)**	**13,696**
	328,370	**(33,787)**	**294,583**
At 31 December 2012			
Normal, follow-up and special mention loans	246,627	(3,965)	242,662
Substandard	5,961	(3,049)	2,912
Doubtful and bad debts	33,857	(23,016)	10,841
	286,445	(30,030)	256,415

Notes to the financial statements (continued)

8 Loans and advances to customers (continued)

The movement in impairment provision is as follows:

	2013		2012	
	Specific allowance for impairment LL Million	**Collective allowance for impairment LL Million**	Specific allowance for impairment LL Million	Collective allowance for impairment LL Million
Balance at 1 January	**26,065**	**3,965**	23,495	5,376
Increase in impairment allowances (note 27)	**2,903**	**405**	4,098	657
Release of impairment allowances (note 27)	**(642)**	**(223)**	(1,061)	(2,068)
Release of unrealised interest (note 27)	**(726)**	**-**	(552)	-
Increase in unrealised interest	**2,248**	**-**	1,736	-
Provision and unrealised interest written-off during the year	**(208)**	**-**	(1,651)	-
Balance at 31 December	**29,640**	**4,147**	26,065	3,965

9 Debtors by acceptances

	2013 LL Million	2012 LL Million
Balance	**2,099**	16,594

Debtors by acceptances represent the customers' liability to the Bank in respect of documentary credits that should be settled by the Bank on their behalf. This caption corresponds to and offsets engagements by acceptances reflected under liabilities.

Debtors by acceptances are considered current assets.

10 Investment securities

	2013 LL Million	2012 LL Million
Equity securities at fair value through OCI		
- Listed at fair value	**650**	688
- Unlisted	**750**	750
	1,400	1,438

10 Investment securities (continued)

	2013 LL Million	2012 LL Million
Debt securities at fair value through profit or loss		
- Investment in funds	**36,256**	-
- Lebanese treasury bills - unlisted	**22,416**	3,214
- Lebanese treasury bills (Eurobonds) - listed	**1,704**	-
	60,376	3,214

During 2013, investment securities held at amortised cost comprised Treasury bills, Eurobonds and Certificates of deposit.

	2013 LL Million	2012 LL Million
Debt securities held at amortised cost		
- Lebanese treasury bills - unlisted	**393,518**	379,378
- Lebanese treasury bills in foreign currency (Eurobonds) - listed	**373,899**	287,138
- Certificates of deposit (BDL) - unlisted	**148,967**	222,787
- Certificates of deposit (BDL) - listed	**121,994**	105,063
- Certificates of deposits (Banks) - unlisted	**7,621**	7,621
	1,045,999	1,001,987
Total investment securities	**1,107,776**	1,006,639
Current	**179,892**	174,330
Non-current	**927,884**	832,309
	1,107,776	1,006,639

In 2013, the Bank sold investment securities from its amortised cost.

(i) During July 2013, the Bank sold Eurobonds with a carrying amount of LL 4.5 billion in order to maintain liquidity needs.

(ii) During September 2013, the Bank also sold Eurobonds with a carrying amount of LL 4.5 billion in order to maintain its liquidity needs and replaced them with similar securities with longer maturities.

Gains realised on these transactions amounted to LL 557 million (note 28).

(iii) During 2013, the Bank also sold Lebanese treasury bills with a carrying amount of LL 28 billion and replaced them with similar securities with shorter maturities to maintain its liquidity needs.

Gains realised on this transaction amounted to LL 655 million (note 28).

10 Investment securities (continued)

(iv) In January 2013, the Bank performed a swap with BDL on a portion of its certificate of deposits portfolio with a nominal value of LL 43 billion. This transaction only included certificates of deposits maturing in a period not exceeding 10 months.

(v) In February 2013, the Bank performed a swap with BDL on a portion of its certificate of deposits portfolio with a nominal value of LL 11 billion. This transaction only included certificates of deposits maturing in a period not exceeding 6 months.

(vi) In June 2013, the Bank performed a swap with BDL on a portion of its certificate of deposits portfolio with a nominal value of LL 7 billion. This transaction only included certificates of deposits maturing in a period not exceeding 6 months.

(vii) In September 2013, the Bank performed a swap with BDL on a portion of its certificate of deposits portfolio with a nominal value of LL 32 billion. This transaction only included certificates of deposits maturing in a period not exceeding 10 months.

During 2013, the Bank sold certificate of deposits with a carrying amount of LL 11 billion and replaced them with similar securities with longer maturities.

Gains realised on this transaction amounted to LL 1.8 billion (note 28).

Debt securities are detailed as follows:

	At fair value through profit or loss LL Million	At amortised cost LL Million	Total LL Million
At 31 December 2013			
Nominal amount	56,977	1,011,798	1,068,775
Unamortised premium	2,386	16,635	19,021
Accrued interest receivable	368	17,566	17,934
Net changes in fair value	645	-	645
	60,376	**1,045,999**	**1,106,375**
At 31 December 2012			
Nominal amount	3,000	960,577	963,577
Unamortised premium	-	23,374	23,374
Accrued interest receivable	66	18,036	18,102
Net changes in fair value	148	-	148
	3,214	**1,001,987**	**1,005,201**

Notes to the financial statements (continued)

10 Investment securities (continued)

The movement of the debt securities' nominal amount is summarised as follows:

	At amortised cost LL Million	At fair value through P&L LL Million	Total LL Million
At 1 January 2012	886,778	-	886,778
Securities acquired	266,345	62,955	329,300
Securities swapped in	19,145	-	19,145
Securities swapped out	(18,090)	-	(18,090)
Securities sold	(102,890)	(59,955)	(162,845)
Securities matured	(91,230)	-	(91,230)
Foreign exchange difference	519	-	519
At 31 December 2012	960,577	3,000	963,577
Securities acquired	312,103	317,098	629,201
Securities swapped out	(93,000)	-	(93,000)
Securities sold	(48,045)	(263,121)	(311,166)
Securities matured	(121,315)	-	(121,315)
Foreign exchange difference	1,478	-	1,478
At 31 December 2013	**1,011,798**	**56,977**	**1,068,775**

Notes to the financial statements (continued)

10 Investment securities (continued)

Equity securities are as follows:

	2013	2012
	LL Million	LL Million
Nominal amount	**1,045**	1,045
Net revaluation gain	**355**	393
	1,400	1,438

No equity securities have been either acquired or sold at 31 December 2013 and 2012.

11 Non-current assets held for sale

Cost	**3,091**	4,327

Non-current assets held for sale represent properties acquired from customers in settlement of their debt.

Non-current assets held for sale are subject to an option allowing the debtors to buy back these assets at the original settlement amount during the two-year period from the acquisition date by the Bank. Under the Banking Control Commission of Lebanon memos No. 4/2008 and 10/2008 issued in 2008, the Bank is required to establish annually a reserve of 5% or 20% (as appropriate) of the carrying amount of the non-current assets held for sale by appropriation of net profit for the year.

These properties are available for sale and are not included within the Bank's property used in the normal course of business. Management believes that the fair market value less cost to sell of these properties approximates their carrying amount as of 31 December 2013.

Non-current assets held for sale are considered current assets as the Bank has the intention to dispose of them in the near future.

Notes to the financial statements (continued)

12 Property and equipment

	Buildings LL Million	Improvements LL Million	Computer and office equipment LL Million	Furniture and fixtures LL Million	Vehicles LL Million	Work in progress LL Million	Total LL Million
At 1 January 2012							
Cost	1,841	15,700	6,197	990	220	8,986	33,934
Accumulated depreciation	(762)	(8,372)	(3,656)	(858)	(112)	-	(13,760)
Net book amount	**1,079**	**7,328**	**2,541**	**132**	**108**	**8,986**	**20,174**
Year ended 31 December 2012							
Opening net book amount	1,079	7,328	2,541	132	108	8,986	20,174
Additions	-	212	470	164	-	11,328	12,174
Transfers from work in progress	6,610	2,079	1,669	62	-	(10,420)	-
Disposals	-	(42)	(4)	-	-	-	(46)
Depreciation expense (note 31)	(531)	(3,497)	(1,201)	(249)	(55)	-	(5,533)
Closing net book amount	**7,158**	**6,080**	**3,475**	**109**	**53**	**9,894**	**26,769**
At 31 December 2012							
Cost	8,451	17,921	8,313	1,216	220	9,894	46,015
Accumulated depreciation	(1,293)	(11,841)	(4,838)	(1,107)	(167)	-	(19,246)
Net book amount	**7,158**	**6,080**	**3,475**	**109**	**53**	**9,894**	**26,769**

Notes to the financial statements (continued)

12 Property and equipment (continued)

	Buildings LL Million	Improvements LL Million	Computer and office equipment LL Million	Furniture and fixtures LL Million	Vehicles LL Million	Work in progress LL Million	Total LL Million
Year ended 31 December 2013							
Opening net book amount	7,158	6,080	3,475	109	53	9,894	26,769
Additions	656	307	494	94	-	1,512	3,063
Transfers from work in progress	1,555	3,053	229	31	-	(4,868)	-
Disposals	-	-	(47)	(1)	-	-	(48)
Other transfers	-	-	-	-	-	(39)	(39)
Depreciation expense (note 31)	(751)	(2,881)	(1,126)	(174)	(53)	-	(4,985)
Closing net book amount	**8,618**	**6,559**	**3,025**	**59**	**-**	**6,499**	**24,760**
At 31 December 2013							
Cost	10,662	21,268	8,879	1,338	220	6,499	48,866
Accumulated depreciation	(2,044)	(14,709)	(5,854)	(1,279)	(220)	-	(24,106)
Net book amount	**8,618**	**6,559**	**3,025**	**59**	**-**	**6,499**	**24,760**

Notes to the financial statements (continued)

13 Intangible assets

	Computer software LL Million
At 1 January 2012	
Cost	1,803
Accumulated amortisation	(1,105)
Net book amount	**698**
Year ended 31 December 2012	
Opening net book amount	698
Additions	611
Amortisation expense (note 31)	(357)
Closing net book amount	**952**
At 31 December 2012	
Cost	2,226
Accumulated amortisation	(1,274)
Net book amount	**952**
Year ended 31 December 2013	
Opening net book amount	952
Additions	107
Disposals	-
Amortisation expense (note 31)	(341)
Closing net book amount	**718**
At 31 December 2013	
Cost	2,323
Accumulated amortisation	(1,605)
Net book amount	**718**

Notes to the financial statements (continued)

14 Investment properties

	Building LL Million
At 1 January 2012	
Cost	58
Accumulated depreciation	(31)
Net book amount	**27**
Year ended 31 December 2012	
Opening net book amount	27
Depreciation expense (note 31)	(3)
Closing net book amount	**24**
At 31 December 2012	
Cost	58
Accumulated depreciation	(34)
Net book amount	**24**
Year ended 31 December 2013	
Opening net book amount	24
Depreciation expense (note 31)	(3)
Closing net book amount	**21**
At 31 December 2013	
Cost	58
Accumulated depreciation	(37)
Net book amount	**21**

In 2013, investment properties generated a rental income of LL 222 million (2012 – LL 213 million) (note 32).

Investment property includes 3 stores on real estate plot number 948 (1,231 shares).The fair value of these stores amounted to LL 1.07 billion as of 31 December 2013 as determined by an independent real estate expert report dated 8 March 2014. This is considered as a level 2 fair valuation, as the most significant input into the valuation model is the price per square metre of comparable plots in close proximity.

Notes to the financial statements (continued)

15 Investment in a subsidiary

	2013 LL Million	2012 LL Million
Investment in a subsidiary	**29**	29

On 2 December 2012, the Bank acquired 2,940 shares of Misr Liban Insurance Brokers S.A.L. ("MLIB"), a newly established entity. The subsidiary's share capital consists of 3,000 shares with a nominal value of LL 10,000 each.

16 Other assets

	2013 LL Million	2012 LL Million
Other debtors	**1,453**	285
Less: provision for impairment of other debtors	**(204)**	(164)
Other debtors - net	**1,249**	121
Prepayments	**1,535**	1,021
Due from national social security fund	**532**	458
	3,316	1,600

The movement in provision for impairment of other debtors is summarised as follows:

	2013 LL Million	2012 LL Million
At 1 January	**164**	370
Impairment losses on other assets (note 30)	**40**	141
Release of provision for impairment of other assets	**-**	(347)
At 31 December	**204**	164

17 Due to Central bank

	2013 LL Million	2012 LL Million
Soft loan from the Central Bank of Lebanon	**3,686**	-
Interest payable	**7**	-
	3,693	**-**

During 2013, the Central Bank of Lebanon has granted the Bank a soft loan in accordance with BDL intermediary circular number 318. The total loan amounts to LL 3.7 billion and relates to housing loans granted to clients with average interest rates of 5.20%. This loan is subject to an annual interest rate of 1% and is payable through monthly installments starting 2 January 2014 for a period of 20 years.

Notes to the financial statements (continued)

18 Deposits from banks

	2013 LL Million	2012 LL Million
Term deposits	**69,577**	70,832
Sight deposits	**140**	105
Interest payable	**141**	127
	69,858	71,064

Deposits from banks are due within one year from the end of the reporting period.

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 1.79% for the year 2013 (2012 – 1.71%).

19 Deposits from parent and sister banks

	2013 LL Million	2012 LL Million
Term deposits (note 36)	**14,799**	79,249
Interest payable (note 36)	**15**	46
Sight deposits (note 36)	**2,635**	2,693
	17,449	81,988
Current	**17,449**	74,727
Non - current	**-**	7,261
	17,449	81,988

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 1.27 % for the year 2013 (2012 – 1.80%).

20 Deposits from customers

	2013 LL Million	2012 LL Million
Saving accounts (i)	**791,651**	673,171
Time deposits	**598,051**	483,014
Sight deposits (iii)	**93,628**	100,142
Net credit against debit accounts and cash margins (ii)	**39,474**	34,322
Interest payable - customers	**9,881**	8,734
	1,532,685	1,299,383
Current	**1,496,283**	1,191,680
Non - current	**36,402**	107,703
	1,532,685	1,299,383

Notes to the financial statements (continued)

20 Deposits from customers (continued)

	2013 LL Million	2012 LL Million
(i) Saving accounts:		
Saving accounts - term	**789,176**	670,388
Due to a related party (note 36)	**443**	333
Saving accounts - sight	**2,032**	2,450
	791,651	673,171
(ii) Net credit against debit accounts and cash margins		
Pledged deposits against credit facilities	**28,162**	25,259
Margins against documentary credits	**855**	1,886
Margins against letters of guarantee	**10,457**	7,177
	39,474	34,322
(iii) Sight deposits		
Current and checking accounts	**80,567**	90,275
Debtors accidentally creditors	**2,449**	3,739
Cheques and orders to be paid	**10,612**	6,128
	93,628	100,142

Deposits include coded accounts amounting to LL 9.70 billion as of 31 December 2013 (2012 - LL 5.95 billion). These accounts were opened under the provisions of Article 3 of the Banking Secrecy Law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank, under normal conditions, is not permitted to disclose the identities of coded account depositors to third parties including its auditors.

All term deposits are fixed-interest deposits.

21 Other liabilities

	2013 LL Million	2012 LL Million
Accrued expenses	**3,609**	3,693
Other creditors	**2,725**	3,471
Taxes payable	**511**	564
Due to National Social Security Fund	**195**	157
Other liabilities	**1,106**	2,515
	8,146	10,400

Other liabilities are due within one year from the end of the reporting period.

Notes to the financial statements (continued)

22 Provisions for liabilities and charges

	2013 LL Million	2012 LL Million
Provision for general risk	**521**	483
Provision for foreign currencies fluctuations	**3**	18
	524	501

23 Retirement benefit obligations

At 1 January	**3,278**	2,378
Charge for the year (note 29)	**217**	946
Write back of provision	**(64)**	-
Utilised during the year	**(105)**	(46)
At 31 December	**3,326**	3,278

24 Shareholders' equity

	2013 LL Million	2012 LL Million
Share capital (a)	**100,000**	100,000
Legal reserve (b)	**6,638**	5,786
Reserve for unspecified banking risks (c)	**13,343**	10,371
Fair value reserve (d)	**355**	393
Other reserve (e)	**133**	-
Profit for the year (f)	**7,497**	8,524
Free reserve (g)	**19,642**	18,575
Total shareholders' equity	**147,608**	143,649

(a) Share capital

At 31 December 2013 the Bank's share capital consists of 80,000,000 issued and fully paid shares with a nominal value of LL 1,250 each.

(b) Legal reserve

	2013 LL Million	2012 LL Million
At 1 January	**5,786**	4,860
Appropriation of profit (f)	**852**	926
At 31 December	**6,638**	5,786

Article 132 of the Code of Money and Credit requires 10% of the Bank's net profits to be transferred from retained earnings to legal reserve. This reserve is not available for distribution.

Notes to the financial statements (continued)

24 Shareholders' equity (continued)

(c) Reserve for unspecified banking risks

	2013 **LL Million**	2012 LL Million
At 1 January	**10,371**	7,787
Appropriation of profit (f)	**2,972**	2,584
At 31 December	**13,343**	10,371

According to the Central Bank of Lebanon directives, banks are required to appropriate from net profits an amount between 2 per mil and 3 per mil of risk weighted assets to a reserve for unspecified banking risks. This reserve is considered as part of Tier I capital. It is not available for distribution.

(d) Fair value reserve

The fair value reserve of LL 355 million (2012 – 393 million) reflects the cumulative net change in the fair value of equity investments measured at fair value through other comprehensive income. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings and becomes available for distribution.

(e) Other reserve

Other reserve of LL 133 million (2012 - nil) represents a reserve carried against properties acquired in settlement of debt and is not available for distribution. Upon disposal of these properties this reserve is transferred to a reserve specifically restricted to future increases in share capital.

(f) Appropriation of profit

	2013 **LL Million**	2012 LL Million
1 January (profit of previous year)	**8,524**	9,260
Transfer to legal reserve (b)	**(852)**	(926)
Transfer to reserve for unspecified banking risks (c)	**(2,972)**	(2,584)
Dividends declared	**(3,500)**	(3,500)
Transfer to free reserve (g)	**(1,067)**	(2,250)
Transfer to other reserve (e)	**(133)**	-
Profit for the year	**7,497**	8,524
At 31 December (current year profit)	**7,497**	8,524

The General Assembly meeting held on 31 May 2013 approved the distribution of dividends amounting to LL 3.5 billion (LL 43.75 per share before tax).

The General Assembly meeting held on 11 May 2012 approved the distribution of dividends amounting to LL 3.5 billion (LL 43.75 per share before tax).

(g) Free reserve

Free reserve of LL 19.64 billion (2012 – 18.58 billion) represents prior year profits appropriated from retained earnings.

Notes to the financial statements (continued)

24 Shareholders' equity (continued)

(h) Undistributable profits

The profit for the year of LL 7.50 billion (2012 – 8.52 billion) as shown under (f) above includes an amount of LL 648 million representing an unrealised gain on financial assets at fair value through profit or loss. This balance is not available for distribution until such time as the gain is realised on disposal of the financial assets.

In addition to the above, account must be taken of the appropriation of the current year profit to legal reserve, reserve for unspecified banking risks, reserve against properties acquired in settlement of debt and gain on sale of properties acquired in settlement of debt. These are estimated at LL 4.1 billion, are not reflected in these financial statements and are subject to the ultimate approval of the general assembly.

Notes to the financial statements (continued)

25 Net interest income

	2013 LL Million	2012 LL Million
Interest and similar income		
Loans and advances:		
- to customers	**21,197**	18,694
- to banks	**786**	1,187
- to sister bank (note 36)	**-**	2
Cash and balances with the Central Bank	**5,987**	2,793
Investment securities:		
- At amortised cost	**62,125**	64,334
- Fair value through profit or loss	**565**	194
	90,660	87,204
Interest and similar expenses:		
Deposits from the Central Bank	**(8)**	-
Deposits from parent and sister banks (note 36)	**(290)**	(1,389)
Deposits from banks	**(1,179)**	(1,151)
Deposits from customers	**(59,635)**	(54,955)
	(61,112)	(57,495)
Net interest income	**29,548**	29,709

26 Net fee and commission income

	2013	2012
Fee and commission income		
Credit related fees and commissions	**1,734**	1,596
Commission on customer deposit accounts	**1,069**	955
Engagements by endorsement fees	**785**	782
Portfolio and other management fees	**581**	571
Commission on swift	**295**	244
Commission on cheques	**284**	232
Commission on custody of securities	**61**	37
Other fees	**180**	247
	4,989	4,664
Fee and commission expense		
Commission paid to the Central Bank	**(555)**	(183)
Commission paid on foreign currency shipment	**(191)**	(166)
Other commissions	**(87)**	(53)
	(833)	(402)
Net fee and commission income	**4,156**	4,262

Notes to the financial statements (continued)

27 Net loan impairment charges

	2013 LL Million	2012 LL Million
Loans and advances to customers (note 8):		
Increase (release) in collective impairment allowance	**182**	(1,411)
Increase in specific impairment allowance	**2,903**	4,098
Release of specific impairment allowance	**(642)**	(1,061)
Release of unrealised interest	**(726)**	(552)
	1,717	1,074

28 Net gains on investment securities

Gain on sale of certificates of deposits at amortised cost	**1,761**	244
Gain on sale of Eurobonds at amortised cost	**557**	4,934
Gain on sale of treasury bills in Lebanese Pounds	**655**	2
Gain on sale financial instruments at fair value through profit or loss	**287**	38
Net unrealised gain on revaluation of financial instruments held at fair value through profit or loss	**648**	159
Other gains	**81**	76
	3,989	5,453

29 Personnel expenses

Wages and salaries	**10,868**	10,979
Social security costs	**1,605**	1,461
Schooling allowance	**834**	683
Directors' remuneration and attendance fees (note 36)	**769**	754
Transportation benefits	**674**	676
Insurance benefits	**670**	643
Retirement benefit obligations (note 23)	**217**	946
Other expenses	**394**	322
	16,031	16,464

The average number of persons employed by the Bank during the year was 258 (2012 – 249 employees).

Notes to the financial statements (continued)

30 General and administrative expenses

	2013 LL Million	2012 LL Million
Repair and maintenance expenses	**1,074**	808
Professional fees	**636**	728
Deposits guarantee premiums	**764**	648
Fuel expenses	**671**	772
Rent expenses	**406**	388
Telecommunication expenses	**678**	635
Subscriptions	**364**	359
Travel and entertainment	**277**	423
Water and electricity	**271**	307
Stationery and office supplies	**259**	297
Insurance expenses	**253**	261
Impairment losses on other assets (note 16)	**40**	141
Other administrative expenses	**1,193**	1,097
	6,886	6,864

31 Depreciation and amortisation expenses

Depreciation of property and equipment (note 12)	**4,985**	5,533
Amortisation of intangible assets (note 13)	**341**	357
Depreciation of investment properties (note 14)	**3**	3
	5,329	5,893

32 Other operating income

Rental income (note 14)	**222**	213
Gain on sale of non-current assets held for sale	**189**	522
Write back of client bad debts	**109**	136
Other income	**748**	168
	1,268	1,039

33 Income tax expense

In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Bank's tax charge is determined as the higher of corporate tax and tax on interest income withheld during the year. During 2013, the 5% tax withheld on interest received of LL 2.1 billion (2012 – LL 2.24 billion) was higher than the Bank's corporate income tax of LL 1.5 billion (2012 – LL 1.7 billion).

Notes to the financial statements (continued)

33 Income tax expense (continued)

The notional income tax computation for the year is determined as follows:

	2013 LL Million	2012 LL Million
Profit before tax	**9,595**	10,764
Income tax at statutory rate of 15%	**1,439**	1,615
Effect of expenses not deductible for tax purposes:		
Loan impairment charges	**69**	229
Other charges	**145**	130
Effect of non-taxable income:		
Reversal of loan impairment charges	**(128)**	(159)
Other	**(45)**	(117)
Notional tax charge for the year	**1,480**	1,698
Actual tax charge for the year	**2,098**	2,240

The movement in the income tax liability is summarised as follows:

At 1 January	**-**	-
Charge for the year	**2,098**	2,240
Payments during the year (5% tax on interest received)	**(2,098)**	(2,240)
At 31 December	**-**	-

The fiscal years 2011 to 2013 remain subject to examination by the income tax authorities.

34 Cash and cash equivalents

	2013 LL Million	2012 LL Million
Loans and advances to banks (note 6)	**85,673**	123,924
Cash and balances with the Central Bank (note 5)	**30,962**	25,651
Advances to parent and sister banks (note 7)	**413**	106
	117,048	149,681

35 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the bank at 31 December 2013. No provision has been made against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers, provisions for liabilities and charges as professional advice indicates that it is unlikely that any significant additional loss will arise.

Notes to the financial statements (continued)

35 Contingent liabilities and commitments (continued)

(b) Undrawn credit lines, guarantee and other financial liabilities

At 31 December 2013 the following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2013	2012
	LL Million	LL Million
Undrawn credit lines	**63,680**	48,210
Documentary and commercial letters of credit with banks	**3,100**	2,662
Letters of guarantee - clients	**35,953**	29,698
	102,733	80,570

36 Related parties transactions

The Bank is controlled by Bank Misr (incorporated in Cairo) which owns 92% (2012 – 92%) of its ordinary shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

(a) Loans and advances to related parties

	2013	2012
	LL Million	LL Million
Advances to parent and sister banks (note 7)		
Advances outstanding at 1 January	**106**	301
Advances issued during the year	**18,663**	14,323
Advances repayments during the year	**(18,356)**	(14,518)
Advances outstanding at 31 December	**413**	106
Interest income earned (note 25)	**-**	2
Loan to "MLIB" (note 8)		
Loans outstanding at 31 December	**3,543**	3,834
Interest income earned	**155**	72

During August 2013, the Bank granted a loan facility to Misr Liban Insurance Brokers S.A.L. amounting to US$ 2.5 million to finance the purchase of 1,169 shares of plot number 948/ Marfaa. This loan is subject to an average annual interest rate of 4% and is fully repayable on September 2014.

Notes to the financial statements (continued)

36 Related parties transactions (continued)

(b) Deposits from related parties

	Parent bank		Sister banks	
	2013 LL Million	2012 LL million	**2013 LL Million**	2012 LL Million
Deposits from parent and sister banks (note 18)				
Deposits at 1 January	**81,979**	60,933	**9**	32,792
Deposits received during the year	**85,616**	96,297	**82,515**	71,025
Deposits repaid during the year	**(150,155)**	(75,251)	**(82,515)**	(103,808)
Deposits at 31 December	**17,440**	81,979	**9**	9
Interest expense on deposits (note 25)	**254**	998	**36**	391
Deposits from "MLIB" (note 20)				
Deposits at 31 December			**443**	333
Interest expense on deposits			**24**	5

(c) Key management compensation

	2013 LL Million	2012 LL Million
Directors' remuneration and attendance fees (note 29)	**769**	754
Key management remuneration	**1,653**	2,715
	2,422	3,469

(a) Other transactions with MLIB

Interest expense on deposit	**24**	5
Interest income on loan	**155**	72

37 Earnings per ordinary share

Basic and diluted earnings per share are calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit for the year (LL million)	**7,497**	8,524
Weighted average number of ordinary shares in issue ('000)	**80,000**	80,000
Basic and diluted earnings per ordinary share (LL)	**94**	107