BANQUE MISR LIBAN S.A.L.

Report and financial statements
for the year ended 31 December 2014

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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 2014 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' judgement, 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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

PricewaterhouseCoopers

KPMG

KPMG

Beirut, Lebanon
23 March 2015

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Balance sheet
at 31 December 2014

	Note	2014 LL Million	2013 LL Million
Assets			
Cash and balances with the Central bank	5	**378,125**	253,596
Loans and advances to banks	6	**95,007**	94,987
Advances to fellow banks	7	**436**	413
Loans and advances to customers	8	**383,676**	294,583
Debtors by acceptances	9	**1,204**	2,099
Investment securities:			
- At fair value through profit or loss	10	**75,627**	60,376
- At fair value through other comprehensive income	10	**1,395**	1,400
- At amortised cost	10	**1,063,125**	1,045,999
Property and equipment	12	**21,748**	24,760
Intangible assets	13	**1,020**	718
Investment properties	14	**18**	21
Investment in a subsidiary	15	**29**	29
Other assets	16	**5,290**	3,316
		2,026,700	1,782,297
Non-current assets held for sale	11	**2,991**	3,091
Total assets		**2,029,691**	1,785,388
Liabilities			
Due to Central Bank	17	**14,837**	3,693
Deposits from banks	18	**94,818**	69,858
Deposits from parent and fellow banks	19	**34,960**	17,449
Deposits from customers	20	**1,719,447**	1,532,685
Engagements by acceptances	9	**1,204**	2,099
Retirement benefit obligations	23	**3,310**	3,326
Provisions for liabilities and charges	22	**558**	524
Other liabilities	21	**8,594**	8,146
Total liabilities		**1,877,728**	1,637,780
Shareholders' equity			
Share capital	24	**100,000**	100,000
Legal reserve	24	**7,389**	6,638
Reserve for unspecified banking risks	24	**15,378**	13,343
Fair value reserve	24	**350**	355
Retained earnings	24	**8,508**	7,497
Free reserve	24	**19,642**	19,642
Reserve for liquidation of assets classified as held for sale	24	**696**	133
Total shareholders' equity		**151,963**	147,608
Total shareholders' equity and liabilities		**2,029,691**	1,785,388

The financial statements on pages 3 to 80 were approved for issue and signed by Mr. Fadi El Daouk, the Executive General Manager, on 23 March 2015 on behalf of the Board of Directors.

The notes on pages 8 to 80 are an integral part of these separate financial statements.

Statement of comprehensive income for the year ended 31 December 2014

	Note	**2014 LL Million**	2013 LL Million
Interest and similar income	25	**104,394**	90,660
Interest and similar expenses	25	**(72,452)**	(61,112)
Net interest and similar income		**31,942**	29,548
Net loan impairment releases (charges)	27	**10**	(1,717)
Net interest and similar income after loan impairment releases (charges)		**31,952**	27,831
Fee and commission income	26	**5,237**	4,989
Fee and commission expense	26	**(1,055)**	(833)
Net fee and commission income		**4,182**	4,156
Net trading gains		**685**	597
Net gains on investment securities at fair value through profit or loss	28(a)	**1,142**	1,016
Net gains on investment securities at amortised cost	28(b)	**1,693**	2,973
Personnel expenses	29	**(17,225)**	(16,031)
General and administrative expenses	30	**(7,715)**	(6,886)
Depreciation and amortisation expenses	31	**(5,263)**	(5,329)
Other operating income	32	**559**	1,268
Profit before income tax		**10,010**	9,595
Income tax expense	33	**(2,150)**	(2,098)
Profit for the year		**7,860**	7,497
Other comprehensive income			
Net unrealised loss on financial assets at fair value through other comprehensive income		**(5)**	(38)
Total comprehensive income for the year		**7,855**	7,459
Basic and diluted earnings per share (expressed in LL per share)	37	**98**	94

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BANQUE MISR LIBAN S.A.L.

Statement of changes in equity
for the year ended 31 December 2014

	Share capital LL Million	Legal reserve LL Million	Reserve for unspecified banking risks LL Million	Fair value reserve LL Million	Retained earnings LL Million	Free reserve LL Million	Reserve for liquidation of assets classified as held for sale LL Million	Total LL Million
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**
Balance at 1 January 2014	100,000	6,638	13,343	355	7,497	19,642	133	147,608
Profit for the year	-	-	-	-	7,860	-	-	7,860
Net unrealised loss on financial assets at fair value through OCI	-	-	-	(5)	-	-	-	(5)
Total comprehensive income	-	-	-	(5)	7,860	-	-	7,855
Dividends declared (note 24)	-	-	-	-	(3,500)	-	-	(3,500)
Transfers (note 24)	-	751	2,035	-	(3,349)	-	563	-
Total transactions with owners recognised directly - equity	-	751	2,035	-	(6,849)	-	563	(3,500)
Balance at 31 December 2014	**100,000**	**7,389**	**15,378**	**350**	**8,508**	**19,642**	**696**	**151,963**

The notes on pages 8 to 80 are an integral part of these separate financial statements.

Statement of cash flows
for the year ended 31 December 2014

	Note	2014 LL Million	2013 LL Million
Cash flows from operating activities			
Profit before income tax		**10,010**	9,595
Adjustments for:			
Depreciation expense	31	**4,999**	4,988
Amortisation expense	31	**264**	341
Net gain on disposal of property and equipment		**-**	(66)
Net gain on disposal of intangible assets		**-**	(2)
Loss (gain) on sale of non-current assets held for sale	32	**2**	(189)
Net loan impairment (releases) charges	27	**(10)**	1,717
Net interest income	25	**(31,942)**	(29,548)
Net fee and commission income	26	**(4,182)**	(4,156)
Changes in operating assets and liabilities:			
Cash and balances with the Central bank		**(124,336)**	(81,411)
Loans and advances to banks		**1,370**	14,870
Loans and advances to customers		**(89,086)**	(39,943)
Investment securities		**(32,820)**	(101,342)
Other assets	16	**(1,974)**	(1,716)
Deposits from banks		**24,888**	(1,220)
Deposits from parent and fellow banks		**17,522**	(64,508)
Due to the Central Bank		**11,056**	3,686
Deposits from customers		**186,686**	232,155
Net change in retirement benefit obligations	23	**(16)**	48
Net change in provisions for liabilities and charges	22	**34**	23
Other liabilities	21	**448**	(2,254)
Cash used in operating activities		**(27,087)**	(58,932)
Interest received		**104,794**	90,983
Interest paid		**(74,365)**	(61,652)
Net fee and commission income received	26	**4,182**	4,156
Income tax paid	33	**(2,150)**	(2,098)
Net cash generated from (used in) operating activities		**5,374**	(27,543)
Cash flows from investing activities			
Purchase of property and equipment	12	**(1,984)**	(3,063)
Proceeds from sale of property and equipment		**-**	153
Proceeds from sale of non-current assets held for sale		**98**	1,425
Proceeds from sale of intangible assets		**-**	2
Purchase of intangible assets	13	**(566)**	(107)
Net cash used in investing activities		**(2,452)**	(1,590)

The notes on pages 8 to 80 are an integral part of these separate financial statements.

Statement of cash flows (continued)
for the year ended 31 December 2014

	Note	2014 LL Million	2013 LL Million
Cash flows used in financing activities			
Dividends paid		**(3,500)**	(3,500)
Net decrease in cash and cash equivalents		**(578)**	(32,633)
Cash and cash equivalents at beginning of year	34	**117,048**	149,681
Cash and cash equivalents at end of year	34	**116,470**	117,048

The notes on pages 8 to 80 are an integral part of these separate financial statements.

Notes to the financial statements for the year ended 31 December 2014

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% (2013 – 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 office P.O. Box 7-11 Beirut, Lebanon.

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 2014 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 2014:

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting. These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This amendment did not have a material impact on the Bank's financial statements.
- Amendment to IAS 36, 'Impairment of assets' on recoverable amounts disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This amendment did 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 2014 but not early adopted by the Bank:

- Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. The impact of this amendment is not expected to be significant on the Bank's financial statements.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 January 2014 but not early adopted by the Bank (continued):

- Amendment to IAS 27,'Separate financial statements' regarding the equity method. The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The impact of this amendment is not expected to be significant on the Bank's financial statements.

- IFRS 13, 'Fair value' amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial. The impact of this amendment is not expected to be significant on the Bank's financial statements.

- IFRS 9, 'Financial instruments' as issued in July 2014. The Banks currently applies phase I of IFRS 9 as issued in November 2009 which only addressed the classification and measurement of financial assets and did not provide a new impairment model. The currently applied version of the standard established only two primary measurement categories for debt instruments. The complete version as issued in 2014 establishes three primary measurement categories for financial assets that are debt instruments: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, the only change was the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The new IFRS 9 also replaces the hedge effectiveness tests with a requirement for an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. The complete version of the standard is effective for accounting periods beginning on or after 1 January 2018. Early application is permitted. The Bank is yet to assess the impact of the complete version, more specifically the requirements of the new impairment model.

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 requires 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)

(c) Recognition, measurement derecognition and reclassification (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

Category (as defined by IFRS 9)		Class (as determined by the Bank)		Subclass
Financial assets	At amortised cost	Advances to fellow banks		
		Loans and advances to banks		
		Loans and advances to customers	Loans to individuals	- Overdrafts - Credit cards - Personal loans - Housing loans
			Loans to corporate entities	- SMEs - Large corporate entities
		Investment securities - debt instruments		Unlisted and Listed
	At fair value through other comprehensive income	Investment securities - equity instruments		Unlisted and Listed
	At fair value through profit or loss	Investment securities - debt instruments		Listed
Financial liabilities	At amortised cost	Due to Central Bank		
		Deposits from banks		
		Deposits from parent and fellow banks		
		Deposits from customers		
Off balance sheet financial instruments	Loan commitments			
	Guarantees and other financial facilities			

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 fellow 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 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

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.

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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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

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 is subscribed to the compulsory defined benefit plan of the national social security fund.

IAS 19 'Employee benefits' requirements:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Local requirements:

The compulsory defined benefit plan 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 monthly contributions paid to National Social Security Fund ("NSSF"), End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

The difference between the carrying amount of the provision and its value in accordance with IAS 19 'Employee benefits' is not significant.

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 arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives, settlement balances with market counterparties and repurchase agreements.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk section specialises in the management of the credit risk for individuals as well as the credit portfolio in general, in addition to the credit monitoring function. It reports to the chief risk officer.

Notes to the financial statements (continued)

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 classify the credit risk of loans and advances to customers, the Bank rates its counterparties based on the Supervisory Rating Model set by the Central Bank of Lebanon:

- Normal - the 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 - the loan is expected to be repaid but current conditions lead to believe that the probability of repayment would be lowered;
- Sub-standard - the client has a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful - there is no movement in the clients' balance; and
- Bad - the probability of repayment is low and almost nil.

These credit risk classifications are taken into consideration when measuring the impairment allowances required under IAS 39. Impairment losses are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').The Bank adopted an internal rating system that provides obligor ratings for commercial facilities in compliance with BDL basic circular no. 58.

(b) Debt securities and other bills

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by the Asset and Liability Committee for managing the credit risk exposures as supported by the Treasury department.

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 controls 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 usually settled on a gross basis. 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:

	2014 Credit risk exposure (%)	**2014 Impairment allowance (%)**	2013 Credit risk exposure (%)	2013 Impairment allowance (%)
1. Performing	**88.86%**	**1.27%**	85.66%	1.47%
2. Substandard	**2.15%**	**38.62%**	2.26%	47.73%
3. Doubtful	**7.69%**	**60.00%**	9.74%	57.55%
4. Bad	**1.28%**	**95.5%**	2.34%	99.15%
	100%		100%	

The total impairment constitutes 7.87% (2013 - 10.29%) of the total gross loans portfolio.

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:

	2014	2013
	LL Million	LL Million
Assets		
Balances with the Central Bank	**359,815**	235,889
Loans and advances to banks	**95,007**	94,987
Advances to fellow banks	**436**	413
Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	**3,087**	8,134
- Personal loans	**80,330**	80,713
- Mortgages	**91,705**	75,668
Loans to corporate entities:		
- Large corporate entities	**141,636**	74,689
- Small and medium size enterprises (SMEs)	**66,918**	55,379
Debtors by acceptances	**1,204**	2,099
Investment securities:		
- At amortised cost	**1,063,125**	1,045,999
- At fair value through profit or loss	**75,627**	60,376
Other assets	**2,885**	1,781
	1,981,775	1,736,127

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

	2014	2013
	LL Million	LL Million
Letters of guarantee - clients	**23,607**	35,952
Documentary and commercial letters of credit with banks	**11,869**	3,100
Loan commitments	**84,423**	63,680
	119,899	102,732
	2,101,674	1,838,859

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2014 and 2013, 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, 57.46% of the total maximum on balance sheet exposure is derived from investment securities (2013 – 63.72%), 4.79% is derived from loans and advances to banks (2013 – 5.47%) and 19.36% is derived from loans and advances to customers (2013 – 16.97%).

Management is confident in its ability to continue to control and sustain acceptable exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 88.86% of the loans and advances portfolio is categorised in performing category of the internal rating system (2013 – 85.66%);
- 80.92% of the loans and advances portfolio are considered to be neither past due nor impaired (2013 – 79.47%);
- 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 2014 and as at 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	359,815	-	-	-	-	359,815
Loans and advances to banks	90,898	1,149	1,314	1,646	-	95,007
Advances to fellow banks	-	-	-	436	-	436
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	3,070	12	-	-	5	3,087
- Personal loans	79,934	396	-	-	-	80,330
- Mortgages	91,705	-	-	-	-	91,705
Loans to corporate entities:						
- Large corporate entities	127,565	12,468	-	1,603	-	141,636
- Small and medium size enterprises (SMEs)	65,523	273	-	1,103	19	66,918
Debtors by acceptances	1,204	-	-	-	-	1,204
Investment securities:						
- At amortised cost	1,063,125	-	-	-	-	1,063,125
- At fair value through profit or loss	75,627	-	-	-	-	75,627
Other assets	2,885	-	-	-	-	2,885
At 31 December 2014	**1,961,351**	**14,298**	**1,314**	**4,788**	**24**	**1,981,775**

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	235,889	-	-	-	-	235,889
Loans and advances to banks	60,210	428	30,696	3,585	68	94,987
Advances to fellow 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)

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	23,603	2	-	2	23,607
Documentary and commercial letters of credit with banks	11,869	-	-	-	11,869
Loan commitments	81,389	3,034	-	-	84,423
At 31 December 2014	**116,861**	**3,036**	**-**	**2**	**119,899**
Letters of guarantee - clients	35,585	2	338	27	35,952
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	**92,075**	**10,214**	**381**	**62**	**102,732**

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	359,815	-	-	-	-	359,815
Loans and advances to banks	95,007	-	-	-	-	95,007
Advances to fellow banks	436	-	-	-	-	436
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	-	-	-	3,087	3,087
- Personal loans	-	-	-	-	80,330	80,330
- Mortgages	-	-	-	-	91,705	91,705
Loans to corporate entities:						
- Large corporate entities	3,636	19,314	12,509	47,064	59,113	141,636
- Small and medium size enterprises (SMEs)	36	6,095	17,632	20,917	22,238	66,918
Debtors by acceptances	-	-	-	1,204	-	1,204
Investment securities:						
- At amortised cost	1,063,125	-	-	-	-	1,063,125
- At fair value through profit or loss	72,574	-	-	3,053	-	75,627
Other assets	-	-	-	-	2,885	2,885
At 31 December 2014	**1,594,629**	**25,409**	**30,141**	**72,238**	**259,358**	**1,981,775**

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	235,889	-	-	-	-	235,889
Loans and advances to banks	94,987	-	-	-	-	94,987
Advances to fellow 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)

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	160	24	303	17,416	5,704	23,607
Documentary and commercial letters of credit with banks	11,453	37	-	379	-	11,869
Loan commitments	-	10,698	6,008	21,906	45,811	84,423
At 31 December 2014	**11,613**	**10,759**	**6,311**	**39,701**	**51,515**	**119,899**
Letters of guarantee - clients	135	938	422	24,688	9,769	35,952
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	**135**	**5,442**	**4,906**	**49,581**	**42,668**	**102,732**

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:

	2014 Loans and advances to customers LL Million	**2014 Loans and advances to the Central Bank and banks LL Million**	2013 Loans and advances to customers LL Million	2013 Loans and advances to the Central Bank and banks LL Million
Neither past due nor impaired	336,988	454,822	260,973	330,876
Past due but not impaired	33,055	-	20,191	-
Individually impaired	46,391	-	47,206	-
Gross	**416,434**	**454,822**	328,370	330,876
Less:				
Allowance for impairment	(32,758)	-	(33,787)	-
Net	**383,676**	**454,822**	294,583	330,876
Individually impaired	(28,621)	-	(29,640)	-
Portfolio allowance	(4,137)	-	(4,147)	-
Total	**(32,758)**	**-**	(33,787)	-

During the year ended 31 December 2014, the Bank's total loans and advances increased by 32.16% as a result of the expansion of the lending business (mainly overdrafts and retail loans). 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 2014 (2013 – LL 1.1 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 2014							
Grades							
Normal	3,394	76,877	90,419	40,171	107,599	318,460	454,822
Special mention	2	1,484	231	7,104	9,707	18,528	-
	3,396	**78,361**	**90,650**	**47,275**	**117,306**	**336,988**	**454,822**
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**

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 2014 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 2014						
Past due up to 30 days	13	51	-	1,383	1,840	3,287
Past due 30 – 60 days	83	58	3	1,704	710	2,558
Past due 60 – 90 days	-	12	-	188	9,851	10,051
Over 90 days	159	2,862	1,119	7,189	5,830	17,159
Total	**255**	**2,983**	**1,122**	**10,464**	**18,231**	**33,055**
Fair value of collateral	**18**	**2,762**	**1,535**	**12,907**	**7,206**	**24,428**
Amount of under (over) collateralisation	**237**	**221**	**(413)**	**(2,443)**	**11,025**	**8,627**

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 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 under (over) collateralisation	**460**	**3,289**	**(14,598)**	**(31,372)**	**(8,414)**	**(50,635)**

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 45,593 million (2013 - LL 47,206 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 2014					
Individually impaired loans	**1,223**	**4,043**	**24,536**	**16,589**	**46,391**
Fair value of collateral	**1,939**	**3,119**	**25,262**	**8,661**	**38,981**
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

(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 2014 is LL 454,822 million (2013 - LL 330,876 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 5,856 million at 31 December 2014 (2013 – LL 5,647 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 2014, 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 2014					
B+ to B-	**415,715**	**352,429**	**338,478**	**32,130**	**1,138,752**
31 December 2013					
B+ to B-	415,934	375,603	278,582	36,256	1,106,375

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:

	2014 LL Million	2013 LL Million
Nature of assets		
Residential property - carrying amount	**2,991**	3,091

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 2014 and 2013. 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)

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Other LL Million	Total LL Million
As at 31 December 2014							
Assets							
Cash and balances with the Central Bank	49,533	326,700	1,727	165	-	-	378,125
Loans and advances to banks	9,074	75,810	8,881	871	38	333	95,007
Advances to fellow banks	-	97	266	59	1	13	436
Loans and advances to customers	169,313	202,818	11,544	-	-	1	383,676
Debtors by acceptances	-	1,204	-	-	-	-	1,204
Investment securities:							
- At amortised cost	543,288	483,402	36,435	-	-	-	1,063,125
- At fair value through OCI	510	885	-	-	-	-	1,395
- At fair value through profit or loss	43,277	13,892	18,458	-	-	-	75,627
Other assets	2,077	3,100	113	-	-	-	5,290
Total financial assets	**817,072**	**1,107,908**	**77,424**	**1,095**	**39**	**347**	**2,003,885**
Liabilities							
Deposits from banks	21,936	45,247	27,635	-	-	-	94,818
Deposits from the Central Bank	14,837	-	-	-	-	-	14,837
Deposits from parent and fellow banks	-	34,960	-	-	-	-	34,960
Deposits from customers	655,778	1,012,731	49,751	1,093	31	63	1,719,447
Engagements by acceptances	-	1,204	-	-	-	-	1,204
Other liabilities	5,932	2,651	10	-	1	-	8,594
Total financial liabilities	**698,483**	**1,096,793**	**77,396**	**1,093**	**32**	**63**	**1,873,860**
Net on-balance sheet financial position	**118,589**	**11,115**	**28**	**2**	**7**	**284**	**130,025**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued)

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Other LL Million	Total LL Million
As at 31 December 2013							
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 fellow 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 fellow 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)

3.2.3 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 2014	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	75,177	19,974	25,628	59,998	143,213	54,135	378,125
Loans and advances banks	80,077	2,130	-	12	79	12,709	95,007
Advances to fellow banks	-	-	-	-	-	436	436
Loans and advances to customers	124,164	40,074	66,767	102,248	31,012	19,411	383,676
Debtors by acceptances	-	-	-	-	-	1,204	1,204
Investment securities:							
- At amortised cost	43,986	173,916	55,941	436,149	336,649	16,484	1,063,125
- At fair value through profit or loss	-	-	214	3,061	43,182	29,170	75,627
Other assets	-	-	-	-	-	5,290	5,290
Total financial assets	**323,404**	**236,094**	**148,550**	**601,468**	**554,135**	**138,839**	**2,002,490**
Liabilities							
Deposits from banks	67,152	14,726	-	12,909	-	31	94,818
Due to Central Bank	-	-	-	33	14,804	-	14,837
Deposits from parent and fellow banks	25,631	8,216	-	-	-	1,113	34,960
Deposits from customers	1,230,305	120,041	113,115	112,134	-	143,852	1,719,447
Engagements by acceptances	-	-	-	-	-	1,204	1,204
Other liabilities	-	-	-	-	-	8,594	8,594
Total financial liabilities	**1,323,088**	**142,983**	**113,115**	**125,076**	**14,804**	**154,794**	**1,873,860**
Total interest repricing gap	**(999,684)**	**93,111**	**35,435**	**476,392**	**539,331**		

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 fellow 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 fellow 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**		

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.

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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 2014						
Liabilities						
Deposits from banks	51,612	15,571	14,726	12,909	-	94,818
Due to Central Bank	99	148	762	3,557	10,271	14,837
Deposits from parent and fellow banks	26,744	-	8,216	-	-	34,960
Deposits from customers	858,752	472,887	282,933	127,462	-	1,742,034
Engagement by acceptances	53	873	278	-	-	1,204
Other liabilities	8,594	-	-	-	-	8,594
Total liabilities (contractual maturity dates)	**945,854**	**489,479**	**306,915**	**143,928**	**10,271**	**1,896,447**
Assets held for managing liquidity risk (contractual maturity dates)	**306,747**	**87,037**	**371,716**	**651,810**	**586,577**	**2,003,887**

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 fellow 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**

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;
- Lebanese treasury bills; and
- Investment in funds.

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 2014			
Loan commitments	81,456	2,967	84,423
Documentary and commercial letters of credit with banks	11,869	-	11,869
Letters of guarantee - clients	23,594	13	23,607
Total	**116,919**	**2,980**	**119,899**
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	35,886	66	35,952
Total	**92,614**	**10,118**	**102,732**

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)

(a) Valuation models (continued)

Valuation technique using significant unobservable inputs – Level 3 (continued)

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets or paid to transfer the liability in an order by transaction between market participants at the measurement date. The Bank uses widely recognised valuation models for determining the fair value of common financial instruments.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair values of financial instruments (continued)

(b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
At 31 December 2014				
Assets				
Cash and balances with the Central Bank (i)	18,310	359,815	378,125	378,125
Loans and advances to banks (i)	-	95,007	95,007	95,007
Advances to fellow banks (i)	-	436	436	436
Loans and advances to customers (ii)	-	385,592	385,592	383,676
Investment securities at amortised cost (iii)	508,517	571,560	1,080,077	1,063,125
Debtors by acceptances	-	1,204	1,204	1,204
Total financial assets	**526,827**	**1,413,614**	**1,940,441**	**1,921,573**
Liabilities				
Deposits from banks (iv)	-	94,818	94,818	94,818
Due to Central Bank (iv)	-	14,837	14,837	14,837
Deposits from parent and fellow banks (iv)	-	34,960	34,960	34,960
Deposits from customers (v)	-	1,726,553	1,726,553	1,719,447
Engagement by acceptances	-	1,204	1,204	1,204
	-	**1,872,372**	**1,872,372**	**1,865,266**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair values of financial instruments (continued)

(b) Financial instruments not measured at fair value (continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	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 fellow 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
Debtors by acceptances	-	2,099	2,099	2,099
Total financial assets	**392,653**	**1,308,431**	**1,701,084**	**1,691,677**
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 fellow 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)

(b) Financial instruments not measured at fair value (continued)

(i) Balances with the Central Bank, Loans and advances to banks, and advances to fellow 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.

The carrying amount of overdrafts and impaired loans is a reasonable approximation of fair value.

(iii) Investment securities at amortised cost

The fair value for loans and receivables and assets at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity, and yield characteristics. For more information, refer to step (ii) above.

(iv) Deposits from banks, deposits from parent and fellow 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 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 is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair values of financial instruments (continued)

(c) Financial instruments - fair value hierarchy

	Level 1 LL Million	Level 2 LL Million	Total LL Million
At 31 December 2014			
Debt securities at fair value through profit or loss	32,350	43,277	75,627
Equity securities at fair value through other comprehensive income	645	750	1,395
	32,995	**44,027**	**77,022**
At 31 December 2013			
Debt securities at fair value through profit or loss	37,960	22,416	60,376
Equity securities at fair value through other comprehensive income	650	750	1,400
	38,610	**23,166**	**61,776**

There were no transfers between levels during 2014 (2013 - 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.

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.

The risk weighted assets are measured using the 'standardised approach' (SA) for credit risk.

Risk weights are assigned to assets on and off balance sheet items according to their asset class and credit assessment. For listed debt securities and for the purpose of measurements of risk weights, Standard & Poor rating is used. Any eligible collateral and netting agreements are taken into account for calculating risk-weighted assets.

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 2014 and 2013.

	2014	2013
	LL Million	LL Million
Tier 1 Capital		
Share capital	**100,000**	100,000
Retained earnings and reserves	**43,057**	39,625
Less: intangible assets	**(1,020)**	(727)
Less: shares and participation in insurance companies	**(29)**	(699)
Unrealised loss on revaluation of securities at fair value through OCI	**(77)**	(60)
Total qualifying Tier 1 Capital	**141,931**	138,139
Tier 2 Capital		
Unrealised gain on revaluation of securities at fair value through OCI	**214**	218
Total qualifying Tier 2 Capital	**214**	218
Total regulatory Capital	**142,145**	138,357
Risk - weighted assets		
On-balance sheet	**930,340**	846,128
Off-balance sheet	**33,273**	39,673
Market risk components	**85,370**	82,094
Operational risk components	**76,468**	73,506
Total risk-weighted assets	**1,125,451**	1,041,401
Basel ratio (%)[1]		
Tier 1 Capital	**12.61%**	13.26%
(Tier 1 + Tier 2) Capital	**12.63%**	13.29%

In 2014, the Banking Control Commission issued memo no. 3/2014 which requested banks to disclose their capital adequacy ratio for financial year end 2013 and onwards based on the new computation. The new memo decreased the risk weights on foreign denominated investments with the Central Bank including Certificate of deposits (BDL) from 100% to 50%.

[1] Capital adequacy level for 2014 was computed in accordance to the computation method of Basel II as per BCC memo 5/2015 dated 18 February 2015.

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.

(a) 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 149 million (2013 – LL 154 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.

(b) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using discounted cash flow model. These cash flow models are based on underlying market prices for interest rates. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. These models are validated and periodically reviewed by the financial control department. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the financial statements (continued)

5 Cash and balances with the Central Bank

	2014 **LL Million**	2013 LL Million
Cash on hand	**18,310**	17,707
Term placements with the Central Bank of Lebanon other than mandatory reserve deposits	**8,500**	6,700
Current accounts with the Central Bank of Lebanon other than mandatory reserve deposits	**2,207**	6,555
Included in cash and cash equivalents (note 34)	**29,017**	30,962
Mandatory reserve deposits with Central Bank of Lebanon	**201,094**	167,202
Term placements (with original maturities exceeding three months)	**143,934**	53,490
Interest receivable - Central Bank of Lebanon	**4,080**	1,942
	378,125	253,596
Current	**57,527**	117,505
Non-current	**320,598**	136,091
	378,125	253,596

In accordance with the Central Bank's basic circulars 84, 86 and 87, the Bank is required to constitute non-interest bearing mandatory reserves in Lebanese Pounds calculated on the basis of 15% of the weekly average of term deposits and 25% of the weekly average of current accounts denominated in Lebanese Pounds. The Bank is also required to constitute and interest-bearing mandatory reserve in foreign currency calculated on the basis of 15% of the weekly average of deposits denominated in foreign currencies.

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 2014, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese Pounds amounting to LL 33 billion and deposits denominated in US Dollar that earn interest at 1.48% per annum with a counter value of LL 168 billion (US$ 111 million).

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).

Notes to the financial statements (continued)

6 Loans and advances to banks

	2014 **LL Million**	2013 LL Million
Items in course of collection from other banks	**6,155**	7,487
Current accounts with other banks	**5,194**	17,842
Placements with other banks (with original maturities not exceeding three months)	**75,668**	60,344
Included in cash and cash equivalents (note 34)	**87,017**	85,673
Placements with other banks (with original maturities exceeding three months)	**7,787**	9,157
Interest receivable	**203**	157
	95,007	94,987
Current	**87,219**	87,199
Non-current	**7,788**	7,788
	95,007	94,987

7 Advances to parent and fellow banks

Current accounts (notes 34 and 36)	**436**	413

Notes to the financial statements (continued)

8 Loans and advances to customers

	2014	2013
	LL Million	LL Million
Overdrafts	**127,154**	92,028
Bills to the order of the Bank	**69,290**	71,824
Short term loans	**84,193**	67,378
Medium and long term loans	**82,062**	41,426
Creditors accidentally debtors	**2,668**	4,765
Loan to a related party (note 36)	**3,317**	3,543
Discounted bills	**1,359**	200
Non-performing loans:		
- Substandard	**8,959**	7,422
- Doubtful and bad debts	**37,432**	39,784
Gross loans and advances to customers	**416,434**	328,370
Specific allowance for impairment	**(28,621)**	(29,640)
Collective allowance for impairment	**(4,137)**	(4,147)
Net loans and advances to customers	**383,676**	294,583
Current	**211,310**	148,725
Non-current	**172,366**	145,858
	383,676	294,583

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 2014			
Normal, follow-up and special mention loans	370,043	(4,706)	365,337
Substandard	8,959	(3,460)	5,499
Doubtful and bad debts	37,432	(24,592)	12,840
	416,434	**(32,758)**	**383,676**
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

Notes to the financial statements (continued)

8 Loans and advances to customers (continued)

The movement in impairment provision is as follows:

	2014		2013	
	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	29,640	4,147	26,065	3,965
Increase in impairment allowances (note 27)	3,878	773	2,903	405
Release of impairment allowances (note 27)	(449)	(783)	(642)	(223)
Release of unrealised interest (note 27)	(3,429)	-	(726)	-
Increase in unrealised interest	2,929	-	2,248	-
Provision and unrealised interest written-off during the year	(3,948)	-	(208)	-
Balance at 31 December	**28,621**	**4,137**	29,640	4,147

9 Debtors by acceptances

	2014 LL Million	2013 LL Million
Balance	**1,204**	2,099

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

	2014 LL Million	2013 LL Million
Equity securities at fair value through OCI		
- Listed at fair value	**645**	650
- Unlisted	**750**	750
	1,395	1,400

10 Investment securities (continued)

	2014 LL Million	2013 LL Million
Debt securities at fair value through profit or loss		
- Investment in funds	**32,130**	36,256
- Lebanese treasury bills - unlisted	**26,213**	22,416
- Lebanese certificates of deposit (BDL) - unlisted	**17,064**	-
- Lebanese treasury bills (Eurobonds) - listed	**220**	1,704
	75,627	60,376

During 2014, investment securities held at amortised cost comprised Treasury bills, Eurobonds and Certificates of deposit.

	2014 LL Million	2013 LL Million
Debt securities held at amortised cost		
- Lebanese treasury bills - unlisted	**389,502**	393,518
- Lebanese treasury bills in foreign currency (Eurobonds) - listed	**352,209**	373,899
- Certificates of deposit (BDL) - unlisted	**172,117**	148,967
- Certificates of deposit (BDL) - listed	**149,297**	121,994
- Certificates of deposits (Banks) - unlisted	**-**	7,621
	1,063,125	1,045,999
Total investment securities	**1,140,147**	1,107,775
Current	**282,460**	179,892
Non-current	**857,687**	927,883
	1,140,147	1,107,775

In 2014, the Bank sold investment securities from its amortised cost portfolio.

(i) During April 2014, the Bank sold Eurobonds with a carrying amount of LL 39 billion with a maturity not exceeding 6 months.

(ii) During April 2014, the Bank performed an exchange transaction with BDL on a portion of its Eurobonds portfolio with a nominal value of LL 12 billion with a maturity not exceeding 6 months.

Gains realised on these transactions amounted to LL 127 million (note 28b).

(iii) During 2014, the Bank also sold Lebanese treasury bills with a carrying amount of LL 15 billion and replaced them with similar securities with longer maturities.

Gains realised on this transaction amounted to LL 582 million (note 28b).

10 Investment securities (continued)

(iv) During 2014, the Bank also sold Lebanese certificate of deposits with a carrying amount of LL 30 billion and replaced them with similar securities with longer maturities.

Gains realised on this transaction amounted to LL 984 million (note 28b).

As for 2013, the Bank sold investment securities from its amortised cost portfolio for the following reasons:

(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 28b).

(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 28b).

(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 with a maturity 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 with a maturity 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 with a maturity 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 with a maturity not exceeding 10 months.

(viii) 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 28b).

The Bank believes that the above mentioned sales are consistent with its objectives to collect contractual cash flows.

Notes to the financial statements (continued)

10 Investment securities (continued)

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 2014			
Nominal amount	73,577	1,035,343	1,108,920
Unamortised premium	1,419	10,636	12,055
Accrued interest receivable	345	17,146	17,491
Net changes in fair value	286	-	286
	75,627	**1,063,125**	**1,138,752**
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**

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 2013	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
Securities acquired	229,420	712,400	941,820
Securities swapped out	(12,060)	-	(12,060)
Securities sold	(83,976)	(695,800)	(779,776)
Securities matured	(105,744)	-	(105,744)
Foreign exchange difference	(4,095)	-	(4,095)
At 31 December 2014	**1,035,343**	**73,577**	**1,108,920**

Notes to the financial statements (continued)

10 Investment securities (continued)

Equity securities are as follows:

	2014 LL Million	2013 LL Million
Nominal amount	**1,045**	1,045
Net revaluation gain	**350**	355
	1,395	1,400

No equity securities have been either acquired or sold at 31 December 2014 and 2013.

11 Non-current assets held for sale

	2014 LL Million	2013 LL Million
Cost	**2,991**	3,091

These assets represent properties acquired against settlement of facilities of defaulting clients. As stipulated by the code of money and credit, banks have two years (from date of acquisition) to liquidate those assets, else banks are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends (note 24).

In accordance with IFRS 5, assets held for sale are recorded at the lower of carrying value and fair value less cost to sell. The fair value has been measured using observable inputs, being the prices for recent sales of similar properties, and is therefore within level 2 of the fair value hierarchy.

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 2014.

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 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**
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**

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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 2014							
Opening net book amount	8,618	6,559	3,025	59	-	6,499	24,760
Additions	-	522	1,306	132	-	24	1,984
Transfers from work in progress	4,829	428	-	-	-	(5,257)	-
Depreciation expense (note 31)	(777)	(2,991)	(1,059)	(169)	-	-	(4,996)
Closing net book amount	**12,670**	**4,518**	**3,272**	**22**	**-**	**1,266**	**21,748**
At 31 December 2014							
Cost	15,491	22,218	10,169	1,470	220	1,266	50,834
Accumulated depreciation	(2,821)	(17,700)	(6,897)	(1,448)	(220)	-	(29,086)
Net book amount	**12,670**	**4,518**	**3,272**	**22**	**-**	**1,266**	**21,748**

Notes to the financial statements (continued)

13 Intangible assets

	Computer software LL Million
At 1 January 2013	
Cost	2,323
Accumulated amortisation	(1,605)
Net book amount	**718**
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**
Year ended 31 December 2014	
Opening net book amount	718
Additions	566
Disposals	-
Amortisation expense (note 31)	(264)
Closing net book amount	**1,020**
At 31 December 2014	
Cost	2,889
Accumulated amortisation	(1,869)
Net book amount	**1,020**

Notes to the financial statements (continued)

14 Investment properties

	Building LL Million
At 1 January 2013	
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**
Year ended 31 December 2014	
Opening net book amount	21
Depreciation expense (note 31)	(3)
Closing net book amount	**18**
At 31 December 2014	
Cost	58
Accumulated depreciation	(40)
Net book amount	**18**

In 2014, investment properties generated a rental income of LL 216 million (2013 – LL 222 million) (note 32).

Investment property includes 4 stores on real estate plot number 948 (1,231 shares).The fair value of these stores amounted to LL 3.74 billion as of 31 December 2014 as determined by an independent real estate expert report dated 16 February 2015. 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

	2014 LL Million	2013 LL Million
Investment in a subsidiary	**29**	29

On 21 December 2010, 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

	2014 LL Million	2013 LL Million
Other debtors	**2,558**	1,453
Provision for impairment of other debtors	**(169)**	(204)
Other debtors - net	**2,389**	1,249
Prepayments	**2,405**	1,535
Due from national social security fund	**496**	532
	5,290	3,316

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

	2014 LL Million	2013 LL Million
At 1 January	**204**	164
Impairment losses on other assets (note 30)	**-**	40
Release of provision for impairment of other assets	**(35)**	-
At 31 December	**169**	204

17 Due to Central bank

	2014 LL Million	2013 LL Million
Soft loan from the Central Bank of Lebanon	**14,742**	3,686
Interest payable	**95**	7
	14,837	3,693

During 2014, 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 14.8 (2013 - LL 3.7 billion) and relates to housing loans granted to clients with average interest rates of 5.12% (2013 – 5.20%). This loan is subject to an annual interest rate of 1% and is payable through monthly instalments starting 2 January 2014 with maturities ranging between 15 and 19 years.

Notes to the financial statements (continued)

18 Deposits from banks

	2014 LL Million	2013 LL Million
Term deposits	**94,574**	69,577
Sight deposits	**31**	140
Interest payable	**213**	141
	94,818	69,858

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 2.73% for the year 2014 (2013 – 1.79%).

19 Deposits from parent and fellow banks

	2014 LL Million	2013 LL Million
Term deposits (note 36)	**33,843**	14,799
Interest payable (note 36)	**4**	15
Sight deposits (note 36)	**1,113**	2,635
	34,960	17,449
Current	**34,960**	17,449
Non - current	**-**	-
	34,960	17,449

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 0.68 % for the year 2014 (2013 – 1.27%).

20 Deposits from customers

	2014 LL Million	2013 LL Million
Saving accounts (i)	**834,678**	791,208
Time deposits	**737,087**	598,051
Sight deposits (iii)	**106,724**	94,071
Net credit against debit accounts and cash margins (ii)	**29,618**	39,474
Interest payable - customers	**11,340**	9,881
	1,719,447	1,532,685
Current	**1,607,313**	1,496,283
Non - current	**112,134**	36,402
	1,719,447	1,532,685

Notes to the financial statements (continued)

20 Deposits from customers (continued)

	2014	2013
	LL Million	LL Million
(i) Saving accounts		
Saving accounts - term	**833,450**	789,176
Saving accounts - sight	**1,228**	2,032
	834,678	791,208
(ii) Net credit against debit accounts and cash margins		
Pledged deposits against credit facilities	**23,862**	28,162
Margins against documentary credits	**240**	855
Margins against letters of guarantee	**5,516**	10,457
	29,618	39,474
(iii) Sight deposits		
Current and checking accounts	**93,769**	80,567
Due to a related party (note 36)	**34**	443
Debtors accidentally creditors	**2,819**	2,449
Cheques and orders to be paid	**10,102**	10,612
	106,724	94,071

Deposits include coded accounts amounting to LL 7.58 billion as of 31 December 2014 (2013 - LL 9.70 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

	2014	2013
	LL Million	LL Million
Accrued expenses	**3,221**	3,609
Other creditors	**2,902**	2,725
Taxes payable	**666**	511
Due to National Social Security Fund	**207**	195
Other liabilities	**1,598**	1,106
	8,594	8,146

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

	2014 LL Million	2013 LL Million
Provision for general risk	**513**	521
Provision for foreign currencies fluctuations	**45**	3
	558	524

23 Retirement benefit obligations

At 1 January	**3,326**	3,278
Charge for the year (note 29)	**100**	217
Write back of provision	**(6)**	(64)
Utilised during the year	**(110)**	(105)
At 31 December	**3,310**	3,326

24 Shareholders' equity

Share capital (a)	**100,000**	100,000
Legal reserve (b)	**7,389**	6,638
Reserve for unspecified banking risks (c)	**15,378**	13,343
Fair value reserve (d)	**350**	355
Retained earnings (e)	**8,508**	7,497
Free reserve (f)	**19,642**	19,642
Reserve for liquidation of assets classified as held for sale (g)	**696**	133
Total shareholders' equity	**151,963**	147,608

(a) Share capital

At 31 December 2014 and 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

	2014 LL Million	2013 LL Million
At 1 January	**6,638**	5,786
Appropriation of retained earnings (e)	**751**	852
At 31 December	**7,389**	6,638

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

	2014 LL Million	2013 LL Million
At 1 January	**13,343**	10,371
Appropriation of retained earnings (e)	**2,035**	2,972
At 31 December	**15,378**	13,343

In compliance with the Central Bank of Lebanon basic circular no. 50, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk-weighted assets (on and off balance sheet) as a reserve for unspecified banking risks. In addition, this reserve should not be less than 1.25% of the denominator at the end of the tenth financial years (i.e. 31 December 2007) and 2% of the denominator at the end of the twentieth financial years (i.e. 31 December 2017). This reserve is considered part of Tier I capital, but it is not available for distribution.

(d) Fair value reserve

The fair value reserve of LL 350 million (2013 – 355 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) Appropriation of retained earnings

	2014 LL Million	2013 LL Million
1 January (profit of previous year)	**7,497**	8,524
Transfer to legal reserve (b)	**(751)**	(852)
Transfer to reserve for unspecified banking risks (c)	**(2,035)**	(2,972)
Dividends declared	**(3,500)**	(3,500)
Transfer to free reserve (f)	-	(1,067)
Transfer to Reserve for liquidation of assets classified as held for sale (g)	**(563)**	(133)
Profit for the year	**7,860**	7,497
At 31 December	**8,508**	7,497

The General Assembly meeting held on 16 May 2014 approved the distribution of dividends amounting to LL 3.5 billion (LL 43.75 per share before tax).

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).

(f) Free reserve

Free reserve of LL 19.64 billion (2013 – 19.64 billion) represents prior year profits appropriated from retained earnings.

Notes to the financial statements (continued)

24 Shareholders' equity (continued)

(g) Reserve for liquidation of assets classified as held for sale

Reserve for liquidation of assets classified as held for sale of LL 696 million (2013 - LL 133 million) 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.

(h) Un-distributable profits

The profit for the year of LL 7.86 billion (2013 – 7.50 billion) as shown under (e) above includes an amount of LL 314 million (2013 – 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 3.6 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 and similar income

	2014 LL Million	2013 LL Million
Interest and similar income		
Loans and advances:		
- to customers	**24,938**	21,197
- to banks	**1,283**	786
Cash and balances with the Central Bank	**9,622**	5,987
Investment securities:		
- At amortised cost	**65,608**	62,125
- Fair value through profit or loss	**2,943**	565
	104,394	90,660
Interest and similar expenses		
Deposits from the Central Bank	**(95)**	(8)
Deposits from parent and fellow banks (note 36)	**(327)**	(290)
Deposits from banks	**(1,515)**	(1,179)
Deposits from customers	**(70,515)**	(59,635)
	(72,452)	(61,112)
Net interest income	**31,942**	29,548

26 Net fee and commission income

	2014 LL Million	2013 LL Million
Fee and commission income		
Credit related fees and commissions	**1,908**	1,734
Commission on customer deposit accounts	**1,103**	1,069
Engagements by endorsement fees	**634**	785
Portfolio and other management fees	**606**	581
Commission on swift	**331**	295
Commission on cheques	**331**	284
Commission on custody of securities	**74**	61
Other fees	**250**	180
	5,237	4,989
Fee and commission expense		
Commission paid to the Central Bank	**(601)**	(555)
Commission paid on foreign currency shipment	**(266)**	(191)
Other commissions	**(188)**	(87)
	(1,055)	(833)
Net fee and commission income	**4,182**	4,156

Notes to the financial statements (continued)

27 Net loan impairment releases (charges)

	2014 LL Million	2013 LL Million
Loans and advances to customers (note 8):		
(Release) increase in collective impairment allowance	**(10)**	182
Increase in specific impairment allowance	**3,878**	2,903
Release of specific impairment allowance	**(449)**	(642)
Release of unrealised interest	**(3,429)**	(726)
	(10)	1,717

28(a) Net gains on investment securities at fair value through profit or loss

	2014 LL Million	2013 LL Million
Gain on sale financial instruments at fair value through profit or loss	**759**	287
Net unrealised gain on revaluation of financial instruments held at fair value through profit or loss	**314**	648
Other gains	**69**	81
	1,142	1,016

28(b) Net gains on investment securities at amortised cost

	2014 LL Million	2013 LL Million
Gain on sale of Certificates of deposits	**984**	1,761
Gain on sale of Treasury bills in Lebanese Pounds	**582**	655
Gain on sale of Eurobonds	**127**	557
	1,693	2,973

29 Personnel expenses

Wages and salaries	**11,702**	10,868
Social security costs	**1,765**	1,605
Schooling allowance	**966**	834
Insurance benefits	**802**	670
Transportation benefits	**709**	674
Directors' remuneration and attendance fees (note 36)	**641**	769
Retirement benefit obligations (note 23)	**100**	217
Other expenses	**540**	394
	17,225	16,031

The average number of persons employed by the Bank during the year was 258 (2013 - 249 employees).

Notes to the financial statements (continued)

30 General and administrative expenses

	2014 LL Million	2013 LL Million
Repair and maintenance expense	**1,299**	1,074
Professional fees	**1,032**	636
Deposits guarantee premiums	**864**	764
Telecommunication expense	**719**	678
Fuel expense	**682**	671
Subscriptions	**391**	364
Rent expense	**380**	406
Travel and entertainment	**343**	277
Water and electricity	**301**	271
Stationery and office supplies	**272**	259
Insurance expenses	**265**	253
Impairment losses on other assets (note 16)	**-**	40
Other administrative expenses	**1,167**	1,193
	7,715	6,886

31 Depreciation and amortisation expenses

Depreciation of property and equipment (note 12)	**4,996**	4,985
Amortisation of intangible assets (note 13)	**264**	341
Depreciation of investment properties (note 14)	**3**	3
	5,263	5,329

32 Other operating income

Rental income (note 14)	**216**	222
(Loss) gain on sale of non-current assets held for sale	**(2)**	189
Write back of client bad debts	**140**	109
Other income	**205**	748
	559	1,268

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 2014, the 5% tax withheld on interest received of LL 2.2 billion (2013 – LL 2.1 billion) was higher than the Bank's corporate income tax of LL 1.6 billion (2013 – LL 1.5 billion).

Notes to the financial statements (continued)

33 Income tax expense (continued)

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

	2014 LL Million	2013 LL Million
Profit before tax	**10,010**	9,595
Income tax at statutory rate of 15%	**1,502**	1,439
Effect of expenses not deductible for tax purposes:		
Loan impairment charges	**138**	69
Other charges	**113**	145
Effect of non-taxable income:		
Reversal of loan impairment charges	**(117)**	(128)
Other	**(43)**	(45)
Notional tax charge for the year	**1,593**	1,480
Actual tax charge for the year	**2,150**	2,098

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

	2014 LL Million	2013 LL Million
At 1 January	**-**	-
Charge for the year	**2,150**	2,098
Payments during the year (5% tax on interest received)	**(2,150)**	(2,098)
At 31 December	**-**	-

The fiscal years 2010 to 2014 remain subject to examination by the income tax authorities.

34 Cash and cash equivalents

	2014 LL Million	2013 LL Million
Loans and advances to banks (note 6)	**87,017**	85,673
Cash and balances with the Central Bank (note 5)	**29,017**	30,962
Advances to parent and fellow banks (note 7)	**436**	413
	116,470	117,048

35 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the bank at 31 December 2014. 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 2014 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:

	2014	2013
	LL Million	LL Million
Undrawn credit lines	**84,423**	63,680
Documentary and commercial letters of credit with banks	**11,869**	3,100
Letters of guarantee - clients	**23,607**	35,952
	119,899	102,732

36 Related parties transactions

The Bank is controlled by Bank Misr (incorporated in Cairo) which owns 92% (2013 – 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

	2014	2013
	LL Million	LL Million
Advances to fellow banks (note 7)		
Advances outstanding at 1 January	**413**	106
Advances issued during the year	**2,739**	18,663
Advances repayments during the year	**(2,716)**	(18,356)
Advances outstanding at 31 December	**436**	413
Loan to "MLIB" (note 8)		
Loans outstanding at 31 December	**3,317**	3,543
Interest income earned	**148**	155

During August 2012, 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 4.39% and is fully repayable on August 2015.

Notes to the financial statements (continued)

36 Related parties transactions (continued)

(b) Deposits from related parties

	Parent bank		Fellow banks	
	2014	2013	**2014**	2013
	LL Million	LL million	**LL Million**	LL Million
Deposits from parent and fellow banks (note 19)				
Deposits at 1 January	**17,440**	81,979	**9**	9
Deposits received during the year	**116,515**	85,616	**58,907**	82,515
Deposits repaid during the year	**(114,088)**	(150,155)	**(43,823)**	(82,515)
Deposits at 31 December	**19,867**	17,440	**15,093**	9
Interest expense on deposits (note 25)	**220**	254	**107**	36
Deposits from "MLIB" (note 20)				
Deposits at 31 December			**34**	443
Interest expense on deposits			**14**	24

(c) Key management compensation

	2014	2013
	LL Million	LL Million
Directors' remuneration and attendance fees (note 29)	**641**	769
Key management remuneration	**1,596**	1,653
	2,237	2,422

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.

	2014	2013
Profit for the year (LL million)	**7,860**	7,497
Weighted average number of ordinary shares in issue ('000)	**80,000**	80,000
Basic and diluted earnings per ordinary share (LL)	**98**	94