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CHAIRMAN'S LETTER

The year 2014 was a productive year for BBAC at both business and performance level. In spite of difficult operating conditions in an environment of global financial turmoil, BBAC managed indeed to stand solid and achieve exceptional results mainly due to its strong business fundamentals.

BBAC pursued its growth strategy, developing further its activities while achieving sound financial performance results. Such successful results are evidenced in an interesting growth of 6.85% in total assets, to reach LBP 8,227 billion, by end-December 2014. In addition, the Bank achieved year to year increase of 5.32% in consolidated customers' deposits reaching LBP 7,146 billion end-December 2014. In parallel, consolidated loans and advances to customers reached LBP 2,212 billion, an increase of 9.77%.

On profitability level, BBAC reported a return on average equity (ROAE) and a return on average assets (ROAA) of 10.35% and 0.84 % respectively in 2014, as its net profit reached LBP 67.108 billion, recording an increase of 2.48%.The Bank's solvency ratio as per Basel III attained 13.31%, exceeding the standards required by the Central Bank of Lebanon (11.5%), which are also higher than the minimum level required by Basel III (8 %).

The Bank accompanied such business accomplishments with an adequate development of its support function. In 2014, BBAC's IT team was keen on continuously enhancing its operational efficiencies by optimizing utilizations of resources and ensuring transparent monitoring of capital consumption. In addition to the mentioned initiatives, BBAC's IT team has started supporting the Bank for launching new applications such as Mobile Payment, Online Banking and Loyalty Point System, which will be available to customers by 2015.

Based on our strategy, we manage our business with sustainability and growth in mind; we aim to create long-term value for shareholders by continuing to support growth through active capital, liquidity and funding management, moving forward by balancing expectations for growth against acceptable levels of risk in every part of the business.

In views of all these performances, BBAC looks at the future with faith and optimism, and believes there are many opportunities at the horizon and it is very well placed to grasp them.
Such conviction is based on the fact that the number of employees with university degrees has risen significantly, benefiting from a management-driven profile, a very strong corporate governance and an extensive vision when it comes to strategy with deeper sense of expanding, growing and developing further.

BBAC also proved its mettle by another set of criteria in 2014, further strengthening its compliance mechanisms and practices by meeting or exceeding global standards, augmenting its contribution to the fights against money laundering and terrorism and strictly adhering to relevant international sanctions. These improvements constitute additional support not just for the Bank's financial position, but also for its ability to keep providing world class products and services for clients, attractive career opportunities for employees and consistent value for shareholders.

For 2014 and beyond, BBAC assures that it will remain committed to sustainable growth by expanding its branch network locally and regionally, introducing new products and services in order to increase its customer base, strengthening its strategic relationship and ensuring compliance with all regulatory requirements.

Our sincere appreciation goes to our shareholders, customers, employees and other stakeholders for their continued support to the bank, which has enabled us to achieve another year of strong performance. With your continuous support, we look forward to successful years ahead as we work hard to enhance returns for shareholders while continuing in our pursuit of excellence in our customer service and operations.

Sincerely,

Ghassan T. Assaf
Chairman and General Manager

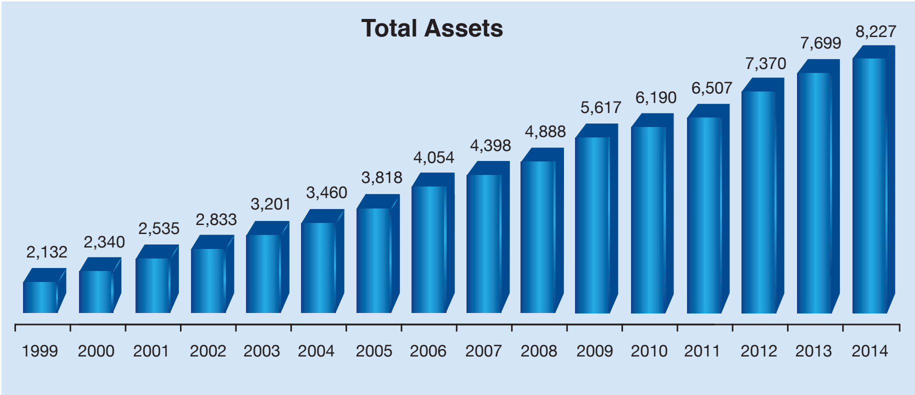
MANAGEMENT

MANAGEMENT

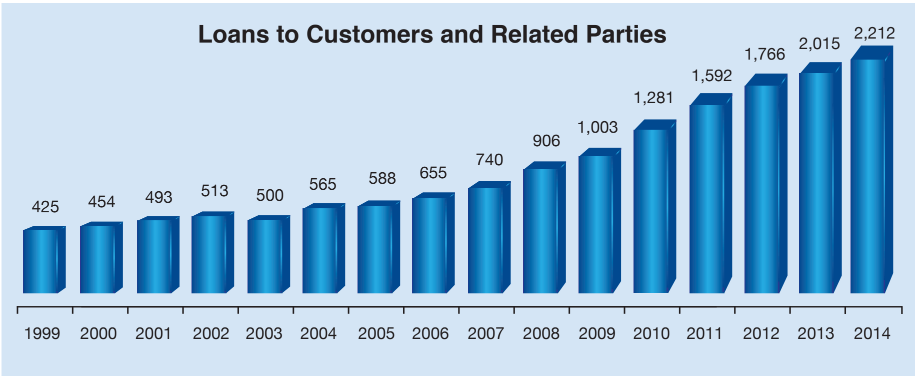
Financial Highlights

Evolution of Key Indicators (LBP billion)

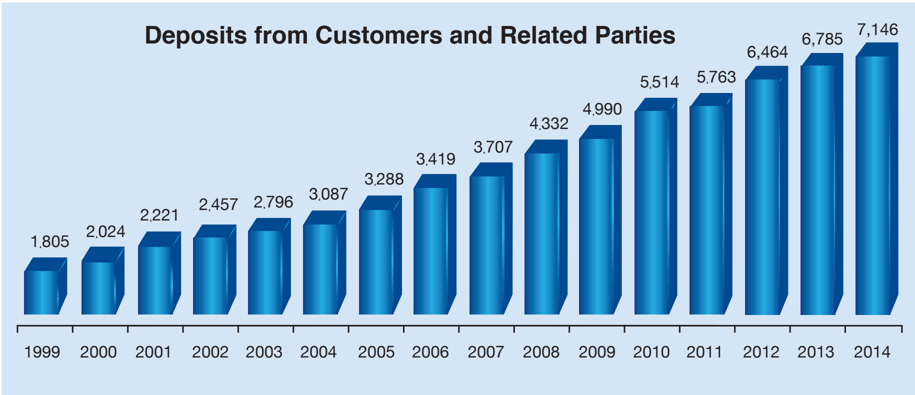
Assets



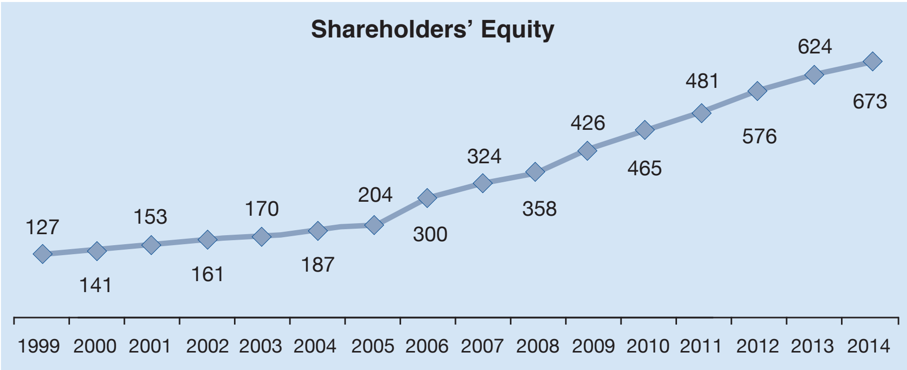
Loans



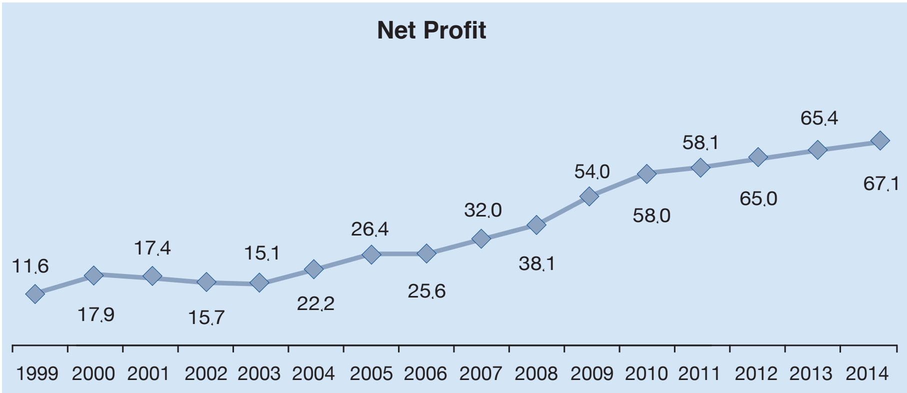
Deposits



Shareholders' Equity



Net Profit



Selected Financial Data

	(LBP million)		Growth
	2014	2013	2014-2013
Total Assets	**8,226,641**	**7,699,242**	**6.85%**
Total Loans	**2,212,239**	**2,015,380**	**9.77%**
Total Deposits [1]	**7,145,699**	**6,784,716**	**5.32%**
Net Liquid Assets [2]	**5,494,909**	**5,300,474**	**3.67%**
Shareholders' Equity	**672,687**	**624,104**	**7.78%**
Net Profit	**67,108**	**65,481**	**2.48%**

1 Exclude financial liabilities held at fair value through profit or loss (FVTPL)
2 "Liquid assets" less "Deposits from banks and financial institutions"

Loan Quality: Loans and Advances by BDL Classification	(LBP million)		Growth
	2014	2013	2014-2013
Net Regular Loans (1)	**2,187,417**	**1,996,520**	**9.56%**
Add Collective Impairment on Loans and Advances	31,440	27,938	12.53%
Gross Regular Loans (2)	**2,218,857**	**2,024,458**	**9.60%**
Net Substandard Loans (3)	**11,579**	**16,423**	**-29.50%**
Add Unrealized Interest	1,980	5,967	-66.82%
Gross Substandard Loans (4)	**13,559**	**22,390**	**-39.44%**
Net Doubtful and Bad Loans (5)	**13,243**	**2,437**	**443.41%**
Add Unrealized Interest	31,220	27,817	12.23%
Add Provisions	52,649	58,516	-10.03%
Gross Doubtful and Bad Loans (6)	**97,112**	**88,770**	**9.40%**
Net Non-Performing Loans (3+5)	**24,822**	**18,860**	**31.61%**
Net Loans	**2,212,239**	**2,015,380**	**9.77%**
Gross Loans	**2,329,528**	**2,135,618**	**9.08%**
Net Non-Performing to Gross Loans (3+5)/(2+4+6)	**1.07%**	**0.88%**	**0.18 %**

Asset Quality

In compliance with the International Standards of Accounting and Financial Reporting (IAS39 and IFRS 7), BBAC continued improving its collective impairment tests on its loans and advances, provisioning any uncovered positions.

BBAC recorded a growth of 9.56% in net regular loans in 2014 compared with 14.25% in 2013. The Bank's net substandard loans decreased by 29.50%, and net doubtful and bad loans grew by 443.41%, causing net non-performing loans to grow by 31.61% in 2014 and the ratio of gross non-performing loans to gross loans to decrease from 5.21% in 2013 to 4.75 % in 2014.

An increase of 9.6% from 2013 to 2014 in gross regular loans was insufficient to improve the quality of loan portfolio due to a raise of 31.61% in net non-performing loans (substandard, doubtful and bad), consequently the net non-performing to gross loans increased from 0.88% in 2013 to 1.07% in 2014.

Key Ratios

Liquidity Ratios (%)	2014	2013
Net LBP Liquidity	87.48%	88.44%
Net FC (Foreign Currency) Liquidity	69.80%	71.43%
Net Liquidity (Total)	76.90%	78.12%
Loans / Deposits (LBP)	21.17%	20.95%
Loans / Deposits (FC)	37.52%	35.38%
Loans / Deposits (Total)	30.96%	29.70%
Liquid Assets / Total Assets	70.24%	71.21%

Asset Quality Ratios[1] (%)	2014	2013
Gross Doubtful and Bad Loans / Gross Loans	4.17%	4.16%
Gross Non-Performing Loans / Gross Loans	4.75%	5.21%
Provisions for Doubtful and Bad Loans / Gross Doubtful and Bad Loans	86.36%	97.25%
Provisions for Loans / Gross Loans	5.03%	5.63%
Net Doubtful and Bad loans/ Total Assets	0.16%	0.03%
Net Non-Performing Loans / Total Assets	0.30%	0.24%

Capital Adequacy Ratios (%)	2014	2013
Capital Adequacy Ratio According to Basel II	13.31%	13.49%

Profitability	2014	2013
Average Assets	7,962,942	7,534,592
Average Equity	648,396	600,094
Return on Average Assets ROAA after Tax (%)	0.84%	0.87%
Return on Average Equity ROAE after Tax (%)	10.35%	10.91%
Number of Common Shares Outstanding (million)	144	144
Number of Preferred Shares “B” Outstanding (million)	8	8
Earnings per Common Share (EPS) in LBP[2]	466	455
Earnings per Common Share (EPS) in LBP[3]	407	396
Dividends per Common Share (DPS) in LBP[4]	70	70
Dividends per Preferred Share “B” in LBP	1,055	1,055
Dividends Payout Ratio	27.60%	28.29%
Retention Ratio	72.40%	71.71%
Book Value per Common Share in LBP[5]	3,834	3,497

Management Efficiency Ratios (%)	2014	2013
Interest Paid / Interest Received	68.91%	68.48%
Net Commissions / Income[6]	18.13%	18.59%
Cost / Income[6]	55.89%	54.46%
Cost per Average Branch (LBP million)	2,511	2,358

[1] Non-accrual interest is included in non-performing loans; unrealized interest is included in provisions
[2] Before allocation of any dividends
[3] After the allocation of dividends on Preferred Shares
[4] An interest payment of LBP 1.4 million was made on Cash Contribution for the year 2014
[5] Before distribution of dividends
[6] Income before “Operating Expenses” and “Taxes”

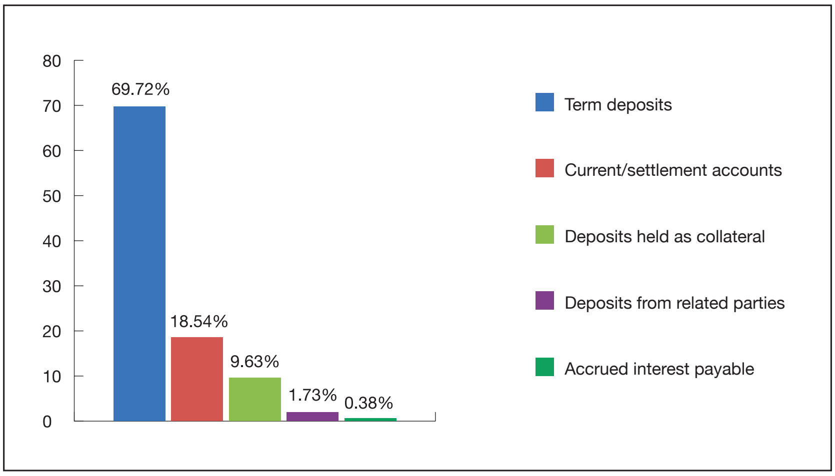
Sources of Funds

Similar to all other commercial banks, customers' deposits are the major source of funds. At BBAC, they grew by 5.32% in 2014, knowing that the major reason of this growth is coming from term deposits constituting 69.72 % of total customers' deposits, which registered a growth of 4.53% in 2014. 97.29% of customers' deposits are current of which 92.72% mature during a 12-month period, and 2.71% are non-current, which recorded no significant changes from 2013. A percentage of 40.15% from customers' deposits are denominated in LBP and 59.85% in foreign currency compared with 39.34% and 60.66% in 2013 respectively.

As to shareholders' equity, it has increased significantly in 2014 to reach LL 672.687 million from LL 624.104 million in 2013, scoring a 7.78% growth. The main contributor to this growth is the retained earnings, which grew at 14.8% in 2014; in addition to a growth in reserves after the introduction of Reserve against Retail Portfolio, as per BCC Circular No. 280, amounting to LL 1,183 million in 2014. The increase in retained earnings was mainly driven by the increase of regulatory capital, which also made a 4.17% growth in 2014 thus, strengthening the Bank's solvency and financial position.

Breakdown of Customers' Deposits by Type and Currency Mix

Customers' Deposits by Type and Currency Mix	(LBP million)		Structure		% Change
	2014	2013	2014	2013	2014-2013
Term Deposits	4,981,860	4,765,772	69.72%	70.24%	4.53%
Current / Settlement accounts	1,325,025	1,110,925	18.54%	16.37%	19.27%
Deposits held as collateral	687,946	767,133	9.63%	11.31%	-10.32%
Deposits from related parties	123,845	113,816	1.73%	1.68%	8.81%
Accrued interest payable	27,023	27,070	0.38%	0.40%	-0.17%
Total	**7,145,699**	**6,784,716**	**100%**	**100%**	**5.32%**
Of which current	6,952,072	6,585,270	-	-	-
Of which non-current	193,627	199,446	-	-	-
Denominated as follow					
LBP	40.15%	39.34%	-	-	-
Foreign Currencies	59.85%	60.66%	-	-	-



Liquidity

Liquidity represents a bank's ability to meet its financial obligations at their due dates and is a core determinant of a bank's success. Consequently, managing liquidity is a crucial and an on-going process.

Despite the decrease in loans to banks in 2014, liquid assets increased by 5.39% due to 10.79% increase in investment securities, which constitute 60.17 % of total liquid assets.
In spite of the increase in net liquid assets of 3.67% in 2014, liquidity ratio dropped from 78.12% in 2013 to 76.9% in 2014 due to 5.32% increase in deposits from customers, which surpassed the 3.67% increase in net liquid assets.

BBAC liquid assets over its total assets ratio is 70.24 %, where it has a stronger liquidity position in foreign currency of 38.1% against 32.1% in LBP, which is supported by the fact that BBAC holds 54% of its liquid assets in foreign currency against 46% in LBP.

Loans to deposits increased in 2014 to reach 30.96%, compared with 29.70% in 2013, as a result of 9.77% and 5.32% increase in loans and deposits respectively. BBAC has shown an increase in this ratio over the past two years indicating its ability to attract and issue new loans funded by its deposits.

An important indicator of liquidity in banks is the interest reprising gap. In that regard, BBAC shows a negative gap for LL 4,472,469 million in the 1-month maturity period of its assets and liabilities and this is due to the fact that the majority of deposits in the Lebanese banking sector matures in less than 1 month.

Profitability Ratios

There was a consistent growth in net profit from 2006 till 2014, which scored 2.48% in 2014, in comparison with 0.76% in 2013. This growth was mainly due to 4.91% increase in total operating income in comparison with -0.82% in 2013. The growth in total operating income was driven by 6.69% increase in net interest income in 2014 compared with -6.29 % decrease in 2013. On the other hand, total operating expenses witnessed an unfavorable growth of 9.15% in 2014 mainly due to 12.13% increase in personnel expenses.

Return on Average Assets (ROAA) decreased from 0.87% in 2013 to 0.84% in 2014 due to an increase of 5.69% in average assets surpassing the 2.48% increase in net profit. As to Return on Average Equity (ROAE), it also showed a decline from 10.91% in 2013 to 10.35% in 2014 due to the 8.05% growth in average shareholders' equity.

Dividend Payout Ratio (DPR) showed a decline in 2014 to reach 27.60% versus 28.29% in 2013, due to the increase in net profit knowing that total dividend paid in 2014 did not show any significant changes from 2013. Consequently, retention ratio increased from 71.71% in 2013 to 72.4% in 2014 giving the Bank financial strength to grasp future growth and expansion opportunities.

MANAGEMENT

Board of Directors

Chairman - General Manager
Sheikh Ghassan T. Assaf

Vice Chairman
Judge Abbas Al Halabi

Mr. Walid T. Assaf	**Member**
Mr. Ali Assaf	**Member**
Mr. Marc Maamary	**Member**
Mr. Ali Ghandour	**Member**
Assaf Holding Company S.A.L.	**Member**
Mr. Farouk Mahfouz	**Member**
Mr. Michel Tueni	**Member**
Me. Amine Rizk	**Secretary of the Board**

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.314%
Fransabank s.a.l.	37.068%
Other Shareholders	8.618%

Solicitors

Me. Chafic Khalaf	Me. Paul Morcos
Me. Amine Rizk	Me. Mazen Tajeddine
Me. Ramzi Haykal	Me. Bassam Daye
Me. Assaad Najm	Me. Adnan Jisr

Auditors

PricewaterhouseCoopers - KPMG

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit Affairs
Mr. Omar Saab	Business Development
Dr. Amalia Azoury	Economic Affairs

General Management

Mr. Nadim Hamadeh	Assistant General Manager - Banking
Mr. Chawki Badr	Assistant General Manager - External Expansion
Mr. Marwan Abou Assi	Assistant General Manager - Finance and Administration
Mrs. Lina Makarem	Assistant General Manager - Treasury
Mr. Anwar Abou Ghaida	Accounting and Financial Control Division
Mr. Raja Makarem	Project Finance and SME Division
Mr. Camille Moujaes	Retail Division
Ms. Wafaa Abed	Group Internal Audit
Mr. Bachir Yakzan	Risk Management Department – CRO
Ms. Najwa Kaedbey	Human Resources Department
Mr. Walid Haddad	External Branches Unit
Ms. Mariam Harajle	Recovery and Restructuring Department
Ms. Hala Najed	Compliance Department
Mr. Salim Karam	Insurance Unit
Mr. Francois Balaa	Information Technology Department
Mrs. Sabah Khatounian	Administration Department
Mr. Tarek Bilal	Marketing Department
Ms. Nahed Zeid	Cards and Electronic Banking Department
Mr. Elie Nakad	Financial Institutions Unit
Mr. Ibrahim Itani	Private Banking Unit
Mrs. Hilda Ashkar	Operations Department
Mr. Georges Moarbes	SME Credit Department
Mrs. Micheline Dib	Branch Development and Support Department
Mr. Ayman Fatayri	Corporate Credit Department
Mr. Maher Rahhal	Subsidized and Kafalat Loans Department
Mr. Salah Saab	Market Intelligence Department
Mrs. Joyce Abdelnour	Consumer Credit Department
Mr. Fadi Barakeh	Organization and Methods Department
Ms. Nawal Aziz	Project Finance Department
Mr. Wissam Al Aridi	Project Management Unit
Mrs. Hiam Halabi	Management Information System Unit

Corporate Governance

BBAC believes in the importance of sound Corporate Governance that guides the Bank forward while promoting the highest standards of conduct. Through Corporate Governance, BBAC defines the functions of the Board of Directors (BOD) and the Executive Management of the Bank, creating a responsible and adequate governance framework in which sets of laws, regulations, and policies are strictly adhered to. These policies also govern the relationship between the BOD, Executive Management, shareholders, and other related parties.

BBAC recognizes that the key to its long-term success is sustaining public trust in the Bank, which is accomplished through serving the Bank's clients and communities in the proper way with the right values. Holding the highest standards of corporate governance and ethical conduct requires a set of strong corporate governance practices that allocate rights and responsibilities among the Bank's stockholders, BOD and management in a manner that enhances shareholder value.

The Bank's management's processes, structures, and policies help to ensure compliance with laws and regulations and provide clear lines of responsible decision-making and accountability. Accordingly, corporate governance practices are designed not only to satisfy regulatory requirements, but also to provide for effective oversight and management of the Bank as a trustee for all stakeholders.

BBAC builds and protects the Bank's culture by constantly promoting the Bank's core values to employees, as well as its code of conduct. Moreover, the Bank's current organizational structure aims to segregate the different functions and responsibilities between the BOD, Executive Management, Operating Management, Board Committees and Management Committees, which are involved in decision making. This is done through setting clear grounds for control, segregation of authorities, job specialization, responsibility and accountability. These functions ensure that the values of the clients and shareholders are preserved and that the resources are utilized in the most effective and appropriate manner.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

Held on May 29, 2015

Resolution No. 1

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2014.

Resolution No. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2014 as follows:

(LBP thousands)	2014
Profits for the Year 2014	67,106,581
Less: Appropriation of Reserves for "General Banking Risks"	9,000,000
Appropriation of Reserves for "Legal Reserves"	7,074,343
Appropriation of Reserves for "Property in Settlement of Debt"	1,314,695
Appropriation of Reserves for "Retail Portfolio"	1,183,215
Unrealised Gain on Financial Instruments Held at Fair Value through Profit or Loss	1,860,181
Profits after Allocations	46,674,147
Add: Retained Earnings - December 2014	186,283,234
Total Retained Earnings - December 2014	232,957,381
Less: Dividends on Preferred Shares B	8,442,000
Dividends on Common Shares	10,080,000
Interest on Cash Contribution	1,405
Retained Earnings Carried Forward	214,433,976

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Basis of Presentation

The following discussion and analysis have been prepared by the management and are based on the audited financial statements of the Bank as at December 31, 2014.

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights the performance of BBAC in 2014.

Any reference to "BBAC" or the "Bank" stands for BBAC s.a.l. and its international branches and any reference to "BDL" signifies the Central Bank of Lebanon. Any reference to "Central Banks" implies BDL as well as the Central Banks in countries where BBAC branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, whereas all US Dollar amounts have been translated at the closing exchange rate, which is published by BDL on the relevant dates that remained at LBP 1507.50 / USD.

Corporate Profile

BBAC s.a.l. was established as a commercial bank in 1956 under the name of "Bank of Beirut and the Arab Countries" by a group of prominent investors headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.314 % of the Bank's shares are owned by the Assaf family, 37.068% are owned by Fransabank s.a.l., and the remaining 8.618 % are held by other shareholders.

BBAC offers a broad range of banking and financial services including Corporate and Commercial Banking, Retail Banking, Private Banking, Treasury and Capital Markets, and Insurance.

BBAC pursues a prudent expansion strategy that focuses on establishing presence in selected markets with sustainable growth potential. At a local level, the Bank has been increasing its presence in Lebanon by upgrading existing branches as well as opening new ones, which allowed for better and more efficient customer service. Currently, BBAC has a local network of 39 branches strategically spread nationwide to further enrich its role in the Lebanese economy.

BBAC's expansion strategy also includes seeking new opportunities abroad and expanding its presence in growing and promising regional and international markets. This strategy has resulted in BBAC's presence in Cyprus-Limassol, Iraq-Erbil and Baghdad, and UAE-Abu Dhabi (representative office). The Bank is currently considering the regional and international establishment of BBAC's presence in Africa and Latin America.

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy customers' evolving needs by developing services, products and solutions tailored to meet their requirements.

Growth

BBAC is committed to being a leading participant in the economic development of the community where it is present. The extent of the Bank's success in attaining this objective is reflected positively in the extent of its growth.

Business Overview

BBAC offers clients a wide range of financial products and services that vary from traditional banking to the most recent financially engineered products. These are provided through:

Corporate and Commercial Banking

Fulfilling its role in stimulating the growth of the Lebanese economy, BBAC continuously seeks to provide existing and potential participants in the economy with optimum solutions for their business needs. By supporting and funding clients' business plans, whether they are business-oriented individuals or organizations, BBAC is able to capitalize on development opportunities.

BBAC continued to expand its credit portfolio benefiting from its high liquidity and its excess in deposits. In this regard, 2014 witnessed an increase in the Commercial and Corporate portfolio, mainly due to the extension of new loans to corporate clients as well as to small and medium enterprises (SMEs), whilst preserving the conservative credit practices of the Bank.

Despite the continuing economic challenges and political conditions prevailing in several key markets that triggered a slowdown in new lending in some markets and a decrease of exposures in other markets, BBAC managed to sustain a solid growth of lending which was the outcome of a strategy followed by the Corporate and Commercial Banking department to maintain a strong relationship with customers during those challenging times and provide them with suitable solutions across the Bank's network.

In fulfilling the diverse needs of its clients, BBAC offers short and long term loans as well as a variety of fixed and variable repayment loans. In addition, the range of facilities at BBAC extends from simple lines of credit and term loans to the more advanced forms of financing. These products are granted to entities in numerous industries, such as real estate development, construction, manufacturing and trading, among many others.

Moreover, as a way to support SMEs, BBAC presents various types of specialized loans, such as Kafalat loans and Subsidized loans for non-costly financing. These loans benefit from interest rate subsidies and expand to industries, such as tourism and agriculture, which are considered key players in increasing Lebanon's GDP and providing job opportunities to the population.

BBAC extended new loans covering a variety of sectors, including fertilizer production, retail and commercial development, construction and contracting, real estate, and is currently processing to mandate and participate in several syndicated loans to finance oil drill and gas projects.

High expertise, integrity and quality of service represent the basis of the Corporate and Commercial Banking department's philosophy, whilst strictly adhering to the regulatory environment and internal policies governing project finance activities.

Retail Banking

BBAC considers Retail Banking to be a reflection of the Bank's image to the public, with many branches located in all major Lebanese areas. In this spirit, the Retail Division has been consistently growing in terms of professional staff and has introduced a wide range of banking products and differentiated services including retail loans, credit cards, mortgages and deposit accounts to serve the various financial needs of customers.

In addition to providing customers with a diversified bundle of credit programs, BBAC strives to meet the increasing financial demands of the Lebanese housing sector through various mortgage offers, including the Iskan Housing loan, Military Housing loan, Expatriate Housing loan, BDL Housing loan, and BBAC's own housing loan program.

Building on a strong track record of success, an increase of 6% in the year 2014 was achieved in housing loan programs.

BBAC also offers a number of personal loans (Public Sector loan, Private Sector loan, Small Business loan and Educational loans) to meet consumers' different plans easily. With a strong emphasis on providing unparalleled customer service, the Bank continually invests in evolving its products and services to meet the changing needs of its customers.

In order to match the customers' needs and preferences, BBAC recommends customized banking accounts and products to clients who wish to control their payments, save money or make future plans. These particular accounts and products are comprised of domiciliation accounts, current accounts, savings accounts and fixed term accounts, in addition to the direct debit of service bills.

In light of the growing payment services, BBAC offers a diversified payment cards portfolio such as the 'Classic', 'Gold' and 'Platinum' credit cards designed to offer financial flexibility and purchasing power relative to need and lifestyle. Other credit cards are also available, such as the 'Euro' card for travel enthusiasts, which helps avoid the hassle of exchange rates when travelling to Europe. Another is the 'Diamond' card, made exclusively for women, which is completely free and gives cardholders opportunities to win jewelry and diamonds. BBAC also provides its elite customers with the 'Visa Infinite' card, which offers a range of exclusive services that falls in line with their distinctive and luxurious lifestyle. For customers looking for a secure online shopping experience, BBAC offers the 'Internet' card, which is a charge card designed to provide a sense of confidence and flexibility when making purchases over the internet.

Always keeping in mind the responsibility it bears as a Lebanese institution, BBAC offers its clients an opportunity to contribute to humanitarian causes through the following two credit cards: the 'CCCL' card that donates 1% of the purchases made to the Children's Cancer Center of Lebanon (CCCL) to help treat children with cancer; and the 'Kunhadi' card that grants 1% of the purchases made to the Kunhadi Association for youth awareness on road safety.

BBAC consistently introduces seasonal offers to double the value-added benefits to its credit cards. In an effort to provide its clients with the utmost banking experience, BBAC is planning to launch a loyalty program through which the Bank will offer new benefits to all cardholders. The Bank is also working on introducing new types of cards, focusing particularly on the needs of the young demographic.

In 2014, the Bank continued with its ambitious plans to expand its physical presence across Lebanon, opening a new branch in Badaro area. This is in line with BBAC's aim to enhance the range of banking channels for its customers. To this end, BBAC is pursuing development of its e-banking services available online to all individuals and companies, and also through its 62 ATM machines. It is also preparing to launch Mobile Banking and Mobile Payment services, giving customers greater flexibility in managing their relationship with the Bank.

Treasury and Capital Markets

The main function of the Treasury department is to manage the Bank's liquidity and cash position by evaluating the daily liquidity report and interest rate fluctuations. Through its various sections, the Treasury Department engages in several foreign exchange, money market and capital market operations guided by the regulatory authorities' rules and regulations and the policies and procedures set by concerned committees such as the Board of Directors and Asset Liability Management Committee (ALCO).

When conducting its transactions, the Treasury department aims at maximizing the Bank's return and profit by seeking suitable market opportunities and investments given the Bank's risk exposure limits.

The Treasury department manages a diversified investment portfolio with various asset classes including equities and fixed income securities, aiming at investing excess liquidity to generate high returns in compliance with ALCO and the Board of Directors' decisions. The Treasury department also identifies placements and borrowing needs in line with the Bank's policies in order to maintain strong liquidity position.

The Treasury department performs its trading and investment activities through Beirut Stock Exchange, regional and international exchanges and major correspondent banks. It provides the Bank's clients with round-the-clock services in FX spots, forwards and financial instruments, among others. The transactions are executed in a fast and accurate manner ensuring high quality customer service.

Private Banking

The Private Banking unit offers personal financial and investment services to the Bank's high-net-worth clients through a dedicated professional team. The timely services are rendered with confidentiality and trust and include trade execution, portfolio administration and advice on investment opportunities and market insights.

The Private Banking team performs global market research to identify new active markets in financial services; in addition to monitoring money and capital markets and carrying out market studies and technical analysis. The Private Banking unit offers a wide variety of trading services in several simple and sophisticated financial products, such as derivatives, futures, options, equities, and commodities.

The Private Banking unit has a wide client base and it is continuously targeting high-net-worth individuals by promoting the Bank's financial products and wealth management services, which allows the Bank to constantly improve its profitability and financial stability.

Insurance Services

BBAC differentiates itself by providing its clients with ultimate customer care and a broad portfolio of products and services that address the entire range of its clients' financial well-being objectives. Accordingly, the Bank offers insurance services as well as savings plans throughout its branch network and in partnership with insurers known for their solidity, security and expertise.

In collaboration with The Capital Insurance and Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive insurance products that are especially designed to satisfy all clients' requirements in terms of premium, cover, security, and services. These products include: (1) Term Life Insurance & Personal Accidents; (2) Private Car Insurance (All Risk, TPL, Total Loss, Orange Card); (3) Cargo & Marine Insurance (Sea Freight, Air Freight, Hull & Machinery); (4) Public Liability; (5) Workmen's Compensation (Employer's Liability); (6) Money Insurance & Financial Risks (Cash in Safe, Cash in Transit, Fidelity Guarantee); (7) Foreign Domestic Helper Insurance (life and medical expenses covering domestic workers); (8) Home Insurance (Burglary, Fire, Neighbors, Earthquake & Allied Perils); (9) Travel Insurance; (10) Engineering Risks (C.A.R., E.A.R., Machinery Breakdown, Electronic Equipment All Risks).

BBAC continues to offer two investment plans; JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l. These plans are designed to give BBAC's clients, and their families, protection and guaranteed benefits, offering the opportunity to safeguard their financial future.

Information Technology

Technology is increasingly important in the banking sector, as new technologies are evolving faster every day.

Basically, Information Technology is considered a fundamental tool for various kinds of operations covering retail and corporate business lines.

It has been also proved that new technologies improve efficiency and reduce cost but the most important that technology-based innovative products and services are essential to better reply to customer needs especially at that time.

BBAC kept improving its IT infrastructure reliability, security and high availability by improving the level of security protection and preventive precautions.

With the completion of server virtualization and consolidation of the Bank's data center, BBAC has been ready to start offering private cloud services to its Bank staff.

In addition, BBAC has expanded this type of service to its branches by implementing a Virtual Desktop Infrastructure in order to separate the desktop environment and associated software applications from the physical client device that is used to access it.

Moreover, the Virtual Desktop Infrastructure shall host users' desktop environments on servers thus allowing users to connect to their assigned desktop sessions while sharing underlying hardware resources such as CPU, memory, networking and storage.

This implementation helped the Bank by cutting costs, saving energy, improving services reliability and increasing end-users productivity and in the same time by shortening the time needed to set-up servers and services.

In order to ensure the continuity of the Bank's business services, BBAC succeeded during 2014 in being fully operational and for one business day from Disaster Recovery Site covering the activities of essential business units responsible to keep the bank operational.

A new Online Banking solution was made available to all Bank staff as first stage.

This solution will allow better serving customers by catering to the needs of the growing number of technology-literate customers through capabilities that enhance their online experience.

This new platform including Internet and Mobile Banking will be exposed to Bank retail and corporate customers. This phase will enhance the Online Banking experience and expand the offered features, especially for corporate customers.

In addition to Mobile Payment facilities, the Bank has fully completed the preparation and readiness to go live with this feature enabling customers to execute their operations in an easy way.

Compliance

In today's global marketplace, banks are facing a growing challenge to enforce compliance with applicable laws and regulations due to the expanded scope and complexity of banking activities as well as the constant focus of regulators - locally and internationally - on overall compliance framework and performance by financial institutions.

As compliance is an on-going obligation that impacts all areas, BBAC has continued its efforts to increase and reinforce employee awareness and commitment to Anti-Money Laundering (AML) requirements and other regulatory requirements, such as FATCA, as well as to maintain full transparency with its regulatory authorities and correspondents.

On September 11, 2014, BDL has issued its Intermediate Circular No. 371 (as an amendment to its Basic Circular No. 83), which sets new criteria for assigning AML/CFT Branch Officers and identifies their reporting line, on compliance issues, directly to the Head of Compliance. BBAC has taken the necessary measures to abide by BDL's new requirements within the specified deadlines.

During May 2014, and as part of its commitment to FATCA, BBAC has signed an FFI agreement with the Internal Revenue Service (IRS), upon which a GIIN was assigned for each of its head office and branches.

Moreover, and in order to ensure the Bank's overall FATCA compliance, a new FATCA section was established under the Compliance department, along with its existing AML/CFT section and Legal Compliance section.

Risk Management

In 2014, BBAC continued to support and enhance its prudent risk management culture. All risk management policies were updated to take into consideration regulatory changes and to set new internal guidelines based on best practices. The Bank's Risk Appetite was revised in light of both Lebanon's current, challenging economic conditions and political instability across the region that could further dampen economic growth in Lebanon in the near future. Limits on different metrics are set within the policies and are being monitored regularly by the Risk Management Department.

BBAC sets high standards of Corporate Governance and ethical conduct through issuing and regularly updating its Code of Corporate Governance, which clearly segregates the functions and responsibilities between the Board of Directors (BOD) and the executive management. A clear separation of functions also exists between front office, control, and support functions to ensure proper and transparent management of the Bank.

This is based on the three lines of defense model. A set of controls exists for each activity. A well-structured authorization matrix is issued and constantly updated. Thirdly, BBAC is managed by different specialized committees, which enhances the institutional structure of the Bank.

The Risk Management Department is headed by the Chief Risk Officer (CRO) who reports directly to the Chairman-General Manager and to the Board Risk Committee. This committee meets regularly to study risk management policies, risk appetite, risk limits, and the Internal Capital Adequacy Assessment Process (ICAAP) reports before the BOD approval. The Department also receives regular reports from the CRO on the Bank portfolios, risk metrics and specific risk incidents. After discussion, the committee presents its recommendations to the Chairman-General Manager. The CRO is a non-voting member in the Assets and Liability Management Committee (ALCO) and the Senior Credit Committee. The Risk Management Department is divided into the following sections: Credit Risk, Operational Risk, Market Risk, Information Security, Credit Administration, and Special Projects.

For the credit risk activity, the Bank exercises an overall prudent credit policy. This is reflected by the high quality portfolio of loans and advances to the private sector. This policy is supported by a well-controlled yet efficient credit granting and underwriting processes. The Bank uses Moody's Risk Analyst as an internal rating system for its commercial loan portfolio, and an in-house developed application scorecard for its retail products. Regular assessments are conducted to ensure proper management of the Credit portfolio.

The Bank has adopted a Market Risk Management policy that details the roles and responsibilities and sets clear limits for the allowed investments. In this regard, the Bank maintains a relatively small trading portfolio (FVTPL) that does not have a substantial impact on the overall performance of the Bank or on its capital adequacy. The largest portion of financial securities are held at amortized cost. The Market Risk Management Section also covers the Liquidity Risk Management and the Interest Rate Risk in the Banking Book.

Liquidity Risk Management is implemented through the Liquidity Risk policy, which sets internal liquidity risk limits and early warning indicators, in addition to a Contingency Funding Plan. It is the Bank's policy to maintain a high level of liquidity, which is reflected by the Bank's internal ratios that considerably exceed the regulatory minimum set by the local regulations, and Liquidity Coverage Ratio and Net Stable Funding Ratio proposed by Basel III.

The Interest Rate Risk in the Banking Book is also managed through limits for the impact on the Net Interest Income and the Economic Value of the Equities. In Lebanon, having a structural gap is systemic in the market due to short term contractual maturity of deposits versus the longer term investments available for the banks.

The Operational Risk Section has developed and regularly updates the general operational risk framework at the Bank. It conducts risk and control assessments on all operational units at the Bank. It maintains a detailed Loss Incidents Database that is supported by well-applied event capturing procedures. Action plans to enhance controls and propose risk mitigants are initiated by certain incidents. Thorough operational risk assessments are being conducted on new products before launching.

Business Continuity is ensured through an alternative site. A detailed business continuity management document is carefully drafted and regularly tested to ensure availability of resources and services in cases of emergency.

The Bank always monitors its exposure to other types of risks and takes the necessary measures to properly mitigate them. In fact, all material risks, ranging from concentration, legal, compliance and others, are subject to a routine and stringent process of identification, assessment and quantification where possible. As a result, proper controls are added to ensure optimum mitigation of these risks.

The Bank is continuously enhancing its management information systems and information security systems by investing in new state-of the art solutions that serve in adopting advanced risk management methodologies and help in establishing a more controlled environment. This is accompanied by continuous efforts to improve and refine the quality of data.

Capital Adequacy

BBAC strictly complies with local, regulatory requirements as well as the Basel guidelines. The Bank addresses Pillar 1 of Basel II by measuring credit risk and market risk using standardized approaches, and operational risk using the basic indicator approach. The Bank also addresses Pillar 2 of Basel II by developing and maintaining a comprehensive model for the ICAAP. This model contains a set of stress tests conducted to ensure the adequacy of the capital base in the event of stressful situations.

Basel III Capital Adequacy Ratio reached 13.93% by the end of 2014, which exceeds the regulatory requirements set by BDL Circular No.44. Common Equity Tier 1 (CET 1) constitutes the bulk of this capital with a CET1 ratio of 11%, which also exceeds the required CET1 regulatory ratio of 4% by end of 2014.

Capital Funds as per Basel III (LBP million)		
As of December 31	2014	2013
Net Common Equity Tier One Capital	490,780	442,472
Net Tier One Capital	611,380	563,108
Total Capital	621,380	573,108

The difference between the Equities figures presented here and those in the Auditors' Report is the amount of Reserves that were added due to the 2014 financial results. The Auditors' Report calculated the Equities by excluding all profit of the year 2014. The Equities figure disclosed here includes the Reserves added from the 2014 results but excludes the Retained Earnings of that year. This justifies the difference in the Capital Adequacy Ratio disclosed here versus the Auditors' Report.

Capital Adequacy Ratio as per Basel III		
As of December 31	2014	2013
Net Common Equity Tier 1/ Total Risk Weighted Assets	11%	10.43%
Net Tier 1 / Total Risk Weighted Assets	13.71%	13.27%
Total Capital/ Total Risk Weighted Assets	13.93%	13.51%

Basel III Implementation in Lebanon as per BDL circular No.44				
	2012	2013	2014	2015
Common Equity Tier 1 CAR	5%	6%	7%	8%
Tier 1 CAR	8%	8.50%	9.50%	10%
Total Capital CAR	10%	10.50%	11.50%	12%

The major exposure of the Bank is the credit risk, which is 91.25% of total risk-weighted assets. The major component of credit risk-weighted assets bear the sovereign risk in the form of Central Bank Placements, Certificates of Deposits and Eurobonds issued by the Lebanese government. They constitute 34.84% of credit risk-weighted assets. The corporate portfolio represents 22.77% and the remaining credit portfolio, which includes SME, Retail, Housing and Claims Secured by Commercial Real Estate, represents 22.6%.

Risk Weighted Assets (LBP million)				
As of December 31	2014	% of total RWA *	2013	% of total RWA
Credit Risk	4,070,507	91.25%	3,908,188	92.12%
Market Risk	86,860	1.95%	49,107	1.16%
Operational Risk	303,002	6.8%	285,042	6.72%
Total Risk Weighted Assets	**4,460,368**	**100%**	**4,242,337**	**100%**

*RWA: Risk Weighted Assets

Human Resources Management

By the end of 2014, BBAC had a total workforce of 815 employees; 50% of which falling under the age of 40 years old and 74% of which are university degree holders.

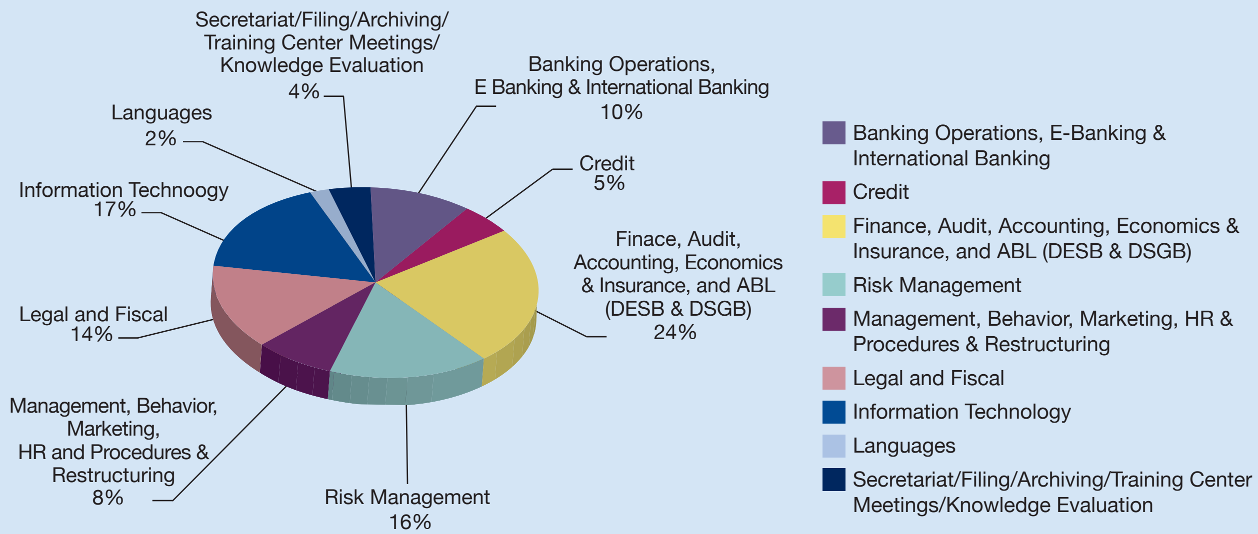
The gender distribution was similar to 2013 with men constituting 58% of the staff and women 42% of the total staff population.

BBAC's policy is to provide equal employment opportunities to men and women, which is clearly reflected in the high percentage of female employees currently occupying managerial positions at the Bank.

BBAC has always been committed to developing its workforce and encouraging its employees to evolve both on a professional and personal level by offering them the financial support needed to pursue post graduate studies or certifications. During 2014, BBAC witnessed many great achievements from exemplary employees, such as Mr. Elias Yazbeck, who was awarded by ISEB (l'Institut Supérieur d'Études Bancaires) for achieving the highest score on the DSGB (Diplôme supérieur de gestion bancaire) ISEB has ever witnessed.
Throughout 2014, BBAC took part in the annual job fairs of major universities such as the American University of Beirut (AUB), Lebanese American University (LAU), École Supérieure des Affaires (ESA), Sagesse University and Modern University for Business and Science (MUBS), in an effort to continuously attract fresh minds from diverse backgrounds.

BBAC also offered summer internships at its different branches during which interns were given the opportunity to learn about the various banking operations and activities offered by the Bank.

Distribution of Training Hours According to Training Subjects for 2014



Corporate Social Responsibility

Since its inception in 1956, BBAC has been committed to serving the financial needs of its customers, while still upholding the highest ethical standards, and remaining supportive and engaged in local communities. As one of the leading banks in Lebanon, BBAC is cognizant that a responsible approach to business is a decisive factor in determining the long-term viability and success of the Bank. For this reason, BBAC's dedication to sustaining sound financial standing and performance, providing the best banking solutions to its customers and practicing responsible employment, comes in concurrence with a commitment to preserving the common interests of all its stakeholders through a best practice corporate governance framework that sets the tone and provides the foundation for all its banking and Corporate Social Responsibility (CSR) activities.

For BBAC, CSR is not a choice; it is a central business need. The Bank believes that its core responsibility as a corporation goes beyond having a purely financial impact and must also have a social impact. The two go hand in hand because it is only by delivering social and economic value today that the Bank can create long-term sustainable benefits for tomorrow. Over the course of almost 60 years, BBAC has consistently enhanced its ethical standards and has balanced social and economic imperatives to address the concerns and expectations of all its stakeholders. Today, it is advancing on its sustainable journey by setting CSR commitments across the whole business because BBAC understands that it is only through its own exemplary actions that it can continue to prove its reputation as Lebanon's 'Caring Bank'.
As part of its community development and strategic philanthropy efforts, BBAC actively engages in a range of well-selected and tailored CSR initiatives. Among some of its most prominent areas of engagement are health and the environment, economic affairs, humanitarian and social issues in addition to contributions in the arenas of culture and arts, sports, education and youth programs.

In addition to having a positive impact in the communities it serves through a spectrum of donations and sponsorships, BBAC relies on the valuable volunteering and fundraising efforts of its employees. It also engages in various types of partnerships with leading Lebanese non-governmental organizations (NGOs) and initiatives to maximize its reach and impact on the country's most vulnerable and disadvantaged community groups.

In this respect, in 2014, BBAC maintained its unique partnership with the United Nations Development Program (UNDP) on the 'Live Lebanon' initiative continuing to tackle common social issues of relevance to rural and underdeveloped communities, including economic development, health care, youth support and environmental protection.

BBAC and Live Lebanon implemented six development projects in different areas around Lebanon, directly targeting around 30,000 beneficiaries.

In Taraya and Bechwat villages, BBAC and Live Lebanon ensured that efficient water management systems and public piping networks were installed. In Bzibdin, Wadi Khaled and Shebaa villages, BBAC and Live Lebanon made public schools better resourced and facilities more conductive to learning by offering essential equipment and support, as well as access to safe recreational facilities that promote social skills and personal development. In Marwaheen village, BBAC and Live Lebanon improved the living standards of its residents by procuring a central electricity generator, thus providing longer hours of daily electricity and reducing the residents' expenses as well as the pollution caused by private generators.

BBAC also marked its 4th year as the principal supporter of the Al-Jabal Mini Marathon since it was set up in 2010 in belief that sport is an important tool for social reconciliation and peace building and that it has the power to unite communities in a way little else can. What started as a mini marathon has grown to become a major event that attracts thousands of people of all ages and backgrounds from all over the country each year.

2014 also saw a renewal of BBAC's active engagement towards worthy humanitarian and social initiatives, with particular emphasis on the wellbeing of children. These initiatives were made possible through the generous donations raised by BBAC employees that were then matched by the Bank in the yearly employee fundraising campaigns, and in collaboration with various local NGOs dedicated to child welfare. On the occasion of

‘Children’s Day’, BBAC brought together orphans and underprivileged children from SOS Children’s Villages and a Syrian refugee camp in the Bekaa area, in an attempt to relieve some of their suffering in light of the circumstances being faced by Lebanon and the region. The children took part in team-building and fun activities and exchanged books and presents, which BBAC had brought them, with the aim of reinforcing the meaning of giving and commending the spirit of caring and inclusion. Another project was developed in partnership with Nawaya Network, an NGO that supports talented, but underprivileged youths in the community. With BBAC’s help, the NGO was able to give a 14-year-old Lebanese girl from a financially disadvantaged family, with passion for ballet and a dream to become a professional ballerina, the life time opportunity to travel to the USA to attend an intensive world-class dance program at a prestigious ballet school. BBAC went a step further and awarded her with a one-year scholarship at a dance school of her choice to refine and develop her technique and talent. Furthermore, BBAC visited the Sesobel Centre, an NGO that assists disabled children in facing life’s challenges, to celebrate the festive season and spread the holiday spirit to the young children with special needs. BBAC also provided much-needed resources to Sesobel for the learning and the rehabilitation of its disabled children.

BBAC employees also donated items to support the Red Cross in its ‘Million Sweater’ Campaign aimed at collecting clothes, shoes and blankets for the less fortunate in Lebanon who have to bare deplorable living conditions especially in the cold rainy weather.

Moreover, every year, BBAC partakes in the annual ‘Beirut Marathon’ where it encourages its employees to join and run for a good cause. In 2014, BBAC spread its message of care by running to support Brave Heart Fund, a charitable fundraising initiative that helps cover the medical and surgical expenses of underprivileged children suffering from Congenital Heart Disease. Thanks to the support of BBAC and the community at the 2014 Beirut Marathon, the Brave Heart Fund was able to cover the expenses of five open-heart surgeries.

BBAC also offers two credit cards to support the NGOs ‘Kunhadi’ for youth awareness on road safety and the Children’s Cancer Center of Lebanon (CCCL), whereby a part of the earnings are channeled to support both NGOs’ missions and activities. This support was further amplified through the voluntary monthly donations made by BBAC employees directly each year in support of the ‘Partner in Life Employee Giving Program’ with (CCCL).

In another dimension, BBAC aims to contribute to economic growth and revitalization through varied and multiple contributions and targeted initiatives that help stimulate entrepreneurship and job creation. BBAC is specifically keen on assisting small and medium-sized enterprises (SMEs), which are considered the backbone of the national economy. Accordingly, BBAC was one of the main sponsors of Aley’s Development Forum, which aim was to endorse the development of SMEs, as well as discuss and analyze the economic, social and developmental challenges in the district of Aley, given the challenging economic situation in the country.

In this context, BBAC continued to promote various loans that possess socially responsible attributes, thus offering borrowers favorable conditions such as interest rate subsidies. The Kafalat loan is one example, which is offered to SMEs operating throughout Lebanon in sectors such as tourism, agriculture, industry, high technology and crafts. These loans also encourage environmentally friendly investments and empower startups by committing the bank’s investments directly into different venture capital funds. The ultimate goal is to energize Lebanon’s future economic development by creating an ecosystem that promotes investment and production in the country.

BBAC also supports the local economy in other ways, including meeting people’s financial needs at the various stages of their business and personal life cycles and helping them reach their goals, whether they want to buy a home, expand their business, pay for college or plan for retirement.

BBAC is making steady progress with regard to social and economic responsibilities; however, it still has much work ahead before making sustainability a mainstream component of its business. Its continued growth and sustainability journey is sure to present challenges as well as opportunities especially amid the still-difficult economic, social, environmental and political climate facing Lebanon. But whatever lies ahead, BBAC’s commitment to responsible banking and its caring nature for the community will remain solid. That’s BBAC’s responsibility, that’s its promise and the mission that inspires it to succeed.

Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

For the fifth consecutive year, the Lebanese economy has not been protected from political instability, security threats, and above all the Syrian crisis, which has strained Lebanon's resources and public finances resulting in high poverty averages and unemployment rates among unskilled Lebanese youth.

As a result, the debt to GDP ratio has increased from 130% to 143% and debt is expected to rise by another USD 4 billion in 2015 due to continuous decrease in many economic indicators such as foreign trade, tourism and investment, among others.
Despite what has been presented, the Lebanese economy made a 2% in real annual growth in 2014 with inflation rates remaining under 4%.

Many factors contributed to the economy's relative strength, including human capital, BDL's monetary policy, the robust highly liquid banking sector, confidence in the market and the Lebanese Lira and the constant stream of remittances mainly from the GCC countries.

Regarding the plunging oil prices in 2014, the World Bank has expected the 50% decline in world oil prices to benefit the overall economy and boost consumption, while analyses suggested that the oil import bill declined in 2014 and will continue to decline in 2015. A major advantage of the decreasing oil prices is the government's savings from lower spending on electricity, which averaged 4.7% of GDP since 2011.

As to the banking sector, instability could not prevent the sector from growth, which reached around 7%, with total assets of banks reaching USD 175 billion in December 2014.
Banks' deposits witnessed a growth of 6% reaching USD 151 billion with a dollarization ratio of 65.7%, and lending activity grew by 7.6% during 2014.

Lebanese banks' high levels of liquidity will enable commercial banks to satisfy the government and private sector's needs for funds, while maintaining stable interest rate structure.

Breakdown of Assets and Liabilities

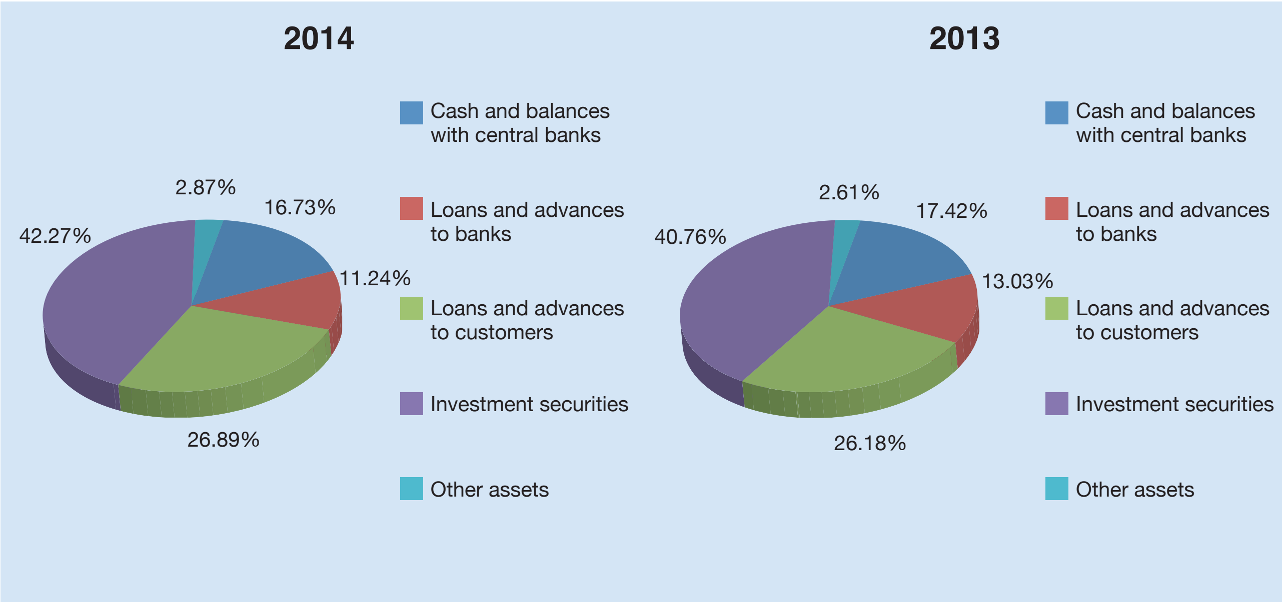
BBAC maintained prudent management of its mix of assets. Its assets totaled to LL 8,226,641 million in 2014 covering its liabilities (LL 7,553,954 million) by 1.09 times. Interest earning financial assets for 2014 comprised 89.15% of total assets growing by 6.86% from 2013. Interest bearing trading and investment securities and loans and advances to customers and related parties grew by 10.63 % and 9.67 % in 2014 to comprise 47% and 30% respectively of total interest earning assets, which reflects the Bank's allocation of its assets in the most profitable way.

Breakdown of Assets by Interest-Earning and Non-Interest Earning Accounts

Interest and Non-Interest Earning Assets	(LBP million)		Structure		% Change
	2014	2013	2014	2013	2014-2013
Balances with central banks	976,998	967,517	11.88%	12.57%	0.98%
Due from banks and financial institutions	743,778	804,451	9.04%	10.45%	-7.54%
Trading and investment securities	3,444,675	3,113,567	41.87%	40.44%	10.63%
Loans and advances to customers & related parties	2,169,222	1,977,985	26.37%	25.69%	9.67%
Other Assets	0	616	0.00%	0.01%	-
Total Interest Earning Assets	**7,334,673**	**6,864,136**	**89.16%**	**89.15%**	**6.86%**
Total Non-Interest Earning Assets	**891,968**	**835,106**	**10.84%**	**10.85%**	**6.81%**
Total Assets	**8,226,641**	**7,699,242**	**100.00%**	**100.00%**	**6.85%**

Asset and Liability Management

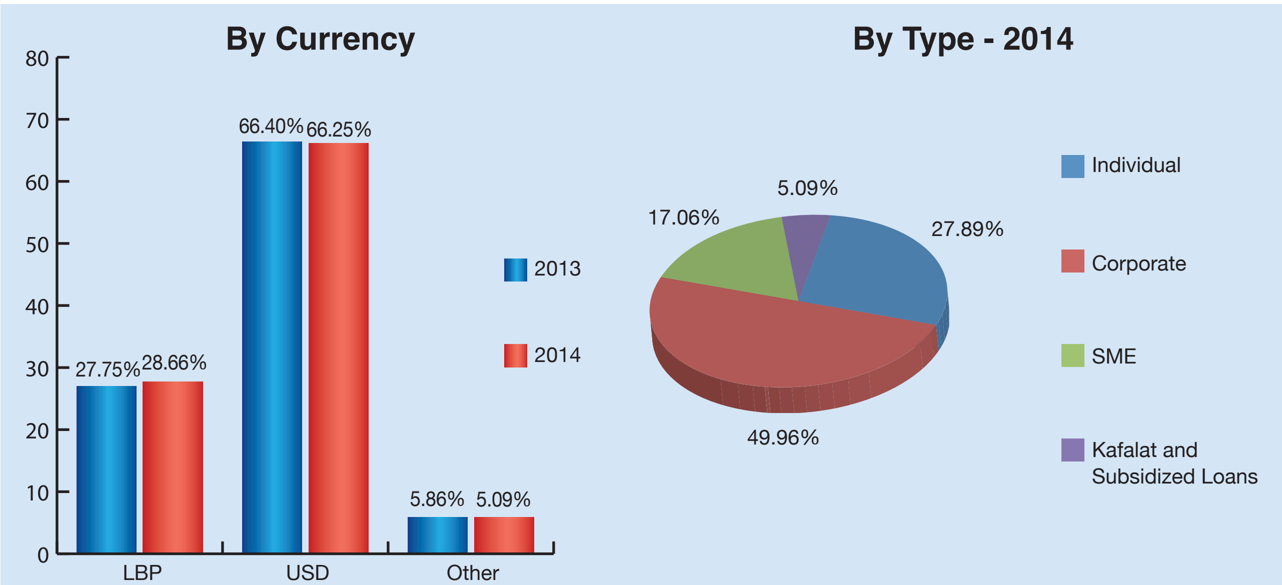
1. Use of Funds



BBAC invests most of its funds in investment securities and loans and advances to customers, which have slightly increased from 26.18% in 2013 to 26.89% of total assets in 2014.

In 2014, investment securities made up 42.27% of total assets compared with 40.76% in 2013, of which 95.38% are invested at amortized cost and 4.62% at fair value through profit and loss (FVTPL). In 2014, BBAC shifted its investment into the more interest-earning investments, such as loans and advances to customers and investment securities.

2. Loans and Advances by Currency / Type



The allocation of loans granted to customers among currencies in 2014 witnessed a minimal decrease of 0.92% in foreign currency loans in favor of LBP loans in total. As a result, loans in foreign currency in 2014 summed to 71.34% of total loans in comparison with 72.25% in 2013.
Loans and advances to customers are classified into four major groups. Corporate loans comprise almost 49.96% of total loans granted to customers in 2014 versus 47.53% in 2013 followed by 27.89 % for individual loans in 2014, which was 28.44 % in 2013.

3. Interest-Earning Loans by Maturity / Geography

In 2014, there was a slight shift in loans given with relatively longer maturities than 2013. 75.11% of 2014 loans mature within 1 year compared with 75.53% in 2013. 22.95% of loans in 2014 are long term, i.e., their maturity extends over a 1-year period compared with 22.61% in 2013.

Regarding the geographic breakdown of loans, the majority of loans (86.90%) are granted to Lebanon compared with 87.7% in 2013. It is noticeable that more loans have been granted to the Arab countries over the past several years, which amounted to 9.63% in 2014 in comparison with 8.39% in 2013.

Profitability and Efficiency

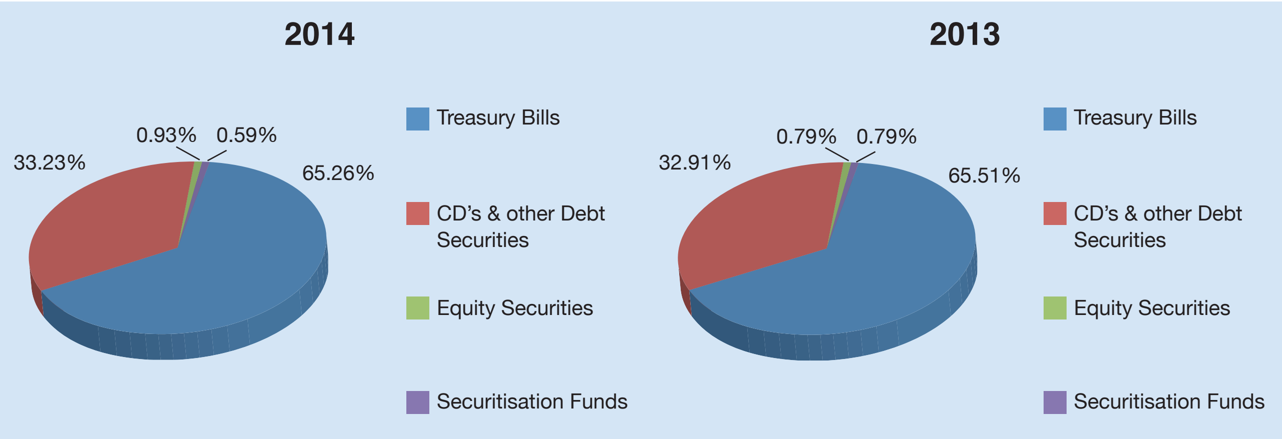
1. Interest Margin Analysis

(LBP million)	2014 Total	2013 Total
Average Interest Earning Assets	7,099,405	6,758,592
Interest Paid	277,953	255,353
Interest Received	403,331	372,870
Net Interest Received	125,378	117,517
Cost of Average Interest Earning Assets (in %)	3.92%	3.78%
Return on Average Interest Earning Assets (in %)	5.68%	5.52%
Gross Interest Margin (in %)	**1.77%**	**1.74%**
Net Releases (Provisions) on Loans and Advances	1,084	(1,345)
Net Interest Margin (in %)	**1.78%**	**1.72%**
Average Interest Earning Assets to Average Assets (in %)	89.16%	89.7%
Gross Spread (in %)	1.57%	1.56%
Net Spread (in %)	1.59%	1.54%

There was a remarkable growth of 6.69% in net interest received in 2014 from LL 117,517 million in 2013 to LL 125,378 million in 2014. This was due to an increase of 5.04% in average interest-earning assets in 2014 particularly in investment securities and loans and advances to customers. This was also accompanied by a 55.59% and 5.32% growth in deposits from banks and financial institutions and deposits from customers respectively.

Despite the fact that BBAC had a higher cost of average interest-earning assets in 2014 (3.92%) than 2013 (3.78%), it was offset by a greater increase in return on average interest-earning assets, resulting in a 1.77% gross interest margin in 2014 compared with 1.74% in 2013.
The 6.69% growth in net interest received along with the increase in net releases on loans and advances, resulted in 0.06% growth in net interest margin from 2013, reaching 1.78% in 2014. This has also allowed net spread to increase by 0.05%, reaching 1.59% of average assets in 2014, indicating that more interest is generated on the Bank's investments and assets.

Breakdown of Investment Securities by Type



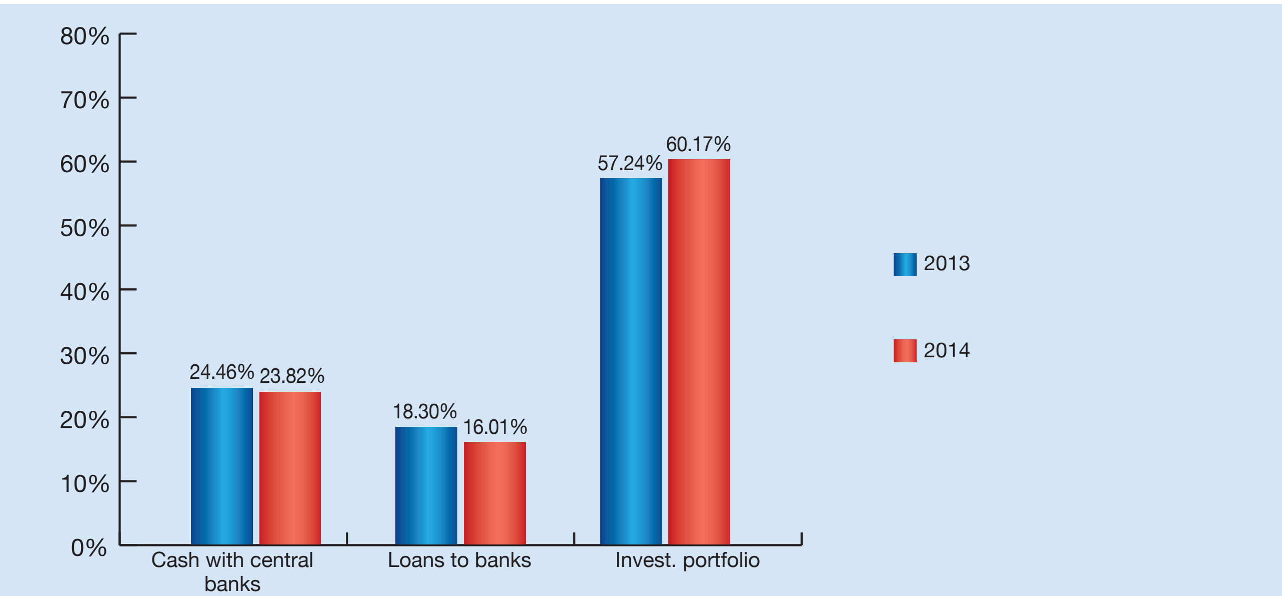
2. Profit before Income Tax

Net operating income has grown by 6.35% in 2014 versus 2.20% in 2013, mainly driven by a 6.69% growth in net interest and similar income, supporting the growth occurring in gross and net spread.
Regarding total operating expenses, they showed a growth of 9.15% in 2014 versus 4.26% in 2013 influenced by an increase of 12.13% in personnel expenses.

3. Management Efficiency Ratios

Efficiency is critical for banks to remain competitive as it allows them to generate interest income and control expenses. In BBAC's case, the interest rate to interest received ratio in 2014 (68.91%) slightly changed from 2013 (68.48%) due to 5.32% and 55.59% growth in deposits from customers and deposits from banks and financial institutions in 2014 respectively. Higher cost to income in 2014 than in 2013 was led mainly by the increase of 9.15% in total operating expenses in 2014 triggered by 12.13% increase in personnel expenses. Nevertheless, BBAC was able to achieve a net profit of LL 67,108 million in 2014 versus LL 65,481 million in 2013.

Distribution of Liquid Assets



AUDITORS' REPORT

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KPMG

Independent Auditors' Report to the Shareholders of BBAC S.A.L.

Report on the separate financial statements

We have audited the accompanying separate financial statements of BBAC 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 the 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 separate 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, the auditors 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 separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

PricewaterhouseCoopers

PricewaterhouseCoopers

Beirut, Lebanon
15 May 2015

KPMG

Balance sheet at 31 December 2014

	Note	2014 LL Million	2013 LL Million
ASSETS			
Cash and balances with Central Banks	5	**1,376,534**	1,341,093
Deposits with banks and financial institutions	6	**924,894**	1,003,266
Loans and advances to customers	7	**2,212,239**	2,015,380
Debtors by acceptances	8	**71,313**	49,513
Financial assets:			
- Fair value through profit or loss	9	**160,791**	79,645
- Amortised cost	10	**3,316,252**	3,058,724
Investment in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,338**	7,669
Property and equipment	13	**86,285**	80,042
Intangible assets	14	**3,934**	3,085
Other assets	15	**33,234**	31,670
		8,196,338	7,673,611
Non-current assets classified as held for sale	16	**30,303**	25,631
Total assets		**8,226,641**	7,699,242
LIABILITIES			
Deposits from banks and financial institutions	17	**283,563**	182,254
Current income tax liabilities	32	**5,340**	7,238
Deposits from customers	18	**7,145,699**	6,784,716
Engagements by acceptances	8	**71,313**	49,513
Other liabilities	19	**21,633**	27,714
Retirement benefit obligations	20	**26,406**	23,703
Total liabilities		**7,553,954**	7,075,138
EQUITY			
Share capital - common shares	21	**149,016**	149,016
Share capital - preferred shares	21	**120,600**	120,600
Cash contributions to capital	21	**36**	36
Other reserves	22	**170,078**	151,505
Retained earnings	22	**232,957**	202,947
Total equity		**672,687**	624,104
Total equity and liabilities		**8,226,641**	7,699,242

The financial statements on pages 36 to 103 were authorised for issue by the directors on 15 May 2015 and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman and General Manager

The notes on pages 41 to 103 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2014

	Note	2014 LL Million	2013 LL Million
Interest and similar income	23	**403,331**	372,870
Interest and similar expenses	23	**(277,953)**	(255,353)
Net interest and similar income		**125,378**	117,517
Net loan impairment releases (charges)	24	**1,084**	(1,345)
Net interest and similar income after loan impairment releases (charges)		**126,462**	116,172
Fee and commission income	25	**39,382**	37,662
Fee and commission expense	25	**(5,984)**	(5,455)
Net fee and commission income		**33,398**	32,207
Dividend income		**3,325**	2,353
Net trading income	26a	**6,007**	12,423
Net gain (loss) on investment securities at fair value through profit or loss	26b	**1,462**	(2,192)
Net gain on investment securities at amortised cost	27	**9,545**	10,990
Other operating income	28	**4,005**	1,254
Personnel expenses	29	**(61,862)**	(55,170)
Depreciation and amortisation charges	30	**(5,614)**	(4,938)
Other operating expenses	31	**(35,482)**	(34,219)
Profit before income tax		**81,246**	78,880
Income tax expense	32	**(14,138)**	(13,399)
Profit for the year		**67,108**	65,481
Other comprehensive income		**-**	-
Total comprehensive income for the year		**67,108**	65,481

The notes on pages 41 to 103 are an integral part of these financial statements.

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

	Share capital - Common shares LL Million	Share capital - Preferred shares LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LL Million	Total equity LL Million
At 1 January 2013	149,016	120,600	36	134,421	172,011	576,084
Total comprehensive income for the year	-	-	-	-	65,481	65,481
Transactions with owners of the Bank:						
Appropriations of retained earnings (note 22)	-	-	-	17,084	(17,084)	-
Dividends declared relating to 2012 (note 33)	-	-	-	-	(17,460)	(17,460)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	(1)	(1)
At 31 December 2013	149,016	120,600	36	151,505	202,947	624,104
At 1 January 2014	**149,016**	**120,600**	**36**	**151,505**	**202,947**	**624,104**
Total comprehensive income for the year	-	-	-	-	67,108	67,108
Transactions with owners of the Bank:						
Appropriations of retained earnings (note 22)	-	-	-	18,573	(18,573)	-
Dividends declared relating to 2013 (note 33)	-	-	-	-	(18,524)	(18,524)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	(1)	(1)
At 31 December 2014	**149,016**	**120,600**	**36**	**170,078**	**232,957**	**672,687**

The notes on pages 41 to 103 are an integral part of these 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		**81,246**	78,880
Adjustments for non cash-items:			
Net loan impairment (releases) charges	24	**(1,084)**	1,345
Depreciation charge	13	**4,640**	4,125
Amortisation charge	14	**974**	813
Loss on disposal of property and equipment	28	**21**	73
Gain on disposal of assets classified as held for sale	28	**(316)**	(573)
Net (gain) loss on investment securities at fair value through profit or loss		**(1,027)**	1,429
Net gain on investment securities at amortised cost	27	**(9,545)**	(10,990)
Dividends income		**(3,325)**	(2,353)
Provision for retirement benefit obligations	20	**4,446**	2,275
		76,030	75,024
Change in operating assets and liabilities:			
Balances with Central Banks	5	**(24,245)**	(75,290)
Deposits with banks and financial institutions	6	**(141,421)**	(50,315)
Investment securities at fair value through profit or loss	9	**(80,119)**	28,565
Loans and advances to customers	7	**(200,841)**	(257,238)
Investment securities at amortised cost	10	**(247,983)**	(107,610)
Other assets	15	**(1,564)**	(4,893)
Deposits from banks and financial institutions	17	**101,309**	(31,458)
Deposits from customers	18	**360,983**	307,724
Other liabilities	19	**(6,081)**	4,518
Dividends received		**3,325**	2,353
Employee benefits paid	20	**(1,743)**	(643)
Income taxes paid	32	**(16,036)**	(11,580)
Net cash used in operating activities		**(178,386)**	(120,843)

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

	Note	2014 LL Million	2013 LL Million
Cash flows from investing activities			
Purchase of intangible assets	14	**(1,823)**	(1,669)
Purchase of property and equipment	13	**(10,771)**	(13,519)
Proceeds from disposal of property and equipment		**198**	894
Proceeds from disposal of assets classified as held for sale		**710**	**1,152**
Net cash used in investing activities		**(11,686)**	(13,142)
Cash flows from financing activities			
Interest paid on cash contributions to capital		**(1)**	(1)
Dividends paid	33	**(18,524)**	(17,460)
Net cash used in financing activities		**(18,525)**	(17,461)
Cash and cash equivalents at beginning of year	34	**1,246,195**	1,397,641
Net cash used in operating activities		**(178,386)**	(120,843)
Net cash used in investing activities		**(11,686)**	(13,142)
Net cash used in financing activities		**(18,525)**	(17,461)
Cash and cash equivalents at end of year	34	**1,037,598**	1,246,195

The principal non cash transaction was mainly the acquisition of properties in settlement of non-performing loans amounting to LL 5.07 billion (2013 – LL 6.29 billion)

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

1 General information

BBAC S.A.L. ("the Bank") provides retail, private and corporate banking services through its head office in Beirut and its network of thirty eight branches across Lebanon, in addition to a branch in Cyprus and two branches in Iraq (Erbil and Baghdad).

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It is registered under number 28 on the list of Lebanese banks at the Central Bank of Lebanon. The address of its registered office is as follows: P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

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 financial statements relate to the Bank and are presented on a non-consolidated basis. The Bank also separately prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee (IFRS IC) for the Bank and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut - Lebanon.

Users of the separate financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December 2014 in order to obtain full information on the balance sheet, results of operations and changes in balance sheet of the Group as a whole.

The financial statements 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, as modified by the revaluation of financial assets at fair value through profit or loss.

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

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 balance sheet 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 for the financial year beginning on 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 and not early adopted by the Bank:

- Amendments 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.

- Amendments to IAS 27, 'Separate financial statements' regarding the equity method in separate financial statements. 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' was issued in July 2014. The Banks are currently required to apply phase I of IFRS 9 issued in November 2009 which only addressed the classification and measurement of financial assets. This version of the standard established only two primary measurement categories for debt instruments. The complete version 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 IFRS 9 complete version relaxes the requirements for hedge effectiveness. It requires 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 with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9. This standard is expected to have a significant impact on the Bank's financial statements, specifically in the level of impairment allowances under the expected loss model.

- IFRS 15, 'Revenue from contracts with customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction contracts' and IFRIC 13 'Customer loyalty programmes'. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

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

2.2 Investment in subsidiaries

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. Subsidiaries are fully consolidated on the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank has elected to account for its investments in subsidiaries under the cost method, and accordingly:

If the ownership interest in the subsidiary is reduced but significant influence/control is retained, the difference between the carrying value of the portion sold and the amount received on sale is recognised in profit or loss as 'gain/loss on sale of shares in subsidiary' within 'other operating income/loss'.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and accordingly the loss is recognised in the profit or loss as 'impairment loss on investment in subsidiary' within 'other operating income/loss'. The Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Dividend income is recognised when the right to receive payment is established. A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency

(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.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

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 foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.4 Financial assets and liabilities

2.4.1 Classification and measurement

In accordance with IFRS 9, all financial assets and liabilities - which include derivative financial instruments - have to be recognised in the balance sheet and measured in accordance with their assigned category.

(a) Debt investments

(i) Invetsment securities at amortised cost

A debt investment 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 investment 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.

(ii) Invetsment securities at fair value

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

(b) Equity investments

All equity investments are measured at fair value. Equity investments 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 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 held at fair value though profit or loss is expensed in the profit or loss.

A gain or loss on a debt investment 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 gain (loss) on investment securities at fair value through profit or loss' in the period in which they arise.

A gain or loss on a debt investment 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.

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 investments 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.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

Financial liabilities measured at amortised cost are deposits from banks or customers (even those deposits with embedded derivatives, where the derivative was separated from the host contract and accounted for as a trading derivative), debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using widely recognised models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, credit default swap spreads) existing at the dates of the balance sheet.

2.4.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.5 Reclassification of financial assets

When and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability nor equity instruments.

If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest.

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

If an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2.6 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

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

2.7 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.

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

2.8 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.

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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to deposits with banks and financial institutions and customers are classified in "Net loan impairment charges" whilst impairment charges relating to investment securities are classified in "Net gains on investment securities at amoritsed cost". 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 previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

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

If the terms of a financial asset are renegotiated or modified (mainly applicable on facilities provided to clients, who are facing financial difficulties), then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as final cash flow from the existing financial asset at the time of derecognition. This amount is discounted using the original effective interest rate of the existing financial asset.

2.9 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 comprehensive income 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

2.11 Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's right to receive payment is established. Usually, this is the ex-dividend date for quoted equity securities.

2.12 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. No non-financial assets were impaired in 2014 and 2013.

2.13 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.

2.14 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "non-current assets classified as held for sale".

2.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. These charges are recorded within 'other operating expenses'.

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.

2.16 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 and retail parks 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 under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40.

When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

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 has 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.

Land is not depreciated. Depreciation on buildings is calculated using the straight line method to allocate the residual values over their estimated useful lives.

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 profit or loss during the financial period in which they are incurred.

2.17 Property and equipment

Land and buildings comprise mainly branches and offices and are accounted for using the revaluation model. All other items in property and equipment are accounted for using the cost model (i.e. at historical cost less accumulated depreciation and net of impairment charges, if any).

Subsequent costs 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 repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	5 - 8

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 (note 2.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.18 Intangible assets

Intangible assets comprise separately identifiable intangible items arising mainly from computer software licences. Intangible assets are recognised at cost. These intangible assets have a definite useful life and are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 5 years.

2.19 Non-current assets classified as held for sale

Non-current assets held for sale represent properties 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 if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.20 Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when (i) there is a legally enforceable right to offset current tax assets against current tax liabilities and (ii) when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority and (iii) where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

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 NSSF. 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 and are denominated in the currency in which the benefits will be paid.

Local requirements:

With reference to the directives of the National Social Security Fund and Labour laws, the Bank is required to record a provision for staff termination indemnities as if the employment of all staff were to be terminated at the balance sheet date. This provision is calculated as the difference between total indemnities due (a factor of number of years of service and the average monthly salary, based on the last 12 months remunerations) and the total monthly contributions paid to the NSSF (which represents 8.5% of the paid employee benefits).

The difference between the two bases set out above tends not to be significant. The Bank is therefore materially in compliance with the requirements IAS 19.

2.22 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.

2.23 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 banking facilities and/or commercial transactions.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

The fee income earned is recognised on a straight-line basis over the life of the guarantee. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

2.24 Share capital

(a) Share issue costs

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

(c) Cash contributions to capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.25 Comparatives

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

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's board of directors provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

The Bank has established the Risk Committee to assist the Board in assessing the different types of risk to which the Bank is exposed, as well as its risk management structure, organisation and processes.

The Board's Risk 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 Board Audit Committee is assisted in its oversight role by the Internal Audit Unit. The Internal Audit Unit undertakes both regular and ad hoc reviews over risk management controls and procedures, the results of which are reported to the Audit Committee.

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

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 corporate and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, 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.

3.1.1 Credit risk measurement

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

With respect to loans and advances to customers, the Bank rates its counterparties based on its internal rating system (established by reference to the Supervisory Rating Model set by the Central Bank of Lebanon):

Performing loans:

- 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;

Non-performing loans:

- Sub-standard – client's ability to repay is dependent on the amelioration of financial position or liquidation of collateral(s) on hand;
- Doubtful – probability of loss upon settlement of loan even after taking into consideration liquidation of collateral(s) in place; 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').

(b) Debt securities

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.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual borrowers, groups, industries, countries and types of facilities.

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. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circulars no. 48, 62 and 81). In addition,the exposure to any one borrower or related borrowers is further restricted by sub-limits covering on and off-balance sheet exposures, in compliance with the requirement of BDL basic circular no. 48.

Lending limits are reviewed in the light of changing market and economic conditions and yearly credit reviews of outstanding facilities to clients.

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. The principal collateral types for loans and advances are:

- Mortgages over residential properties (housing loans);
- Mortgages over commercial properties (corporate loans);
- Cash collaterals;
- Bank and public sector guarantees;
- Pledged assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights; and
- Pledged financial instruments such as debt securities and equities.

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 to customers is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. Reverse repurchase agreements are collateralised by the Central Bank of Lebanon Certificates of Deposit (note 6) for the period of the facility.

(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 conditions 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 cash collateral as set by the credit committee (based on the credit rating of the customer, usually a margin of no less than 15% is requested in compliance with BDL basic circular no. 52) 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.

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.

3.1.3 Impairment and provisioning policies

Impairment allowances are only recognised for losses that have been incurred at the date of the balance sheet based on objective evidence of impairment (refer to note 2.11). Accordingly, the internal and external rating systems described in note 3.1.1 are used as indicators for impairment.

The impairment allowance shown in the separate financial statements at year-end is derived from each of the six internal supervisory rating grades of loans. The largest component of impairment allowance comes from the doubtful grade. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank’s internal rating categories:

Bank's rating (based on the Supervisory Grading System)

	2014 Credit risk exposure (%)	2014 Impairment provision (%)[1]	2013 Credit risk exposure (%)	2013 Impairment provision (%)[1]
1. Performing (normal, follow up & special mention)	**95%**	**1%**	95%	2%
2. Sub-standard	**1%**	**15%**	1%	27%
3. Doubtful	**3%**	**81%**	3%	82%
4. Bad	**1%**	**100%**	1%	100%
	100%		100%	

The total impairment constitutes 5% (2013 - 5.6%) of the total gross loans portfolio.

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:

	Maximum exposure	
	2014 LL Million	2013 LL Million
Assets		
Balances with central banks	**1,285,756**	1,260,417
Deposits with banks and financial institutions	**924,894**	1,003,266
Loans and advances to customers		
Loans to individuals		
- Mortgages	**379,784**	359,292
- Personal	**103,548**	90,426
- Car	**89,676**	82,846
- Other Retail	**43,988**	40,539
Loans to corporate entities		
- Large corporate customers	**1,105,232**	957,988
- Small and medium size enterprises ("SMEs")	**377,389**	379,336
- Subsidised loans	**89,821**	82,954
- Kafalat loans	**22,801**	21,999
Debtors by acceptances	**71,313**	49,513
Investment securities at fair value through profit or loss (debt securities)	**128,423**	54,843
Investment securities at amortised cost	**3,316,252**	3,058,724
Other assets	**19,494**	19,346
At 31 December	**7,958,371**	7,461,489

[1] The impairment provision is shown above as a percentage of gross loans in their respective categories.

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

	Maximum exposure	
	2014 LL Million	2013 LL Million
Loan commitment (unused facilities)	**426,580**	398,655
Letters of guarantee	**180,960**	218,524
Letters of credit	**106,336**	144,408
	713,876	761,587

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2014 and 2013, without taking account of 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.

As shown above, 43% of the total maximum exposure is derived from investment securities (2013 - 42%); 28% is derived from loans and advances to customers (2013 - 27%) and 16% is derived from balances with Central Banks (2013 - 17%).

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:

- 65% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2013 - 66%), of which 62% is denominated in Lebanese pounds (2013 - 55%), whose risk of default is considered nil, and
- 30% of the Bank's debt securities portfolio classified at amortised cost is allocated to certificates of deposits issued by the Central Bank of Lebanon (2013 - 29%), of which 79% is denominated in Lebanese pounds (2013 - 89%), whose risk of default is considered nil.
- 95% of the loans and advances portfolio is categorised in the top two grades of the internal rating system i.e. classified as performing (2013 - 95%);
- 47% of the gross loans and advances portfolio is fully collateralised and the net exposure (gross loan amount less provisions and collaterals) represents 3% of the total gross loans and advances portfolio;
- 91% of the loans and advances portfolio are considered to be neither past due nor impaired (2013 - 89%);
- 31% of balances with Central Banks are placed in local currency, whose risk of default is considered nil.

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2014 and as at 31 December 2013. For this table, the Bank has allocated exposures to regions based on the destination of use of funds.

	Lebanon LL Million	Arab countries LL Million	United States LL Million	European countries LL Million	Other countries LL Million	Total LL Million
Financial assets						
Balances with central banks	1,165,784	119,493	-	479	-	1,285,756
Deposits with banks and financial institutions	533,552	28,618	235,532	123,137	4,055	924,894
Loans and advances to customers	1,922,466	212,931	1,008	45,602	30,232	2,212,239
Debtors by acceptances	62,370	7,260	-	-	1,683	71,313
Investment securities at fair value through profit or loss (debt securities)	128,423	-	-	-	-	128,423
Investment securities at amortised cost	3,196,421	12,415	10,863	85,690	10,863	3,316,252
Other assets	19,010	8	-	476	-	19,494
At 31 December 2014	**7,028,026**	**380,725**	**247,403**	**255,384**	**46,833**	**7,958,371**
Financial assets						
Balances with central banks	1,132,101	127,860	-	456	-	1,260,417
Deposits with banks and financial institutions	270,410	210,935	256,059	225,726	40,136	1,003,266
Loans and advances to customers	1,767,549	169,111	1,215	45,458	32,047	2,015,380
Debtors by acceptances	47,714	794	-	-	1,005	49,513
Investment securities at fair value through profit or loss (debt securities)	54,692	-	-	151	-	54,843
Investment securities at amortised cost	2,940,564	9,282	13,924	88,766	6,188	3,058,724
Other assets	17,758	6	-	1,582	-	19,346
At 31 December 2013	**6,230,788**	**517,988**	**271,198**	**362,139**	**79,376**	**7,461,489**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2014		2013	
	Loans and advances to customers LL Million	**Loans and advances to banks LL Million**	Loans and advances to customers LL Million	Loans and advances to banks LL Million
Neither past due nor impaired	**2,116,893**	**924,894**	1,899,218	1,003,266
Past due but not impaired	**101,964**	**-**	125,240	-
Individually impaired	**110,671**	**-**	111,160	634
Gross	**2,329,528**	**924,894**	2,135,618	1,003,900
Less: allowance for impairment	**(117,289)**	**-**	(120,238)	(634)
Net	**2,212,239**	**924,894**	2,015,380	1,003,266
Individually impaired	**(85,849)**	**-**	(92,300)	(634)
Collective allowance	**(31,440)**	**-**	(27,938)	-
Total	**(117,289)**	**-**	(120,238)	(634)

The total impairment charge for loans and advances is LL 117.29 billion (2013 - LL 120.87 billion) of which LL 85.85 billion (2013 - LL 92.93 billion) represents the individually impaired loans and the remaining amount of LL 31.44 billion (2013 - LL 27.94 billion) represents the collective allowance. Further information of the impairment allowance for loans and advances with banks and financial institutions and to customers is provided in notes 6 and 7.

During the year 31 December 2014, the Bank's total loans and advances increased by 10% as a result of the expansion of the lending business in Erbil and focused efforts in retail business.

(a) Loans and advances neither past due nor impaired

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

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	SMEs LL Million	Subsidized LL Million	Kafalat LL Million	Total LL Million
Grades:									
1. Normal	367,629	92,794	85,607	41,421	1,033,314	348,436	77,633	18,865	2,065,699
2. Follow-up	7,145	251	184	600	23,134	2,137	3,480	529	37,460
3. Special mention	519	15	37	76	10,434	2,652	-	1	13,734
At 31 December 2014	**375,293**	**93,060**	**85,828**	**42,097**	**1,066,882**	**353,225**	**81,113**	**19,395**	**2,116,893**

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	SMEs LL Million	Subsidized LL Million	Kafalat LL Million	Total LL Million
Grades:									
1. Normal	325,000	91,202	76,755	38,938	781,357	343,172	56,786	18,560	1,731,770
2. Follow-up	6,772	192	249	352	136,387	3,856	3,916	-	151,724
3. Special mention	-	130	2	53	8,637	6,902	-	-	15,724
At 31 December 2013	**331,772**	**91,524**	**77,006**	**39,343**	**926,381**	**353,930**	**60,702**	**18,560**	**1,899,218**

(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. Therefore, loans and advances past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances to customers that were past due but not impaired broken down by class were as follows:

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	SMEs LL Million	Subsidized LL Million	Kafalat LL Million	Total LL Million
Past due:									
Up to 30 days	8,128	10,530	3,275	1,855	19,877	6,343	6,128	1,020	57,156
30-60 days	-	665	1,045	355	4,575	4,219	-	224	11,083
60-90 days	-	249	177	72	11,151	2,025	-	-	13,674
Above 90 days	233	459	341	208	7,161	9,989	1,465	195	20,051
At 31 December 2014	**8,361**	**11,903**	**4,838**	**2,490**	**42,764**	**22,576**	**7,593**	**1,439**	**101,964**
Fair value of collateral	**12,533**	**9,168**	**18,540**	**2,679**	**108,554**	**48,488**	**13,033**	**1,255**	**214,250**

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	SMEs LL Million	Subsidized LL Million	Kafalat LL Million	Total LL Million
Past due:									
Up to 30 days	10,233	32	3,625	440	24,249	5,736	16,971	703	61,989
30-60 days	4,949	1	724	397	5,781	3,736	-	109	15,697
60-90 days	4,064	-	535	396	-	1,678	-	239	6,912
Above 90 days	12,917	42	2,015	521	5,249	12,203	5,842	1,853	40,642
At 31 December 2013	**32,163**	**75**	**6,899**	**1,754**	**35,279**	**23,353**	**22,813**	**2,904**	**125,240**
Fair value of collateral	**52,547**	**11**	**32,145**	**908**	**116,174**	**55,503**	**42,825**	**2,737**	**302,849**

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or by using valuation techniques with updated market data.

(c) Loans and advances individually impaired

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 a security, are as follows:

(i) Loans and advances to customers

At 31 December 2014

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	SMEs LL Million	Subsidized LL Million	Kafalat LL Million	Total LL Million
Gross amount	2,540	1,291	1,030	161	41,227	56,840	4,001	3,581	110,671
Fair value of collateral	3,022	7	1,645	58	21,211	43,260	4,432	2,082	75,717

At 31 December 2013

	Individuals (retail customers)				Corporate entities				
	Mortgages LL Million	Personal LL Million	Car LL Million	Other Retail LL Million	Large corporate customers LL Million	SMEs LL Million	Subsidized LL Million	Kafalat LL Million	Total LL Million
Gross amount	862	356	591	39	48,095	58,013	1,145	2,059	111,160
Fair value of collateral	1,074	-	943	-	25,528	44,181	1,276	1,403	74,405

(ii) Loans and advances to banks and financial institutions

The total amount of individually impaired balances with banks and financial institutions as at 31 December 2014 was nil (2013 - LL 634 Million). No collateral is held by the Bank, and no impairment provision (2013 - LL 634 Million) has been recognised.

(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 that, in the judgement of management, indicate that payment will most likely continue. Restructuring is most commonly applied to term loans. As shown below, restructuring is not proving to be effective as the asset continues to be impaired:

	2014 LL Million	2013 LL Million
Loans and advances to customers - individuals		
Term loans - performing loans	1,030	2,183
Term loans - non - performing - loans	3,916	2,593
	4,946	4,776

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2014 and 2013, based on Standard & Poor's ratings:

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Investment securities at fair value through profit or loss (debt securities)	-	-	-	-	-	128,423	128,423
Investment securities at amortised cost	-	6,208	99,320	11,199	3,104	3,196,421	3,316,252
At 31 December 2014	**-**	**6,208**	**99,320**	**11,199**	**3,104**	**3,324,844**	**3,444,675**

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Investment securities at fair value through profit or loss (debt securities)	-	-	151	-	-	54,692	54,843
Investment securities at amortised cost	-	3,094	102,107	9,865	3,094	2,940,564	3,058,724
At 31 December 2013	**-**	**3,094**	**102,258**	**9,865**	**3,094**	**2,995,256**	**3,113,567**

3.1.7 Repossessed collateral

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	**5,066**	6,287

Under the requirements of the Central Bank of Lebanon, repossessed properties (against facilities provided locally) should be sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

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 Board of Directors sets limits for the acceptable level of risks that can be assumed on the trading book. ALCO is responsible of managing the Bank's exposure to the various market risk and to ensure that risks are within acceptable limits.

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.

3.2.1 Market risk measurement techniques

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.

Interest rate risk

If the interest rate increases/decreases by 2%, the net effect [gain/(loss)] is as follows:

	2014		2013	
	USD LL Million	**LBP LL Million**	USD LL Million	LBP LL Million
Effect on profit	**591**	**(5,745)**	931	(1,879)

There is no impact on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed interest rates.

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 (as defined by BDL circular no. 43).

The above mentioned limits are set with reference to BDL basic circular no. 32. These limits are closely monitored on a daily basis by the Bank's Treasury department on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2014 and 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December 2014

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
FINANCIAL ASSETS						
Cash and balances with central banks	378,099	841,042	100,545	1,349	55,499	1,376,534
Deposits with banks and financial institutions	55,062	770,364	43,166	15,365	40,937	924,894
Loans and advances to customers	634,083	1,465,603	51,809	40,751	19,993	2,212,239
Debtors by acceptances	25	65,816	3,875	31	1,566	71,313
Investment securities at fair value through profit or loss (debt securities)	106,265	12,515	9,643	-	-	128,423
Investment securities at amortised cost	2,103,498	1,138,949	73,805	-	-	3,316,252
Other assets	7,822	10,241	486	-	945	19,494
Total financial assets	**3,284,854**	**4,304,530**	**283,329**	**57,496**	**118,940**	**8,049,149**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	134,756	76,488	56,993	1	15,325	283,563
Deposits from customers	2,868,818	3,916,497	226,720	58,105	75,559	7,145,699
Engagements by acceptances	25	65,816	3,875	31	1,566	71,313
Other liabilities	8,887	1,807	779	-	301	11,774
Total financial liabilities	**3,012,486**	**4,060,608**	**288,367**	**58,137**	**92,751**	**7,512,349**
Net on-balance sheet financial position	**272,368**	**243,922**	**(5,038)**	**(641)**	**26,189**	**536,800**
Credit commitments	**69,741**	**545,306**	**60,357**	**6,925**	**31,547**	**713,876**

At 31 December 2013

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
FINANCIAL ASSETS						
Cash and balances with central banks	373,576	803,999	111,546	599	51,373	1,341,093
Deposits with banks and financial institutions	90,324	767,661	26,281	95,094	23,906	1,003,266
Loans and advances to customers	559,172	1,338,124	63,524	43,290	11,270	2,015,380
Debtors by acceptances	-	46,692	2,206	59	556	49,513
Investment securities at fair value through profit or loss (debt securities)	30,715	24,128	-	-	-	54,843
Investment securities at amortised cost	1,891,480	1,132,781	34,463	-	-	3,058,724
Other assets	6,690	10,482	1,214	-	960	19,346
Total financial assets	**2,951,957**	**4,123,867**	**239,234**	**139,042**	**88,065**	**7,542,165**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	26,776	11,228	52,971	83,137	8,142	182,254
Deposits from customers	2,669,340	3,821,982	187,556	57,878	47,960	6,784,716
Engagements by acceptances	-	46,692	2,206	59	556	49,513
Other liabilities	8,658	1,809	791	-	432	11,690
Total financial liabilities	**2,704,774**	**3,881,711**	**243,524**	**141,074**	**57,090**	**7,028,173**
Net on-balance sheet financial position	**247,183**	**242,156**	**(4,290)**	**(2,032)**	**30,975**	**513,992**
Credit commitments	**68,507**	**596,536**	**54,070**	**10,107**	**32,367**	**761,587**

3.2.3 Interest rate risk

There is no cash flow interest rate risk on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed 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. The Board sets limits on the level of mismatch of interest rate repricing 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 (for example for floating rate notes) or maturity dates.

At 31 December 2014

	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	Non interest bearing LL Million	Total LL Million
FINANCIAL ASSETS							
Cash and balances with central banks	37,957	106,279	53,139	502,281	277,342	399,536	1,376,534
Deposits with banks and financial institutions	440,731	140,201	160,843	2,003	-	181,116	924,894
Loans and advances to customers	717,845	221,421	722,290	416,278	91,388	43,017	2,212,239
Debtors by acceptances	-	-	-	-	-	71,313	71,313
Investment securities at fair value through profit or loss (debt securities)	-	-	10,274	25,354	92,795	-	128,423
Investment securities at amortised cost	85,385	36,386	275,037	1,438,995	1,480,449	-	3,316,252
Other assets	-	-	-	-	-	19,494	19,494
Total financial assets	**1,281,918**	**504,287**	**1,221,583**	**2,384,911**	**1,941,974**	**714,476**	**8,049,149**
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	264,411	4,601	568	6,618	-	7,365	283,563
Deposits from customers	5,489,976	458,520	676,827	192,963	664	326,749	7,145,699
Engagements by acceptances	-	-	-	-	-	71,313	71,313
Other liabilities	-	-	-	-	-	11,774	11,774
Total financial liabilities	**5,754,387**	**463,121**	**677,395**	**199,581**	**664**	**417,201**	**7,512,349**
Total interest repricing gap	**(4,472,469)**	**41,166**	**544,188**	**2,185,330**	**1,941,310**		

At 31 December 2013

	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	Non interest bearing LL Million	Total LL Million
FINANCIAL ASSETS							
Cash and balances with central banks	64,760	83,520	95,669	446,174	277,394	373,576	1,341,093
Deposits with banks and financial institutions	615,962	155,650	15,360	15,075	2,404	198,815	1,003,266
Loans and advances to customers	669,878	250,261	602,129	373,205	82,512	37,395	2,015,380
Debtors by acceptances	-	-	-	-	-	49,513	49,513
Investment securities at fair value through profit or loss (debt securities)	-	-	3,725	23,229	27,889	-	54,843
Investment securities at amortised cost	79,695	36,266	432,826	1,446,484	1,063,453	-	3,058,724
Other assets	616	-	-	-	-	18,730	19,346
Total financial assets	**1,430,911**	**525,697**	**1,149,709**	**2,304,167**	**1,453,652**	**678,029**	**7,542,165**
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	170,700	2,426	876	6,642	-	1,610	182,254
Deposits from customers	5,191,577	377,403	697,250	198,637	809	319,040	6,784,716
Engagements by acceptances	-	-	-	-	-	49,513	49,513
Other liabilities	358	-	-	-	-	11,332	11,690
Total financial liabilities	**5,362,635**	**379,829**	**698,126**	**205,279**	**809**	**381,495**	**7,028,173**
Total interest repricing gap	**(3,931,724)**	**145,868**	**451,583**	**2,098,888**	**1,452,843**		

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 the balance sheet and sales of assets, or potentially an inability to fulfill 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 the Treasury department, 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. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;

- 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 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 (note 3.3.3).

3.3.2 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 flows, whereas the Bank manages the liquidity risk based on a different basis (see note 3.3.1), not resulting in a significantly different analysis.

At 31 December 2014

	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
ASSETS						
Cash and balances with the Central Banks	437,225	105,552	52,785	523,773	453,858	1,573,193
Deposits with banks and financial institutions	621,267	140,363	162,284	2,389	-	926,303
Investment securities at fair value through profit or loss (debt securities)	45	163	19,140	57,690	128,120	205,158
Investment securities at amortised cost	97,036	82,116	427,603	2,060,800	1,759,511	4,427,066
Total financial assets	**1,155,573**	**328,194**	**661,812**	**2,644,652**	**2,341,489**	**7,131,720**
LIABILITIES						
Deposits from banks and financial institutions	271,717	4,615	570	7,089	-	283,991
Deposits from customers	5,803,057	460,461	694,628	214,943	1,310	7,174,399
Engagements by acceptances	71,313	-	-	-	-	71,313
Other liabilities	11,774	-	-	-	-	11,774
Total liabilities	**6,157,861**	**465,076**	**695,198**	**222,032**	**1,310**	**7,541,477**
Net financial (liabilities) / assets	**(5,002,288)**	**(136,882)**	**(33,386)**	**2,422,620**	**2,340,179**	**(409,757)**

At 31 December 2013

	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
ASSETS						
Cash and balances with the Central Banks	437,886	82,931	95,369	474,782	476,523	1,567,491
Deposits with banks and financial institutions	814,481	155,693	15,456	16,997	2,971	1,005,598
Investment securities at fair value through profit or loss (debt securities)	360	383	6,600	32,670	35,447	75,460
Investment securities at amortised cost	89,591	62,331	578,941	1,932,707	1,264,992	3,928,562
Total financial assets	**1,342,318**	**301,338**	**696,366**	**2,457,156**	**1,779,933**	**6,577,111**
LIABILITIES						
Deposits from banks and financial institutions	172,299	2,421	875	7,234	-	182,829
Deposits from customers	5,497,654	378,427	714,372	216,409	1,603	6,808,465
Engagements by acceptances	10,351	23,161	16,001	-	-	49,513
Other liabilities	11,690	-	-	-	-	11,690
Total liabilities	**5,691,994**	**404,009**	**731,248**	**223,643**	**1,603**	**7,052,497**
Net financial (liabilities) / assets	**(4,349,676)**	**(102,671)**	**(34,882)**	**2,233,513**	**1,778,330**	**(475,386)**

3.3.3 Assets held for managing liquidity risk

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

- Cash and balances with central banks;
- Lebanese treasury bills denominated in foreign currency that are easily liquidated in the secondary markets; and
- Secondary sources of liquidity in the form of current accounts and short-term placements (with maturities less than 3 months) with foreign banks.
- Lebanese Treasury bills denominated in local currency that are easily absorbed by the Central Bank of Lebanon in case of exceptional deposits withdrawals.

3.4 Fair value of financial instruments

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

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

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, prepayment and defaults rates.

This category includes liquid treasury and corporate bonds, certificates of deposits and balances with banks and the Central Banks.

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.

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

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

(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 categorized at 31 December 2014.

At 31 December 2014

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
ASSETS				
Balances with Central Banks (i)	-	1,292,062	1,292,062	1,285,756
Deposits with banks and financial institutions (i)	-	926,304	926,304	924,894
Loans and advances to customers (ii)	-	2,248,091	2,248,091	2,212,239
Investment securities at amortised cost (iii)	1,095,686	2,046,158	3,141,844	3,316,252
Total financial assets	**1,095,686**	**6,512,615**	**7,608,301**	**7,739,141**
LIABILITIES				
Deposits from banks and financial institutions (iv)	-	283,990	283,990	283,563
Deposits from customers (iv)	-	7,159,706	7,159,706	7,145,699
Total financial liabilities	**-**	**7,443,696**	**7,443,696**	**7,429,262**

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 categorized at 31 December 2013.

At 31 December 2013

	Level 1 LL Million	Level 2 LL Million	Total fair values LL Million	Total carrying amount LL Million
ASSETS				
Balances with Central Banks (i)	-	1,263,327	1,263,327	1,260,417
Deposits with banks and financial institutions (i)	-	1,003,206	1,003,206	1,003,266
Loans and advances to customers (ii)	-	2,021,103	2,021,103	2,015,380
Investment securities at amortised cost (iii)	1,183,114	1,848,726	3,031,840	3,058,724
Total financial assets	**1,183,114**	**6,136,362**	**7,319,476**	**7,337,787**
LIABILITIES				
Deposits from banks and financial institutions (iv)	-	181,455	181,455	182,254
Deposits from customers (iv)	-	6,791,790	6,791,790	6,784,716
Total financial liabilities	**-**	**6,973,245**	**6,973,245**	**6,966,970**

The fair value of financial assets and liabilities reflects 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.

(i) Balances with Central Banks and deposits with banks and financial institutions

The carrying amount of floating rate placements, overnight deposits, items in the course of collection, and current accounts (i.e. maturity less than 1 year) 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 charges for impairment. The estimated fair value of loans and advances excluding overdrafts and impaired loans 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 is a reasonable approximation of fair value. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral.

(iii) Investment securities at amortised cost

The fair value 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 and financial institutions and 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.

(c) Financial instruments measured at fair value

At 31 December 2014

	Level 1 LL Million	Level 2 LL Million	Total LL Million
Investment securities at fair value through profit or loss:			
- Debt securities	22,157	106,266	128,423
- Equity securities	6,034	26,334	32,368
Total assets measured at fair value	**28,191**	**132,600**	**160,791**

At 31 December 2013

	Level 1 LL Million	Level 2 LL Million	Total LL Million
Investment securities at fair value through profit or loss:			
- Debt securities	23,977	30,866	54,843
- Equity securities	3,205	21,597	24,802
Total assets measured at fair value	**27,182**	**52,463**	**79,645**

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 set its policies and procedures 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.

Within the risk management framework the operational risk section, performs its functions in accordance with BCC circular no. 252. This section is continuously working on the following areas:

- Update of the comprehensive loss events database and creation of risk registers;
- Risk and controls self-assessments;
- Thorough assessment for all new products introduced by the Bank;
- Business continuity planning; and
- Training and awareness sessions.

Compliance with the Bank's policies and procedures and regulatory requirements are supported by a program of periodic reviews undertaken by the internal audit department. The results of Internal Audit reviews are discussed with the Audit Committee and senior management of the Bank and action plans are set for resolution of any issues. Insurance coverage is used as an external mitigation and is set in line with the Bank's depth of operations.

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 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 regularly managed by the Bank's management, employing techniques, as requested by the Central Bank of Lebanon, (based on the guidelines developed by the Basel Committee). The required information is filed with the regulator on a semi-annual basis.

As per the Central Bank of Lebanon directives, all banks are required to hold a minimum level of regulatory capital of LL 10 billion for the head office and LL 500 million per local branch and LL 1.5 billion per foreign branch. In addition all the Bank's branches located outside Lebanon are subject to capital requirements of their respective jurisdiction (i.e. Cyprus and Iraq).

The regulatory capital requirements are strictly observed when managing economic capital. The Bank complied with all capital ratios requirements throughout the period.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December2014 and 2013. The computation of the capital adequacy ratio was performed in accordance with the directives issued by the Banking Control Commission of Lebanon (BCCL memo no. 5/2015).

Common Equity Tier 1 ("CET 1")

	2014 LL Million	2013 LL Million
Share capital and contributions to capital	**149,703**	149,703
Reserves (excluding profit for the year)	**125,362**	126,132
Retained earnings	**198,236**	170,170
Less: regulatory adjustments		
Intangible assets	**(6,904)**	(3,498)
Total CET 1	**466,397**	442,507

Additional Tier 1 Capital ("AT 1")

Non-cumulative preferred shares and similar financial instruments	**120,600**	120,600
Total qualifying Tier 1 Capital	**586,997**	563,107
Tier 2 Capital (real estate revaluation reserve)	**10,000**	10,000
Total regulatory capital (Tier1 + Tier2)	**596,997**	573,107

Risk- weighted assets

	2014 LL Million	2013 LL Million
Credit risk	**4,102,264**	3,908,188
Market risk	**80,178**	49,107
Operational risk	**303,002**	285,042
Total risk-weighted assets	**4,485,444**	4,242,337

Below is a comparative between the Bank's Capital adequacy ratios and supervisory requirements:

	BBAC		Supervisory		Basel III
	2014	2013	**2014**	2013	**2014**
Common Equity Tier 1 Ratio	**10.40%**	10.42%	**7%**	6%	**4%**
Tier 1 Capital Ratio	**13.09%**	13.26%	**9.5%**	8.5%	**5.5%**
Total Capital Ratio	**13.31%**	13.49%	**11.5%**	10.5%	**8%**

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances to clients

The Bank reviews its loan portfolios to assess impairment at least on semi-annual basis. Specific impairment provisions are determined by assessing each client facility individually. The factors taken into consideration for the individual assessment include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.
Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provisions should be established due to incurred loss events for which there is objective evidence but whose effects are not yet evident. In assessing the need for collective provision, the Bank considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the collective provisions depends on the model assumptions and parameters used in determining the collective allowance.

Where the net present value of estimated cash flows differs +/- 5%, the impairment loss is estimated LL 1,317 million lower or higher.

(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. Changes in market rates could affect the reported fair value of financial instruments.

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Lebanese government securities that have terms to maturity approximating the terms of the related liability.

If the discount rate differed by +/- 0.5% from management's estimates, the carrying amount of the pension obligations would decrease/increase by approximately LL 1,511 million.

4.2 Critical judgements in applying the Bank's accounting policies

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

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:

• Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
• how management evaluates the performance of the portfolio;
• whether management's strategy focuses on earning contractual interest revenues;
• the degree of frequency of any expected asset sales;
• the reason for any asset sales; and
• whether assets that are sold are held for an extended period of time relative to their contractual maturity.

5 Cash and balances with central banks

	2014 LL Million	2013 LL Million
Cash in hand	**81,253**	72,659
Other money market placements	**7,538**	16,000
Balances with central bank other than mandatory reserve deposits	**280,444**	269,380
Included in cash and cash equivalents (note 34)	**369,235**	358,039
Mandatory reserve deposits with central banks	**773,305**	703,579
Mandatory reserve – cash in hand (Central Bank of Iraq)	**9,525**	8,017
Placements with BDL other than mandatory reserves	**217,539**	264,413
Accrued interest receivable – BDL	**6,930**	7,045
	1,007,299	983,054
	1,376,534	1,341,093
Current	**602,440**	617,525
Non-current	**774,094**	723,568
	1,376,534	1,341,093

Under BDL basic circulars no. 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 an interest-bearing mandatory reserve in foreign currency calculated on the basis of 15% of the weekly average of deposits denominated in foreign currencies.

Foreign branches (i.e. Iraq and Cyprus) are also subject to mandatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are operating.

Mandatory reserves are not available for use in the Bank's day to day operations.

Cash in hand are non-interest bearing, whereas other money market placements are floating rate assets.

6 Deposits with banks and financial institutions

	2014 LL Million	2013 LL Million
Current accounts	**328,673**	378,462
Placements with other banks (with original maturities of less than 3 months)	**310,170**	486,917
Items in course of collection from other banks	**29,520**	22,777
Included in cash and cash equivalents (note 34)	**668,363**	888,156
Deposits with banks and financial institutions	**25,103**	115,194
Reverse repurchase agreements with a financial institution (i)	**230,188**	-
Less: allowance for impairment	**-**	(634)
Interest receivable	**1,240**	550
	256,531	115,110
	924,894	1,003,266
Current	**922,894**	985,787
Non-current	**2,000**	17,479
	924,894	1,003,266

(i) In 2014, the Bank entered into reverse repurchase agreements ("reverse repos") with a local financial institution against Certificates of Deposit ("CDs") which are to be sold back to the financial institution at a specific price at maturity (during the first half of 2015).

7 Loans and advances to customers

	2014 LL Million	2013 LL Million
Performing loans:		
Medium and long term loans	**1,815,527**	1,618,643
Overdrafts	**302,435**	299,357
Short term loans	**61,700**	65,080
Scheduled loans	**18,454**	22,789
Discounted bills	**5,599**	5,744
Loans and advances to related parties (note 36)	**4,734**	4,922
Net debit against credit accounts – speculation accounts	**220**	790
Creditors accidentally debtors	**1,789**	1,277
Unpaid bills	**2,541**	957
Interest receivable	**5,858**	4,899
Non-performing loans:		
- Substandard	**13,559**	22,390
- Doubtful	**70,658**	71,827
- Bad	**26,454**	16,943
Gross loans and advances to customers	**2,329,528**	2,135,618
Less: allowance for impairment (see below)	**(117,289)**	(120,238)
Net loans and advances to customers	**2,212,239**	2,015,380
Current	**1,704,573**	1,559,663
Non-current	**507,666**	455,717
	2,212,239	2,015,380

Allowance for impairment is broken down as follows:

	2014 LL Million	2013 LL Million
Unrealised interest		
Facilities rated substandard	**1,980**	5,947
Facilities rated doubtful	**21,215**	20,628
Facilities rated bad	**10,005**	7,209
	33,200	33,784
Specific provision	**52,649**	58,516
Total specific allowance	**85,849**	92,300
Collective allowance		
Facilities provided locally	**27,442**	25,596
Facilities provided by foreign branches (Iraq)	**3,051**	1,395
Other	**947**	947
	31,440	27,938
	117,289	120,238

The collective provision on facilities provided locally includes an amount of LL 1.11 billion (2013 - LL 2.41 billion) against facilities provided to clients operating in Syria. The Bank computed the collective provision against Syrian facilities in accordance with requirements of BCC correspondence 512/14C (issued on April 2, 2012).

As for collective provision recorded against the facilities in Iraq, it represents 2% of the facilities granted in Iraq, as stipulated by the Central Bank of Iraq.

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

	2014 Specific allowance for impairment LL Million	2014 Collective allowance for impairment LL Million	2013 Specific allowance for impairment LL Million	2013 Collective allowance for impairment LL Million
At 1 January	**92,300**	**27,938**	88,685	25,901
Increase in impairment allowances (note 24)	**5,605**	**2,056**	3,975	3,958
Unrealised interest	**1,326**	**-**	5,636	-
Reversal of impairment (note 24)	**(8,745)**	**-**	(6,588)	-
Transfers	**(1,446)**	**1,446**	1,921	(1,921)
Write-off	**(3,191)**	**-**	(1,329)	-
At 31 December	**85,849**	**31,440**	92,300	27,938

8 Debtors and engagements by acceptances

	2014 LL Million	2013 LL Million
Customers' acceptances	**71,313**	49,513

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled "Engagements by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

9 Financial assets at fair value through profit or loss

	2014 LL Million	2013 LL Million
Listed debt securities		
Lebanese treasury bills (eurobonds)	**22,157**	23,977
Unlisted debt securities		
Lebanese treasury bills	**70,587**	30,715
Certificates of deposit - BDL	**35,679**	-
Other debt securities	**-**	151
	106,266	30,866
Total debt securities at fair value through profit or loss	**128,423**	54,843
Equity securities		
- Listed	**6,034**	3,205
- Unlisted	**26,334**	21,597
Total equity securities at fair value through profit or loss	**32,368**	24,802
Total investment securities at fair value through profit or loss	**160,791**	79,645

The above mentioned financial assets are held for trading purposes.

10 Financial assets at amortised cost

	2014 LL Million	2013 LL Million
Listed debt securities		
- Lebanese treasury bills (denominated in USD)	**842,355**	892,835
- Other debt securities	**71,844**	70,807
	914,199	963,642
Unlisted debt securities		
- Lebanese treasury bills	**1,333,934**	1,108,364
- Certificates of deposit - BDL (denominated in LL)	**772,676**	783,117
- Certificates of deposit - BDL (denominated in USD)	**192,510**	96,123
- Certificates of deposit - commercial banks	**18,125**	18,110
- Securitisation funds	**20,360**	24,815
- Other debt securities	**64,448**	64,553
	2,402,053	2,095,082
Total financial assets at amortised cost	**3,316,252**	3,058,724
Current	**396,808**	548,787
Non-current	**2,919,444**	2,509,937
	3,316,252	3,058,724

All debt securities have fixed coupons.

The movement in financial assets at amortised cost is summarised as follows:

	2014 LL Million	2013 LL Million
At 1 January	**3,058,724**	2,942,982
Additions	**1,070,253**	824,603
Sales	**(363,526)**	(332,030)
Redemptions	**(444,581)**	(378,488)
Exchange differences on financial assets	**(4,618)**	1,657
At 31 December	**3,316,252**	3,058,724

11 Investment in subsidiaries

	% ownership	2014 LL Million	2013 LL Million
The Capital for Insurance and Reinsurance Company S.A.L. (i)	80%	**3,524**	3,524
Informatics Co. S.A.R.L. (ii)	84%	**-**	-
Société Libanaise de Service S.A.R.L. (iii)	91%	**-**	-
		3,524	3,524

(i) The Capital for Insurance and Reinsurance Company S.A.L. provides life and general insurance services for the local Lebanese market The Company's equity amounted to LL 19.9 billion (2013 - LL 18.2 billion).

(ii) Informatics Co. S.A.R.L. was established to provide information technology services to the Bank. However, the Company ceased its operations in 1999 and is now only managing its cash balances. The Company's equity amounted to LL 2 billion (2013 - LL 1.9 billion).

(iii) Société Libanaise de Service S.A.R.L. manages the properties of the Bank and third parties and provides security and maintenance services. The Company's equity amounted to LL 5.3 billion (2013 - LL 5.1 billion).

12 Investment properties

	Land LL Million	Buildings LL Million	Total LL Million
At 31 December 2013	**5,747**	**1,922**	7,669
At 1 January 2014	**5,747**	**1,922**	7,669
Transfer to property and equipment (note 13)	-	(331)	(331)
At 31 December 2014	**5,747**	**1,591**	**7,338**

Investment property includes one parking area on real estate plot number 161 in Beirut area (1,136 sqm.). As at 31 December 2014, the fair value of this property amounted to LL 10.28 billion as determined by comparable market prices for similar plots. 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.

The following amounts have been recognised in the statement of comprehensive income:

	2014 LL Million	2013 LL Million
Rental income (note 28)	**92**	138
Maintenance expense (note 31)	**(150)**	(163)
	(58)	(25)

13 Property and equipment

	Land and buildings LL Million	Construction in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
At 1 January 2013							
Cost or valuation	55,031	14,720	12,549	9,788	356	23,643	116,087
Accumulated depreciation	(15,695)	-	(9,215)	(6,063)	(118)	(13,381)	(44,472)
Net book amount	**39,336**	**14,720**	**3,334**	**3,725**	**238**	**10,262**	**71,615**
Year ended 31 December 2013							
Opening net book amount	39,336	14,720	3,334	3,725	238	10,262	71,615
Additions	1,217	6,952	1,813	1,141	133	2,263	13,519
Disposals	-	-	(823)	(142)	-	(2)	(967)
Transfers	2,771	(3,753)	-	114	-	868	-
Depreciation charge (note 30)	(1,268)	-	(1,357)	(603)	(40)	(857)	(4,125)
Closing net book amount	**42,056**	**17,919**	**2,967**	**4,235**	**331**	**12,534**	**80,042**
At 31 December 2013							
Cost or valuation	59,019	17,919	13,105	10,693	482	26,772	127,990
Accumulated depreciation	(16,963)	-	(10,138)	(6,458)	(151)	(14,238)	(47,948)
Net book amount	**42,056**	**17,919**	**2,967**	**4,235**	**331**	**12,534**	**80,042**

	Land and buildings LL Million	Construction in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
Year ended 31 December 2014							
Opening net book amount	42,056	17,919	2,967	4,235	331	12,534	80,042
Additions	3,328	1,468	3,449	844	111	1,571	10,771
Disposals	-	-	(216)	-	(3)	-	(219)
Transfers	1,815	(2,543)	-	29	-	699	-
Transfer from investment properties (note 12)	331	-	-	-	-	-	331
Depreciation charge (note 30)	(1,822)	-	(1,062)	(666)	(50)	(1,040)	(4,640)
Closing net book amount	**45,708**	**16,844**	**5,138**	**4,442**	**389**	**13,764**	**86,285**
At 31 December 2014							
Cost or valuation	64,493	16,844	15,805	11,410	591	29,042	138,185
Accumulated depreciation	(18,785)	-	(10,667)	(6,968)	(202)	(15,278)	(51,900)
Net book amount	**45,708**	**16,844**	**5,138**	**4,442**	**389**	**13,764**	**86,285**

If land and building were stated at historical cost basis, the amounts would be as follows:

	2014 LL Million	2013 LL Million
Cost	**44,695**	39,553
Accumulated depreciation	**(10,637)**	(9,240)
Net book amount	**34,058**	30,313

An independent valuation of the Bank's land and buildings was performed by licensed independent valuers (and approved by the Central Bank of Lebanon) to determine the fair value of land and buildings as at 31 December 1998. The revaluation surplus amounting to LL 21 billion, net of applicable capital gain taxes (as defined under the provisions of fiscal law 282/93) were credited to shareholders' equity under caption ''Revaluation Reserve" (note 22).

The different levels for valuation of land and buildings have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is derived from prices) (Level 2).

- Inputs for the assets or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

No revaluation for land and buildings has been performed since 1998. However, the preliminary assessment conducted by the independent licensed valuers (as appointed by the Bank) shows a revaluation surplus of approximately LL 70 billion (gross of applicable capital gain tax), however the resulting revaluation was not reflected in the financial statements.

14 Intangible assets

	Computer Software Licenses LL Million
At 1 January 2013	
Cost	7,666
Accumulated amortisation	(5,437)
Net book amount	**2,229**
Year ended 31 December 2013	
Opening net book amount	2,229
Additions	2,276
Disposals	(607)
Amortisation charge (note 30)	(813)
Closing net book amount	**3,085**
At 31 December 2013	
Cost	9,290
Accumulated amortisation	(6,205)
Net book amount	**3,085**
Year ended 31 December 2014	
Opening net book amount	3,085
Additions	1,823
Amortisation charge (note 30)	(974)
Closing net book amount	**3,934**
At 31 December 2014	
Cost	11,109
Accumulated amortisation	(7,175)
Net book amount	**3,934**

15 Other assets

	2014 LL Million	2013 LL Million
Advances on purchases of property and equipment (i)	**11,637**	10,402
Electronic card facilities – not yet allocated to client accounts (ii)	**6,764**	6,114
Receivable from National Social Security Fund (iii)	**2,464**	2,124
Prepaid expenses	**2,103**	1,922
Other receivables	**3,458**	4,071
Doubtful receivables (iv)	**14,590**	14,590
Less: allowance for impairment	**(7,782)**	(7,553)
	33,234	31,670
Current	**20,504**	18,438
Non-current	**12,730**	13,232
	33,234	31,670

(i) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2013 - LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. The project was substantially completed at the end of 2014. The property has not yet been delivered to the Bank pending finalisation of negotiations around the contractual price.

(ii) This account represents transactions executed by the clients on their electronic cards but not yet allocated to their accounts.

(iii) This account represents medical expenses advanced by the Bank to the employees prior to collection from the National Social Security Fund.

(iv) This account includes: (i) doubtful receivables of LL 2.9 billion (2013 - LL 2.9 billion) from one of the Bank's money dealers. Management recorded a provision ofLL 1.8 billion (2013 - LL 1.8 billion) to cover the expected loss. (ii) an amount of LL 3.2 billion (2013 - LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches. (iii) amounts receivable from two employees of LL 8.4 billion (2013 - LL 8.4 billion), who were involved in fraudulent activities. Management recorded a provision of LL 2.5 billion (2013 - LL 2.5 billion) against the uncovered exposure.

16 Non-current assets classified as held for sale

The movement of non-current assets classified as held for sale is as follows:

	2014 LL Million	2013 LL Million
At 1 January	**25,631**	19,900
Acquisitions during the year	**5,066**	6,287
Disposals during the year	**(394)**	(556)
At 31 December	**30,303**	25,631

These assets represent properties acquired against settlement of defaulting clients' facilities. As stipulated by the code of money and credit, banks have two years (from date of acquisition) to liquidate those assets, otherwise banks are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends (note 22).

In 2013, the bank appointed licensed independent valuers to revalue the above mentioned assets. 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. The fair value of the above mentioned properties was estimated at LL 37.24 billion. The Bank does not believe market prices differ materially in 2014.

17 Deposits from banks and financial institutions

	2014 LL Million	2013 LL Million
Deposits from banks	**267,537**	166,806
Deposits from financial institutions	**15,712**	15,376
Interest payable	**314**	72
	283,563	182,254
Current	**276,953**	182,254
Non-current	**6,610**	-
	283,563	182,254

Deposits from banks and financial institutions are classified as liabilities at amortised cost and are set at fixed rates.

18 Deposits from customers

	2014 LL Million	2013 LL Million
Term deposits	**4,981,860**	4,765,772
Current/settlement accounts (a)	**1,325,025**	1,110,925
Deposits held as collateral (b)	**687,946**	767,133
Deposits from related parties (note 36)	**123,845**	113,816
Accrued interest payable	**27,023**	27,070
Total deposits from customers	**7,145,699**	6,784,716
Current	**6,952,072**	6,585,270
Non-current	**193,627**	199,446
	7,145,699	6,784,716
(a) Current/settlement accounts:		
Checking and current accounts	**912,952**	728,609
Saving accounts - demand	**340,823**	318,816
Debtors accidentally creditors	**50,859**	43,547
Payment orders	**20,275**	19,885
Public sector deposits	**116**	68
	1,325,025	1,110,925
(b) Deposits held as collateral:		
Blocked accounts against credit facilities	**593,387**	618,894
Margins against issuance of documentary credits	**66,849**	115,797
Margins against issuance of letters of guarantee	**25,730**	29,574
Margins on speculation accounts	**1,980**	2,868
	687,946	767,133

Deposits from customers only include financial instruments classified as liabilities at amortised cost. All deposits are at fixed interest rates.

19 Other liabilities

	2014 LL Million	2013 LL Million
Due to credit card institution (see below)	**4,636**	5,862
Withholding taxes and other charges	**2,928**	2,476
Due to employees	**2,436**	2,098
Accrued expenses	**3,523**	2,037
Due to National Social Security Fund	**751**	616
Dividends payable and interest payable on cash contribution to capital	**192**	198
Due to National Deposit Guarantee Institution	**-**	2,940
Other provisions	**6,180**	9,991
Other liabilities	**987**	1,496
	21,633	27,714

The amount due to credit card institution of LL 4.63 billion represents transactions executed by the clients through their credit cards and not yet settled by the Bank.

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

20 Retirement benefit obligations

Provision for retirement benefit obligations comprises the following:

	2014 LL Million	2013 LL Million
Provision for retirement benefit obligations	**26,611**	23,908
Advances against retirement benefit obligations	**(205)**	(205)
	26,406	23,703

The movement in provision for retirement benefit obligations can be summarised as follows:

	2014 LL Million	2013 LL Million
At 1 January	**23,908**	22,276
Charge for the year (note 29)	**4,446**	2,275
Payments during the year	**(1,743)**	(643)
At 31 December	**26,611**	23,908

The principal assumptions used were as follows:

	2014	2013
Discount rate	**9%**	9%
Future salary increases	**6%**	6%

21 Share capital and cash contributions to capital

	2014 LL Million	2013 LL Million
Common shares (i)	**149,016**	149,016
Preferred shares		
Par value (ii)	**8,000**	8,000
Premium on issuance (ii)	**112,600**	112,600
	120,600	120,600
Cash contributions to capital		
Interest bearing (5.5% per annum)	**36**	36

(i) The Bank's common shares consist of 144,000,000 fully paid shares with a nominal value of LL 1,033 each.

(ii) The Bank's preferred shares consist of 8,000,000 shares (preferred shares 'B') with a nominal value of LL 1,000 each and an issue price of LL 15,075 (USD 10 per share). These shares were fully issued and paid. These shares are (i) redeemable at the sole discretion of the issuer (after 5 years from issuance date) (ii) are non-cumulative (iii) distribution of returns to the holders is contingent on the distribution of dividends to the common stocks and adequacy of regulatory reserves and retained earnings. On that basis, the preferred shares are deemed to be equity instruments, specifically because payment on these shares is at the discretion of the Bank. BDL circular no.44 treats such preferred shares as "Additional Tier One Capital" for the purposes of computing the Regulatory Capital Adequacy Ratios.

22 Other reserves and retained earnings

	2014 LL Million	2013 LL Million
Reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**70,281**	63,206
Reserve for unidentified banking risks (c)	**66,969**	57,969
Reserve for capital increase (d)	**3,221**	2,905
Reserve for liquidation of assets classified as held for sale (e)	**6,321**	5,449
Reserve against retail portfolio (f)	**1,183**	-
Other reserves	**1,042**	915
	170,078	151,505
Retained earnings (g)		
Retained earnings - available for distribution	**225,600**	197,334
Retained earnings - not available for distribution (h)	**7,357**	5,613
	232,957	202,947

(a) Real estate revaluation reserve

The revaluation reserve arose from the revaluation of investment properties and property and equipment. The revaluation was performed by an independent valuer under the provisions of fiscal law 282/93 based on the market values of 31 December 1993. This reserve is not available for distribution.

(b) Legal reserve

In compliance with the requirements of Code of Commerce and Code of Money and Credit article number 132, banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution.

(c) Reserve for unidentified banking risks

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 and is not available for distribution.

(d) Reserve for capital increase

In compliance with Banking Control Commission circular no. 173, all gains recognised on the sale of properties acquired in settlement of debt (note 16) should be appropriated from retained earnings and recorded as “Reserve for capital increase”.

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

In compliance with BDL basic circular no. 78, banks are required to deduct from annual profits an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt (note16), in case the Bank failed to liquidate the properties within 2 years from the date of acquisition. And, in accordance with the Banking Control Commission memo 4/2008 and 10/2008, the required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank’s Tier Capital nor is available for distribution. Upon disposal of these properties this reserve is transferred to a reserve specifically restricted to future increases in share capital.

(f) Reserve against retail portfolio

BCC circular no. 280 introduced the requirement to establish a reserve for performing retail portfolio (i.e. where late settlements do not exceed 30 days) equal to 0.5% of the carrying amount of the portfolio at 31 December 2014. This reserve amounted to LL 1.18 billion at the balance sheet date. Additional appropriations of 0.5% per annum are required for six consecutive years starting from 2015.

(g) Retained earnings

	2014 LL Million	2013 LL Million
At 1 January	**202,947**	172,011
Profit for the year	**67,108**	65,481
Dividends declared (note 33)	**(18,524)**	(17,460)
Interest on cash contributions to capital (note 33)	**(1)**	(1)
Transfers to other reserves:		
Transfer to legal reserve	**(7,075)**	(6,548)
Transfer to reserve for unidentified banking risks	**(9,000)**	(9,000)
Transfer to reserve for liquidation of assets classified as held for sale	**(999)**	(963)
Transfer to reserve for capital increase (note 28)	**(316)**	(573)
Transfer to reserve for performing retail portfolio	**(1,183)**	-
	(18,573)	(17,084)
At 31 December	**232,957**	202,947

(h) Retained earnings - not available for distribution

Cumulative unrealised gains (gross of losses) are treated as retained earnings not available for distribution under BCC circular no. 270 regulations. These gains will become available for distribution upon disposal of the related instrument.

Movement on these retained earnings is summarised as follows:

	2014 LL Million	2013 LL Million
At 1 January	**5,613**	5,452
Unrealised gain on investment securities at fair value through profit or loss (note 26)	**1,860**	1,492
Revaluation gains related to investment securities sold (transferred to realised)	**(116)**	(1,331)
At 31 December	**7,357**	5,613

23 Net interest and similar income

	2014 LL Million	2013 LL Million
Interest and similar income		
Loans and advances:		
- Customers	145,675	129,942
- Banks and financial institutions	36,299	37,995
- Reverse repos	2,729	-
- Loans and advances to related parties (note 36)	318	299
	185,021	168,236
Financial assets at fair value through profit or loss	4,226	4,665
Financial assets at amortised cost	214,084	199,969
	403,331	372,870
Interest and similar expenses		
Deposits from customers	(271,512)	(249,992)
Deposits from banks and financial institutions	(1,002)	(722)
Deposits from related parties (note 36)	(5,439)	(4,639)
	(277,953)	(255,353)

24 Net loan impairment releases (charges)

	2013 LL Million	2012 LL Million
Reversal of impairment (note 7)	8,745	6,588
Increase in impairment allowance - specific (note 7)	(5,605)	(3,975)
Increase in impairment allowance - collective (note 7)	(2,056)	(3,958)
	1,084	(1,345)

25 Net fee and commission income

	2014 LL Million	2013 LL Million
Fee and commission income		
Commissions on banking operations	**11,978**	10,202
Credit-related fees and commissions	**11,696**	10,816
Commissions on letters of credit and guarantees	**7,220**	8,573
Commissions on transfers	**4,700**	4,585
Brokerage fees	**3,213**	2,942
Other	**575**	544
	39,382	37,662
Fee and commission expense		
Commissions on banking operations	**(3,524)**	(3,088)
Brokerage fees paid	**(1,824)**	(1,704)
Other	**(636)**	(663)
	(5,984)	(5,455)
Net fee and commission income	**33,398**	32,207

26a Net trading income

	2014 LL Million	2013 LL Million
Net gains on foreign exchange transactions (realised)	**1,174**	7,300
Net gains on foreign exchange translation (unrealised)	**4,833**	5,123
	6,007	12,423

26 Net gain (loss) on investments at fair value through profit or loss

	2014 LL Million	2013 LL Million
Unrealised loss on revaluation	**(833)**	(2,921)
Unrealised gain on revaluation (note 22)	**1,860**	1,492
Net unrealised gain (loss)	**1,027**	(1,429)
Realised gain on sale of investment securities	**435**	125
Unrealised loss on financial liabilities held at fair value through profit or loss	**-**	(888)
	1,462	(2,192)

27 Net gain on investment securities at amortised cost

	2014 LL Million	2013 LL Million
Sale of investment securities amortised cost	**9,545**	10,990

During 2014, the Bank sold investment securities from its amortised cost portfolio which management has justified as follows:

- In March 2014, the Bank performed an exchange transaction with a local bank on a portion of its certificates of deposit portfolio with a nominal value of LL 151 billion. This transaction included mainly certificates of deposit maturing in the short term and generated a profit of LL 8 billion.
- In November 2014, the Bank sold Lebanese treasury bills with a nominal amount of LL 30 billion and acquired certificates of deposit with a nominal value of LL 30 billion with different maturities to adjust the maturity mismatch between its assets and liabilities. This transaction resulted in a gain of LL 1 billion.

During 2013, the Bank sold investment securities from its amortised cost portfolio which management has justified as follows:

- In January 2013, the Bank performed an exchange transaction with BDL on a portion of its certificates of deposit portfolio with a nominal value of LL 100 billion. This transaction included mainly certificates of deposits maturing in the short term and generated a profit of LL 4.4 billion.
- In February 2013, the Bank performed an exchange transaction with BDL on a portion of its certificates of deposit portfolio with a nominal value of LL 100 billion. This transaction mainly included certificates of deposits maturing in the short term and generated a profit of LL 4.2 billion.
- In April 2013, the Bank performed an exchange transaction with BDL on a portion of its certificates of deposit portfolio with a nominal value of LL 120 billion. This transaction only included certificates of deposit maturing in a period not exceeding 6 months and generated a profit of LL 2.3 billion.

28 Other operating income

	2014 LL Million	2013 LL Million
Release from provision for liabilities and charges	**2,997**	-
Gain on disposal of assets classified as held for sale (note 22)	**316**	573
Rental income (note 12)	**92**	138
Loss on disposal of property and equipment	**(21)**	(73)
Other	**621**	616
	4,005	1,254

29 Personnel expenses

	2014 LL Million	2013 LL Million
Wages and salaries	**41,150**	36,273
Social security costs	**5,542**	5,186
Scholarship	**2,960**	3,425
Pension costs - defined benefit plan (note 20)	**4,446**	2,275
Transportation	**2,415**	2,343
Medical expenses	**1,716**	1,313
Training expenses	**321**	397
Other employee benefits	**3,312**	3,958
	61,862	55,170

30 Depreciation and amortisation charges

	2014 LL Million	2013 LL Million
Depreciation charge (note 13)	**4,640**	4,125
Amortisation charge (note 14)	**974**	813
	5,614	4,938

31 Other operating expenses

	2014 LL Million	2013 LL Million
Office supplies and utilities	**5,601**	5,478
Professional fees	**3,421**	3,135
Deposit guarantee premiums	**3,253**	2,942
Repairs and maintenance	**2,482**	1,952
Advertising expense	**2,311**	3,122
Software costs	**2,224**	2,497
Municipality and other taxes	**2,184**	878
Travel expense and entertainment	**2,023**	1,595
Directors' remuneration (note 36)	**1,348**	1,131
Operating leases	**1,291**	1,223
Insurance expense (note 36)	**1,140**	1,022
Subscriptions	**934**	1,030
Directors' attendance fees (note 36)	**653**	653
Donations	**873**	612
Maintenance expense related to investment properties (note 12)	**150**	163
Other	**5,594**	6,786
	35,482	34,219

32 Income tax expense

	2014 LL Million	2013 LL Million
Lebanon branches ("Head Office")	**12,594**	11,207
Foreign branches (Cyprus and Iraq)	**1,544**	2,192
Tax charge for the year	**14,138**	13,399

The tax on the Bank's profit differs from the theoretical amount that would arise using the basic tax rate applicable in the local jurisdiction (Lebanon) as follows:

	2014 LL Million	2013 LL Million
Profit before income tax	**81,246**	78,880
Less: profit before income tax foreign branches	**(9,320)**	(15,404)
Profit before income tax local branches	**71,926**	63,476
Tax using the local corporation tax rate of 15%	**10,789**	9,521
Add back charges not accountable for tax purposes:		
Differences between accounting and fiscal depreciation	**116**	47
Net unrealised (gain) loss on investment securities and financial liabilities	**(129)**	348
Donations and other provisions	**1,383**	537
Other	**435**	754
Local income tax	**12,594**	11,207
Foreign income tax	**1,544**	2,192
Total income tax expense	**14,138**	13,399

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

	2014 LL Million	2013 LL Million
At 1 January	**7,238**	5,419
Charge for the year	**14,138**	13,399
Payments during the year	**(16,036)**	(11,580)
At 31 December	**5,340**	7,238

The breakdown in the current income tax liability is as follows:

Lebanon branches ("Head Office")	**3,645**	3,405
Foreign branches (Cyprus and Iraq)	**1,695**	3,833
At 31 December	**5,340**	7,238

The fiscal years from 2012 till 2014 for the Head Office remain subject to examination by the income tax authorities.

33 Dividends per share and interest on cash contributions

The following dividends were declared by the Bank and accounted for in the years shown below:

	2014 LL Million	2013 LL Million
LL 70 (2013 - LL 70) per common share	**10,080**	10,080
LL Nil (2013 - LL 190) per preferred share (designated ''A'')	**-**	950
LL 1,055 (2013- LL 804) per preferred share (designated ''B'')	**8,444**	6,430
	18,524	17,460

In addition the Bank paid interest on cash contribution of LL 1 Million (2013 - 1 Million).

After the reporting date, the following dividends were proposed by the board of directors. These dividends are subject to ratification by the General Assembly and are not yet recognised as liabilities in these financial statements.

	LL Million
LL 70 per common share	**10,080**
LL1,055 per preferred share (designated ''B'')	**8,442**
	18,522

34 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.

	2014 LL Million	2013 LL Million
Cash and balances with Central Banks (note 5)	**369,235**	358,039
Deposits with banks and financial institutions (note 6)	**668,363**	888,156
	1,037,598	1,246,195

35 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of lawsuits involving claims by and against the Bank at 31 December 2014, which arose in the ordinary course of business. The Bank does not expect these claims to give rise to any significant liability on the Bank.

(b) Loan commitments, guarantees and other financial facilities

At 31 December 2014, the Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit and guarantees to customers were as follows:

	2014 LL Million	2013 LL Million
Loan commitment (unused facilities)	**426,580**	398,655
Letters of guarantee (see below)	**180,960**	218,524
Letters of credit	**106,336**	144,408
	713,876	761,587

The nature and the amounts of the letters of guarantee are as follows:

	2014 LL Million	2013 LL Million
Guarantees given to customers	**104,265**	135,437
Guarantees against bank facilities	**76,695**	83,087
	180,960	218,524

36 Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 46% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon) which owns 37% of the ordinary shares. The remaining 17% of the shares are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

(a) Loans and advances to related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2014 LL Million	2013 LL Million	**2014 LL Million**	2013 LL Million
Loans and advances to customers (note 7)	**4,734**	4,922	**-**	-
Interest income (note 23)	**318**	299	**-**	-

No provisions have been recognised in respect of loans given to related parties (2013 - nil).

Loans and advances to related parties comprise loans with fixed rates. The majority of these loans are secured by real estate mortgages.

As stipulated by Code of Money and Credit article 152, loans and advances to related parties are subject to general assembly approval on yearly basis.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2014 LL Million	2013 LL Million	**2014 LL Million**	2013 LL Million
Deposits (note 18)	**35,361**	36,566	**88,484**	77,250
Interest expense (note 23)	**2,014**	1,753	**3,425**	2,886

Deposits from related parties are unsecured and comprise deposits with variable rates (repayable on demand), and fixed rates (repayable at maturity) of LL 23 Billion (2013 - LL 20.6 Billion) and LL 100 Billion (2013 - LL 93.2 Billion) respectively.

Interest incurred on related parties balances totaled LL 5,439 Million (2013 - LL 4,639 Million).

(c) Letters of guarantee

	2014 LL Million	2013 LL Million
The Capital Insurance and Reinsurance Company S.A.L.	**310**	310

(d) Other transactions with related parties

	2014 LL Million	2013 LL Million
The Capital Insurance and Reinsurance Company S.A.L.		
Insurance policies issued through the Bank	**16,437**	15,412
Commission income	**2,789**	2,615
Dividend income	**1,800**	-
Insurance expense - Bank (note 31)	**(1,140)**	(1,022)
Insurance expense - staff	**(253)**	(432)
Other		
Cost of other services received	**(623)**	(546)
Commissions paid	**(10)**	(16)

(e) Key management compensation

Directors' remuneration (note 31)	**1,348**	1,131
Directors' attendance fees (note 31)	**653**	653
Other key management compensation	**3,561**	2,807

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NETWORK

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National Bank of Abu Dhabi

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Colombo
Bank of Ceylon

Copenhagen
Danske Bank A/S

Doha
Qatar National Bank SAQ

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG

Kuwait
National Bank of Kuwait SAK

London
Barclays Bank Plc
Standard Chartered Bank

Madrid
BBVA SA

Milano
Intesa Sanpaolo SpA
Unicredit Bank

New York
The Bank of New York Mellon
Citibank N.A.
JPMorgan Chase Bank N.A.
Standard Chartered Bank

Oslo
DNB Nor Bank ASA

Paris
Société Générale
Banque Audi Saradar France SA

Riyadh
Banque Saudi Fransi

Stockholm
Skandinaviska Enskilda Banken AB

Sydney
Westpac Banking Corporation

Tokyo
U.B.A.F.

Toronto
Bank of Montreal

Vienna
Unicredit Bank Austria AG

Subsidiaries

- **Informatics Co. s.a.r.l.**

  It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84 % of the company's shares.

- **Société Libanaise de Service s.a.r.l.**

  The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91 % of the company's shares.

- **The Capital Insurance and Reinsurance Co. s.a.l.**

  The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company's shares.