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CHAIRMAN'S LETTER

The global economic recession and the ramifications of the political events taking place in neighboring Syria have restricted trade and investment flow, and reduced the regional GDP from 4.2% to 2.4%. Consequently, the economic situation in Lebanon and in countries where BBAC operates, witnessed decelerating activity during 2013.

BBAC was, however, able to maintain solid presence in the sector. Its total assets grew by 4.47% to reach LBP 7,699 million. This increase was attributed to a rise of 4.96% in deposits base, which was expanded to reach LBP 6,785 million. Total loans recorded a remarkable growth of 14.14% to attain LBP 2,015 million.

The cautious oversight of its equity has allowed the Bank to maintain a solid capitalization. Shareholder's equity rose by 8.34% to reach LBP 624 million, which produced an equity assets ratio of 8.11%, while the Bank continued to enjoy sound capital adequacy ratio of 13.49%.

Along with its medium term strategy, the Bank continues to pursue cross-border expansion through its positioning in new promising and captive markets within the region and outside it. Against this background, the BBAC branch network in Lebanon reached 38 branches after Sami El Solh (Badaro) and Bliss branches began their operations. Internationally, in addition to its existing branches in Iraq (Erbil and Baghdad) and Cyprus, and along with its representative office in Abu Dhabi, the Bank is looking to enhance its presence in key regional markets, primarily in Africa.

As part of its corporate social responsibility, and its commitment to supporting the community, BBAC partnered with the UNDP (United Nations Development Programme) over their 'Live Lebanon' initiative, which aims to improve impoverished areas in Lebanon. This led the Bank being awarded the social economic prize in the 'Rural Development' category in the third Social Economic Awards. This key achievement made the Bank extremely proud of this partnership, and enhanced its capability, as a Lebanese financial institution, to make a difference to social and economic development, and contribute to the welfare of the country.

In addition to political economic hurdles, 2013 also saw an increased focus on all Lebanese banks in terms of measures taken to combat money laundering. BBAC has taken action to raise awareness among its staff and customers and is in the process of taking all necessary steps to insure full compliance within all relevant guidelines. This is because we believe that the Bank's primary responsibility is to protect its good reputation, maintain its access in the international markets and thereby further the interest of its stakeholders.

BBAC's desire for excellence ensures its continuous improvement in internal structure and its development of new procedures as a fundamental component in delivering exceptional results. Its aim to provide best banking practices and services was demonstrated by its commitment to maintain the necessary checks and balances while seeking to internally fortify the Bank's business structure. It has enhanced the supervisory role of the Board of Directors, while kept a high level of independence from the Executive Management, and this has resulted in solid achievements on all levels.

In pursuing a long-term success, BBAC continues to count on the permanent support of its stakeholders; its customers for their long-standing fidelity; its shareholders for their unwavering support in all circumstances; and certainly its employees for their firm loyalty and exemplary dedication.

Ghassan T. Assaf
Chairman General Manager

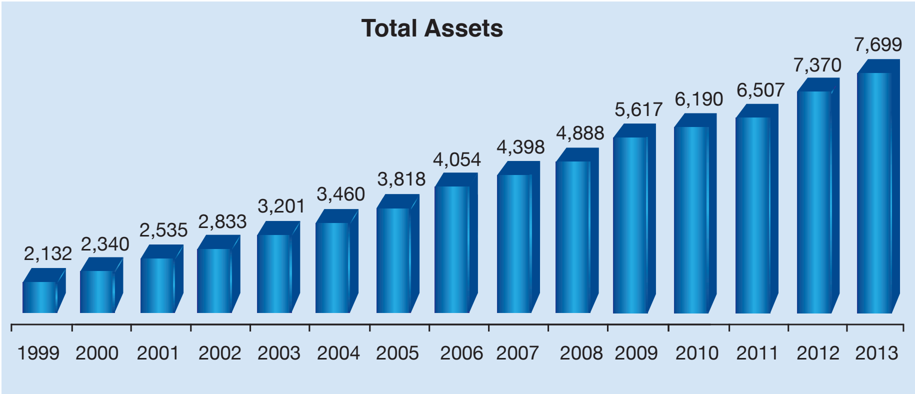
01 MANAGEMENT

2013

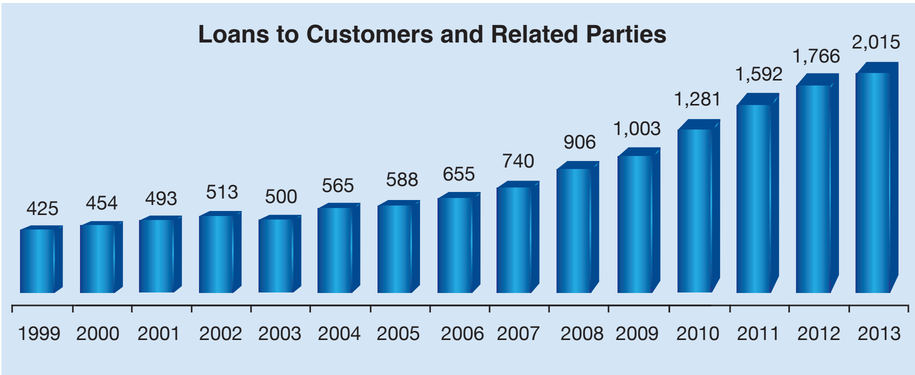
Financial Highlights

Evolution of Key Indicators (LBP billion)

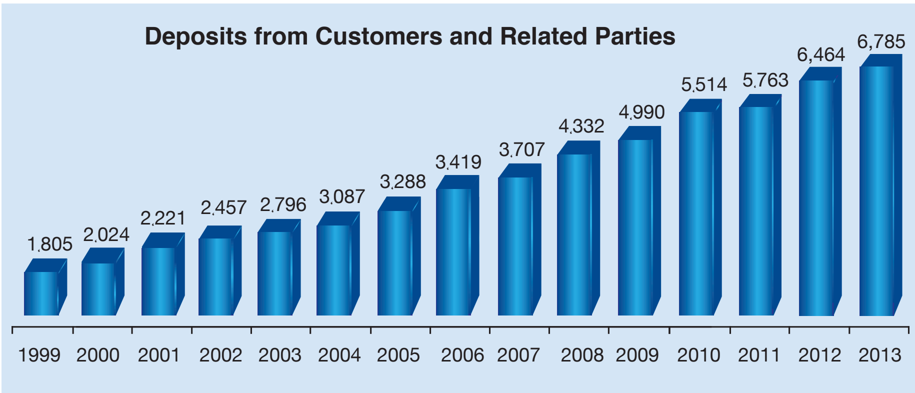
Assets



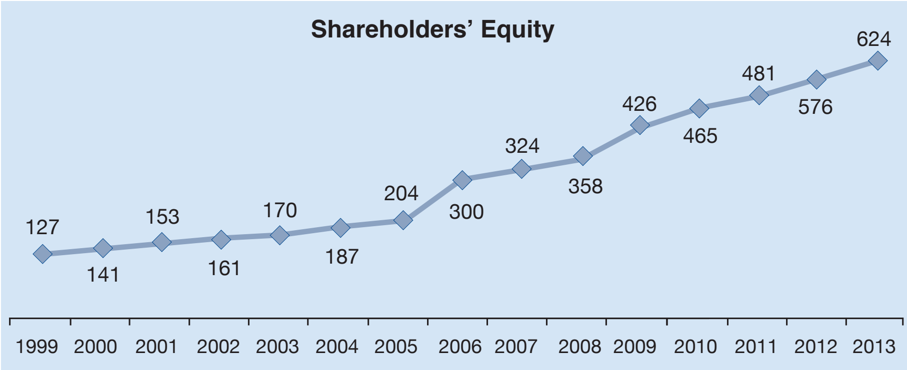
Loans



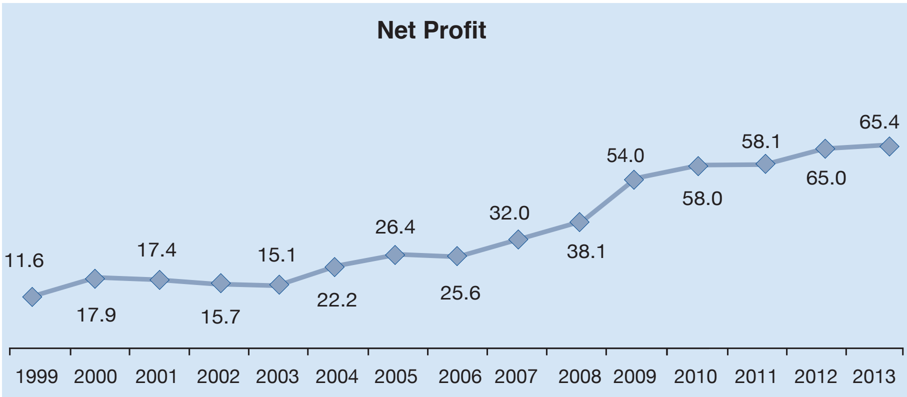
Deposits



Shareholders' Equity



Net Profit



Selected Financial Data

	(LBP million)		Growth
	2013	2012	2013-2012
Total Assets	**7,699,242**	**7,369,941**	**4.47%**
Total Loans	**2,015,380**	**1,765,774**	**14.14%**
Total Deposits [1]	**6,784,716**	**6,464,313**	**4.96%**
Net Liquid Assets [2]	**5,300,474**	**5,206,251**	**1.81%**
Shareholders' Equity	**624,104**	**576,084**	**8.34%**
Net Profit	**65,481**	**64,986**	**0.76%**

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
	2013	2012	2013-2012
Net Regular Loans (1)	1,996,520	1,747,551	14.25%
Add Collective Impairment on Loans and Advances	27,938	25,901	7.86%
Gross Regular Loans (2)	**2,024,458**	**1,773,452**	**14.15%**
Net Substandard Loans (3)	16,423	16,352	0.43%
Add Unrealized Interest	5,967	5,538	7.75%
Gross Substandard Loans (4)	**22,390**	**21,890**	**2.28%**
Net Doubtful and Bad Loans (5)	2,437	1,871	30.25%
Add Unrealized Interest	27,817	27,496	1.17%
Add Provisions	58,516	55,651	5.15%
Gross Doubtful and Bad Loans (6)	**88,770**	**85,018**	**4.41%**
Net Non-Performing Loans (3+5)	18,860	18,223	3.50%
Net Loans	2,015,380	1,765,774	14.14%
Gross Loans	**2,135,618**	**1,880,360**	**13.57%**
Net Non-Performing to Gross Loans (3+5)/(2+4+6)	0.88%	0.97%	-0.09 %

Asset Quality

The analysis of BBAC's asset quality will focus on loans and advances to customers and related parties as they carry the greatest amount of risk to its capital. In compliance with the International Standards of Accounting and Reporting (IAS39 and IFRS 7), BBAC continued with its collective impairments tests on its loans and advances, provisioning any uncovered positions.

BBAC maintained its rigorous pursuit of decreasing the net non-performing loans to gross loans ratio, which dropped from 0.97% to 0.88%, by taking a greater amount of provisions in 2013 than in 2012. Net regular loans increased by approximately 14.25%. This increase represents the bulk of the total rise in net loans.

BBAC, in adherence with the International Standards of Accounting and Reporting (IFRS), continued with its collective impairment tests on its loans and advances to customers, provisioning any uncovered positions. Moreover, and upon the BDL requirements, BBAC continued its effort to reduce its non-performing loans and to ensure that they do not incur any unexpected losses.

Key Ratios

Liquidity Ratios (%)	2013	2012
Net LBP Liquidity	88.44%	88.71%
Net FC (Foreign Currency) Liquidity	71.43%	75.39%
Net Liquidity (Total)	78.12%	80.54%
Loans / Deposits (LBP)	20.95%	19.63%
Loans / Deposits (FC)	35.38%	32.15%
Loans / Deposits (Total)	29.70%	27.32%
Liquid Assets / Total Assets	71.21%	73.54%

Asset Quality Ratios[1] (%)	2013	2012
Gross Doubtful and Bad Loans / Gross Loans	4.16%	4.52%
Gross Non-Performing Loans / Gross Loans	5.21%	5.69%
Provisions for Doubtful and Bad Loans / Gross Doubtful and Bad Loans	97.25%	97.80%
Provisions for Loans / Gross Loans	5.63%	6.09%
Net Doubtful and Bad loans/ Total Assets	0.03%	0.02%
Net Non-Performing Loans / Total Assets	0.24%	0.25%

Capital Adequacy Ratios (%)	2013	2012
Capital Adequacy Ratio According to Basel II	13.49%	12.06%

Profitability	2013	2012
Average Assets	7,534,592	6,938,363
Average Equity	600,094	528,573
Return on Average Assets ROAA after Tax (%)	0.87%	0.94%
Return on Average Equity ROAE after Tax (%)	10.91%	12.29%
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]	455	451
Earnings per Common Share (EPS) in LBP[3]	396	400
Dividends per Common Share (DPS) in LBP[4]	70	70
Dividends per Preferred Share “B” in LBP	1055	804
Dividends Payout Ratio	28.29%	26.87%
Retention Ratio	71.71%	73.13%
Book Value per Common Share in LBP[5]	3,497	3,163

Management Efficiency Ratios (%)	2013	2012
Interest Paid / Interest Received	68.48%	66.10%
Net Commissions / Income[6]	18.59%	16.83%
Cost / Income[6]	54.46%	53.38%
Cost per Average Branch (LBP million)	2,358	2,350

[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 Contributions for the year 2013, the same as 2012
[5] Before distribution of dividends
[6] Income before “Operating Expenses” and “Taxes”

Sources of Funds

To fund its operations, BBAC relies heavily on balances due to customers. Consequently, the growth of 4.96% of these deposits was the principal cause of the 14.14% rise in total loans. Another large component of the sources of funds is shareholders' equity. Driven by a consistent high retention ratio and an increase in book value per common share, shareholders' equity rose by 8.34%.

Foreign currency deposits dominated the deposits mix, which matches the Lebanese banking industry's dollarized behavior, as well as the Bank's increase in foreign currency loans granted to customers. Despite the high concentration of interest-bearing deposits maturing within one month, a trend which was present in both 2012 and 2013, BBAC enjoys superior loans to deposits ratio: 35.38% in foreign currency, and 20.95% in Lebanese pounds.

Liquidity

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

Liquid assets grew at a rate of 1.16% from 2012 to 2013 and also experienced a change in structure as the Bank shifted a portion of its cash and balances with central banks and its cash due from banks and financial institutions to its financial securities. BBAC maintained approximately the same distribution of liquid assets by currency across the two years (44% in LBP and 56% in foreign currency).

The Bank experienced an improvement in its existing strong liquidity position with its loans covering 29.70% of its deposits. This ratio represents the percentage of the Bank's loans funded by deposits, and its current value indicates that BBAC has capacity to rely on more borrowed funds. The Bank can convert 71.21% and 78.12% of its liquid and net liquid assets respectively to cover redemptions as needed.

Profitability Ratios

Liquid assets currently constitute 71.21% of total assets; this ratio shows that BBAC, like other banks in the Lebanese sector, is considered a highly liquid Bank. In addition, the Bank's loans-to- deposits ratio increased considerably from 27.32% in 2012 to 29.70% in 2013.

Both average assets and average equity increased considerably from 2012 to 2013 at rates of 8.59% and 13.53% respectively. The increase in the net income was smaller than the increases in average assets and average equity; therefore, the return on average assets (ROAA) and the return on average equity (ROAE) declined from 0.94% and 12.29% in 2012 to 0.87% and 10.91% in 2013.

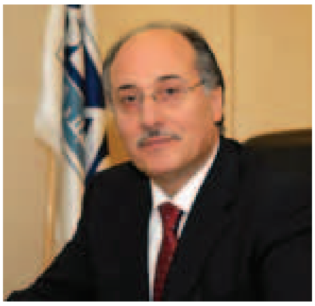
According to the Banking Control Commission Memo issued on 03/2014, the risk weights on foreign denominated sovereign debt decreased from 100% to 50%, which led to BBAC witnessing an increase in Basel Ratio from 12.06% to 13.49% in 2013.

BBAC retained a larger amount of its earnings in 2013, securing a way to finance possible growth opportunities in 2014. The higher amount of retained earnings was also the primary reason for the higher book value per common share in 2013.

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	54.292%
Fransabank s.a.l.	37.068%
Other Shareholders	8.640%

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 and Recovery
Mr. Omar Saab	Business Development
Dr. Amalia Azoury	Economic Studies
Mr. Hani Houssami	Managerial, Financial, Organizational Affairs

General Management

Mr. Chawki Badr	Assistant General Manager - External Expansion
Mr. Nadim Hamadeh	Assistant General Manager - Banking
Mr. Marwan Abou Assi	Assistant General Manager - Finance and Administration
Mrs. Lina Makarem	Assistant General Manager - Treasury
Mr. Camille Moujaes	Retail Division
Mr. Raja Makarem	Project Finance and SME Division
Mr. Anwar Abou Ghaida	Accounting and Financial Control Division
Ms. Wafaa Abed	Group Internal Audit
Mr. Bachir Yakzan	Risk Management Department – CRO
Ms. Najwa Kaedbey	Human Resources Department
Mr. Walid Haddad	Foreign Branches Support
Mr. Marwan Tayara	Recovery and Restructuring Department
Mr. Talal Abou Zeki	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
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	Supported and Kafalat Loans Department
Mr. Salah Saab	Information Unit
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

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 aggressively 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 27, 2014

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, 2013.

Resolution No. 2

The Ordinary General Assembly of BBAC shareholders resolved the appropriation of the profits for the year 2013 as follows:

(LBP thousands)	2013
Profits for the Year 2013	65,480,760
Less: Appropriation of Reserves for "General Banking Risks"	9,000,000
Appropriation of Reserves for "Legal Reserves"	6,548,076
Appropriation of Reserves for "Property in Settlement of Debt"	1,536,069
Unrealised Gain on Financial Instruments Held at Fair Value through Profit or Loss	1,491,915
Profits after Allocations	46,904,700
Add: Retained Earnings - December 2013	156,041,758
Total Retained Earnings - December 2013	202,946,458
Less: Dividends on Preferred Shares B	8,442,000
Dividends on Common Shares	10,080,000
Interest on Cash Contribution	1,404
Retained Earnings Carried Forward	184,423,054

02

MANAGEMENT DISCUSSION AND ANALYSIS

2013

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 of December 31, 2013.

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

This analysis highlights BBAC's performance in 2013.

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's 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, 54.292% of the Bank's shares are owned by the Assaf family, 37.068% are owned by Fransabank s.a.l., and the remaining 8.640% are held by other shareholders.

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

Throughout its history, the Bank has followed an expansion strategy that has mainly focused on penetrating local and international markets. BBAC follows this strategy rigorously, with the most recent local branch openings being in Badaro-Sami El Solh and Hamra-Bliss in early 2013 as well as additional branches to follow in the near future. Furthermore, various existing branches were renovated or even relocated, with the specific aim of enhancing customer convenience and catering to client needs, commensurate with the reorganization of branches to convey the Bank's image in accordance with its brand strategy.

As a part of its continued growth strategy, BBAC is constantly seeking opportunities to establish new branches in targeted areas in Lebanon, as well as in key regional markets. This is in addition to its existing three international branches: one in Limassol-Cyprus, two in Iraq, Erbil and Baghdad, and a representative office in Abu Dhabi, UAE.

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 business plans of clients, whether they are business-oriented individuals or organizations, BBAC is able to capitalize on development opportunities.

Despite the continuing economic challenges and political conditions prevailing in several key markets, as well as the decrease of exposures in other markets, the Bank has succeeded in sustaining a major dynamic role to deliver a comprehensive range of trade services. These services help businesses engaged in international and domestic import and export trade to expand to new markets and grow their businesses. These services include: Letters of Credit, Letters of Guarantee, Documentary and Clean Collections, and Discounting of Trade Bills.

BBAC provides integrated corporate and commercial solutions with a coverage span across the region, through its established headquarters in Lebanon and its branches in Iraq (Erbil and Baghdad) and Cyprus – and a current focus on expanding to the West African region – by developing sustainable and long-lasting relationships with top level customers.

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 small and medium enterprises (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 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 cities. 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, Judge Housing loan, and BBAC’s own housing loan program. Building on a strong track record of success, an increase of 8.23% in the year 2013 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. 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. In 2013, BBAC released its Visa Infinite, a new credit card that redefines distinction and luxury. Reserved for BBAC's most elite clients, the card has absolute purchasing power and offers VIP-level services to its holders worldwide.

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 in 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, providing customers with the utmost banking experience. In 2013, the Bank launched its "Mazroukeh?" credit card promotional campaign for the summer season, whereby cardholders earned the chance to win vacation packages in Lebanon and abroad, among many valuable prizes. Another promotional campaign, launched during the holiday season, gave cardholders the opportunity to win a valuable gift every day of the month.

In 2013, the Bank also continued its ambitious plans to expand its physical presence across Lebanon. This is in line with BBAC's aim to enhance the range of banking channels for its customers. To this end, the Bank has set a strategic plan to improve and develop new e-banking services, including Mobile Banking and Mobile Payment, giving customers greater flexibility to manage their relationship with the Bank.

Treasury and Capital Markets

The main function of the Treasury Department at BBAC is to manage the Bank's liquidity by seizing opportunities in order to benefit from available resources in local and international markets. Another principal function is to monitor the liquidity policy by distributing investments in a way to maintain liquidity cover ratios and maximize yields. By doing so, it is able to maximize return on the Bank's assets while adhering to specific risk policies and guidelines set by the Board of Directors and the Assets and Liability Management Committee (ALCO), as well as the rules and regulations set by BDL.

Investments usually vary between a wide range of Lebanese equities and fixed income markets and foreign securities, as well as various money market operations and investments. Moreover, the Bank's treasury team is active in the Foreign Exchange markets and national and international Capital markets. It provides the Bank's clients with round-the-clock services in FX spots, forwards, financial instruments (swaps, options and all derivatives), and can cover any hedging needs for its clients and any trading activity through the local Beirut Stock Exchange as well as regional and international exchanges.

Asset allocation is the central theme of the investment philosophy at BBAC and the dominant factor in determining the maximum return on the Bank's portfolio. Accordingly, the Bank's treasury team continuously conducts research about domestic and international markets in order to identify rewarding and secure investment opportunities.

Private Banking

BBAC benefits from a leading position in Private Banking, servicing the needs of high net worth individuals through its subsidiaries.

The Private Banking Unit at BBAC provides personalized services in an environment of confidentiality and trust, while putting forward a pool of investment services, including trade execution, portfolio administration, and advice on investment opportunities and market insights.

In 2013, a dedicated professional team was able to achieve – in parallel to its financial stability – a remarkable profitability improvement, reflected by an increase in its client's volume and a wide expansion on local and international Forex markets. The clients have full access to all equity markets and financial instruments that range from simple derivatives to sophisticated structured products, such as futures, options, equity securities and all the main commodity products.

Leveraging its regional footprint and strong brand, the excellence of BBAC private banking and wealth management will enable its private banking line to reinforce its relationship with existing clients and seek to build new ones with potential clients, and become an ever-increasing key growth in the Bank in 2014 and beyond.

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 contracts that are especially designed to satisfy all clients' requirements in terms of premium, cover, security and services. These contracts include: (1) Private Car Insurance; (2) Personal Accidents Insurance; (3) Term Life Insurance (natural and/or accidental death); (4) Home Insurance (fire, neighbors' recourse and earthquake) and (5) Foreign Domestic Helpers Insurance.

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

To be aligned with the changing banking industry, BBAC kicked-off its IT transformation Program in 2013 whereby it will replace most of its Legacy and in-house developed systems with state-of-the-art products. It also decided, using powerful information technologies, to introduce innovative products and services, thus enriching its portfolio of offerings and enhancing its customers' experiences.

In 2013, BBAC's IT supported the Bank's growth by implementing new applications, updating its organization chart to move more towards governance and enhanced services delivery and support using best practices. This was with the aim of better replying to business needs in addition to enhancing its operational efficiencies and ensuring better monitoring of capital consumption.

BBAC kept improving its IT infrastructure reliability, security and high availability by migrating to a new Data Center. This was in line with the network cabling upgrade to fiber optic cables between departments and Data Center from one side and via an enterprise storage consolidation and servers virtualization in Head Office and branches from another side. This accelerates the development of new services to meet the Bank's future demands for expansion in addition to monitoring systems and implementation of advanced preventive and detective controls with respect to the continuous enhancement on Disaster Recovery and Business Continuity.

In fact, in 2013, BBAC continued to invest in its own delivery channels, enrich the products delivered through these channels and went further with payments technologies, in line with national and international compliance and regulatory requirements.

BBAC started the implementation of a new Internet and mobile banking system to deliver more services to its individual and corporate customers. This was in addition to a significant enhancement at the level of the automation of different business processes related to Cheque Clearing, Direct Debit, Domiciliation Payment and Collection, in line with National Payment System also covering Trade Finance, Commercial and Retail Lending activities.

BBAC invests heavily in the latest banking technologies to support growth both internally and externally. The Bank strives to ensure unparalleled protection and crisis management by utilizing the most sophisticated means of high-tech. A heightened importance was given to enhancing overall banking services and continuity.

Compliance

BBAC has been always vigilant about the safety and reputation of its stakeholders, and has focused on complying with the requirements of the Anti-Money Laundering (AML) Lebanese Law No. 318 issued on April 20, 2001.

From this perspective, full coordination and transparency have been adopted with the Special Investigation Commission (SIC), which was entrusted with supervising the adherence of the Lebanese banks to this law.

Full efforts are continuously made to detect and prevent any attempt of money laundering and potential terrorist financing. Policies and procedures have been put in place and are continuously updated, and intensive training is provided for all AML officers and controllers, jointly complemented by an up-to-date AML detecting program.

On November 29, 2013, BDL announcement No. 897 requested Lebanese banks take the necessary procedures to comply with the Foreign Account Tax Compliance Act (FATCA) Law issued by the United States of America. On its behalf, BBAC has taken action to raise awareness among its staff and customers; and is in process of taking all necessary steps to comply and abide by the requirements by the due dates set by the U.S. Internal Revenue Service (IRS).

As per the requirements of BDL circular No. 128 issued on January 12, 2013, BBAC has produced, under its Compliance Department, and along with the existing AML/CFT Section, a Legal Compliance Section, which was officially registered and granted a JIIN number.

Risk Management

BBAC's Board of Directors views prudent risk management as fundamental to the strength and success of the Bank. This is illustrated in the deeply embedded risk culture that has been put in place. The Bank has a well-established governance structure that clearly separates the duties of the Board of Directors from those of the Executive Management. The Board of Directors sets the risk appetite for the Bank along with the risk tolerances and limits. Moreover, it approves all major policies and strategic plans to guide and govern the operations of the Bank.

The responsibilities of the Risk Management Department at BBAC are based on the three lines of defense model. The first line of defense comprises of the business units that are responsible and accountable for identifying, assessing and controlling the risks of their business. The second is the support functions, among which are the Risk Management Department, whose function is to ensure that risks in the business units have been appropriately identified and managed. The third line of defense is the Internal Audit function, which independently assesses the effectiveness of the processes created in the first and second lines of defense and provides assurance on these processes.

The Risk Management Department at BBAC operates independently from the business lines. It is headed by the Chief Risk Officer (CRO) who reports directly to the Chairman General Manager and to the Board Risk Committee. 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, and Credit Administration.

BBAC strives for compliance with local regulatory requirements as well as Basel guidelines. The Bank addresses Pillar I of Basel by measuring credit risk and market risk using the standardized approaches, as well as operational risk using the Basic Indicator Approach. The Bank also addresses Pillar II of Basel by developing and maintaining a comprehensive model for the Internal Capital Adequacy Assessment Process (ICAAP). The last ICAAP exercise was completed in 2013 and it showed that Bank's capital base is adequate enough to support its growth plans, even in moderately stressed scenarios.

Basel III capital adequacy ratio (CAR) reached 13.49% by the end of 2013, which exceeded the regulatory requirements set by BDL circular No. 44. Common Equity Tier 1 (CET1) constitutes the bulk of this capital with a CET1 ratio of 10.42%, which also exceeds the required CET1 regulatory ratio of 5% by the end of 2012.

Risk Weighted Assets (LBP million)*		
As of December 31	**2013**	**2012**
Credit Risk	3,913,637	3,857,939
Market Risk	49,107	43,753
Operational Risk	285,042	270,095
Total Risk Weighted Assets	**4,247,786**	**4,171,787**

*Risk Weighted Assets are calculated as per the requirements of the Banking Control Commission of Lebanon (BCCL) circular No.03/2014, which decreased the risk weights on foreign denominated sovereign debt from 100% to 50%.

Capital Funds as per Basel III (LBP million)*		
As of December 31	**2013**	**2012**
Net Common Equity Tier One Capital	442,471	372,812
Net Tier One Capital	563,107	493,448
Total Capital	**573,107**	**503,448**

*Capital is calculated as per the requirements of BCCL circular No.04/2013 dated April 11, 2013, which slightly differ from the previous requirements.

Capital Adequacy Ratio as per Basel III*		
As of December 31	**2013**	**2012**
Net Common Equity Tier 1/ Total Risk Weighted Assets	10.42%	8.94%
Net Tier 1 / Total Risk Weighted Assets	13.26%	11.83%
Total Capital/ Total Risk Weighted Assets	**13.49%**	**12.07%**

*CAR is calculated as per the requirements of BCCL circular No.04/2013 dated April 11, 2013, which slightly differ from the previous requirements.

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 Bank is continuously enhancing its Management Information Systems capabilities by investing in new systems that serve to adopt advanced risk management methodologies and help in establishing a more controlled environment. This is accompanied by continuous work to improve and refine the quality of data.

During 2013, BBAC updated its Business Continuity Management policy and procedures based on international standards. Several tests have been conducted during regular business days to ensure that the Bank is capable of serving its clients by providing the critical services during certain periods of business disruptions.

Human Resources Management

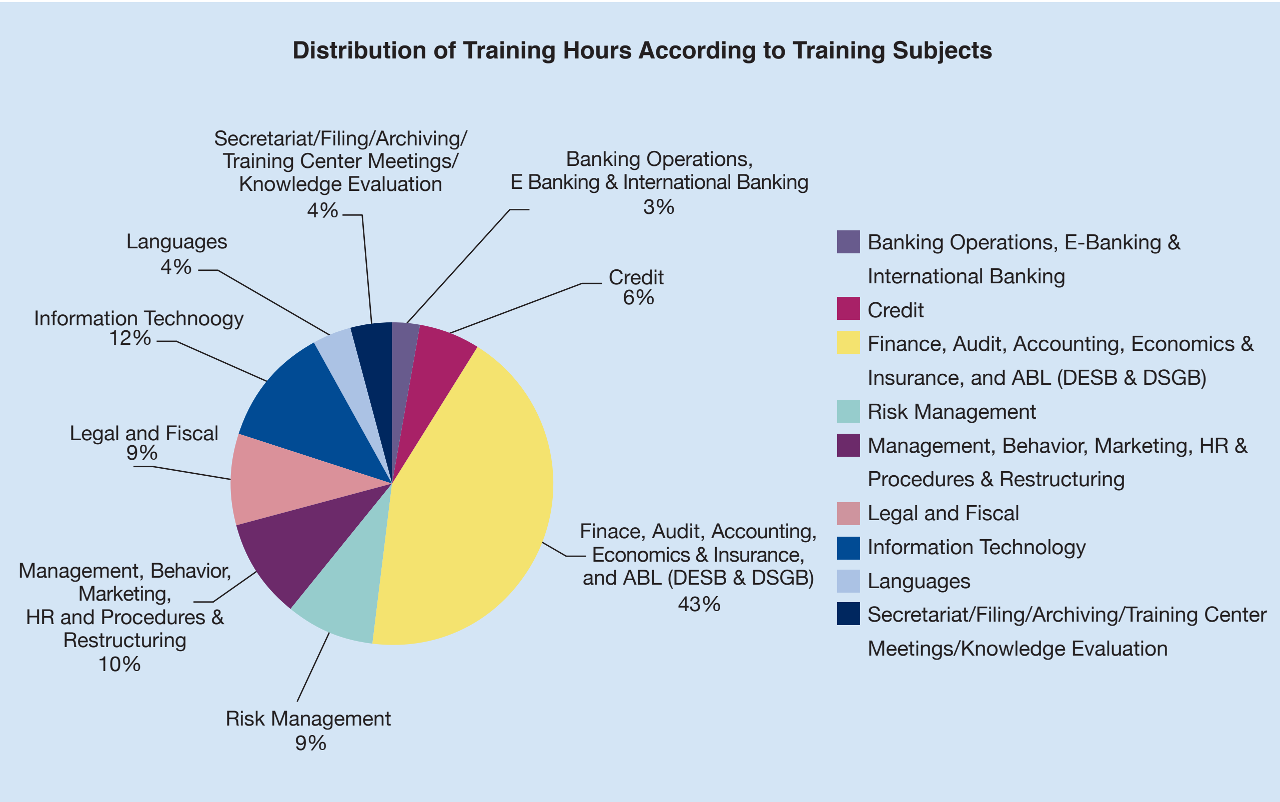
The talent retention factor has improved steadily over the last few years and the number of employees below the age of 40 makes up almost half of the total number of employees. In addition, the number of employees with university degrees has risen significantly. Another policy that BBAC strongly advocates is providing financial support to encourage its employees to pursue their post graduate educational plans such as the ‘Centre d’Etudes Bancaires’ diplomas, and university B.A.’s and M.B.A.’s. Moreover, BBAC provides internships to numerous university students, so that they are better prepared when they join the workforce upon graduation.

BBAC assigns great importance to investing in its staff, especially through training. In 2013, the training sessions’ main emphasis was on Accounting and Financial Issues, Information Technology and Management (see graph below). The emphasis on Financial Issues was partially a result of compliance with the necessary certifications to be obtained by employees occupying specific jobs in accordance with the conditions imposed by BDL circular No. 103.

Moreover, every year, the newly recruited employees follow a specific training program including an introduction to all BBAC Retail Products, General Legal Issues, and an Introduction to Operational Risk, Selling Skills, AML and IT Security.

BBAC managed to make training available to most of its employees with an average coverage ratio of 73% and total average training hours of 13,423 for the last 5 years. In 2013, the coverage ratio was 75% and training activities totaled 14,242 hours in which internal training represented 70% of the total training hours.

BBAC gives high importance to providing its employees with equal opportunities to advance their careers. The Bank actively promotes and fosters an environment in which growth and personal development are encouraged for present and future opportunities.



Corporate Social Responsibility

BBAC has been committed to supporting the community it serves since its inception in 1956. Seeking both social and economic development of the country, the Bank has always strived to ensure that its corporate social responsibility (CSR) provides a comprehensive welfare program that makes a measurable difference. After all, BBAC is proud to be renowned as Lebanon's 'Caring Bank'.

In 2012, BBAC entered into a partnership with the United Nations Development Program (UNDP) on the 'Live Lebanon' initiative. This partnership signifies a significant leap forward for the Bank. Live Lebanon's high-impact, long-term initiatives provide structured support through which BBAC can clearly demonstrate its care for community growth, social development and the nation's overall wellbeing. The partners have collaborated in order to empower disadvantaged citizens to achieve their goals, regardless of sect or religion. With a strategic approach to social contribution, the Live Lebanon initiative has helped rural and under-served communities by implementing much-needed development projects; the issues they have covered have ranged from health and economic development, to youth and the environment. These projects laid strong foundations for many more highly impactful projects to follow in 2014.

BBAC's efforts were recognized when, in an event supported by BDL, it received the 2013 Social Economic Award in the 'Rural Development' category for the Live Lebanon initiative.

Every year, BBAC supports different community initiatives and organizations active in the areas of health, environment, sports, education, arts and culture, and community outreach through donations and sponsorships.

In the pursuit of a healthy, connected and strong community, BBAC placed particular importance on health and awareness in 2013. Accordingly, the Bank sponsored sport activities that endorsed physical health and wellbeing, such as 'Al Jabal Mini Marathon' and 'Army Commander Cup Race'. These activities united people from Lebanon's various religious, political and social groups in a very public way, thus promoting a healthy, harmonious and prosperous society, while also encouraging Lebanese young people to play sports and stay away from negative distractions. BBAC also participated in the annual "National Beach Cleaning Day" where it supported the president of the NGO 'SHIELD-Walk With Us', a physically-handicapped disability rights advocate who dedicated a walk for the inauguration of the event and was joined by hundreds of participants to clean Beirut's sandy shores from plastic debris, glass and other waste. This day brought motivation to all Lebanese to invest their capabilities in preserving the nature they live in as well as reminding them of the necessity to help disabled people.

BBAC believes that it is important to encourage employees to engage in the very philanthropic work that defines the banking business. As a result, internal fundraising campaigns are arranged through which employees can donate money to worthy causes, and volunteer opportunities are offered for various projects. BBAC also encourages its employees to engage in various leisurely activities organized by the Bank. These activities provide an opportunity for healthy team building, whilst boosting relationships, health and morale. 'Copa BBAC 2013', an employee football tournament, is such activity that brought together BBAC employees from all across Lebanon, accompanied by their families, to compete in friendly matches and spend quality time with family and friends. Moreover, every year, BBAC partakes in the annual 'Beirut Marathon' where it encourages its employees to join and run for a good cause. In 2013, BBAC ran for the 'Kunhadi' association, which helps spread awareness among young people about the importance of road safety. Always stepping up to the plate, the Bank also sponsored two recycling stations at the marathon where runners' plastic bottles were collected and donated to the 'Arc en Ciel' association to be recycled. These recycled bottles are then utilized as material for wheelchairs.

By supporting these projects and other kinds of worthy endeavors, BBAC puts its core values and care into action, stimulating better community growth, development and overall wellbeing.

Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

During 2013, due to the macroeconomic policies, the region witnessed political and economic disturbances. As a result, the Lebanese economy has been affected by the on-going regional turmoil and its GDP – though remaining positive – declined substantially to 2.4 %. Despite the economy's unfavorable conditions, political distress did not affect the banking sector adversely or severely for numerous reasons. The Lebanese banking sector has always been the cornerstone of the country's economy, remaining resilient throughout the various crises that have shaken the country, the region, and the world over the years, and constituting a solid foundation for an emerging market economy. Furthermore, the stable monetary policy that the government has implemented limits the potential for financial crises. Last but not least, the regulations and standards set forth by BDL and BCCL have been effective at mitigating all types of risks that banks face in their operations. Therefore, they have been able to protect banks in Lebanon from external pressure.

Breakdown of Assets and Liabilities

BBAC maintained prudent management of its mix of assets. The allocation of a greater portion of its total assets in interest-generating accounts formed 89.15% in 2013. The Bank's total assets are mainly made up of financial securities, which represent 40.44% of the total. The structures of financial assets and due from banks and financial institutions were reduced in 2013, but the Bank's loans and advances to customers, which comprise 25.69% of total assets, increased by 14.46% in 2013. The increase in loans reflects the Bank's ability to identify and benefit from the most effective and beneficial opportunities to remain in line with its strategy.

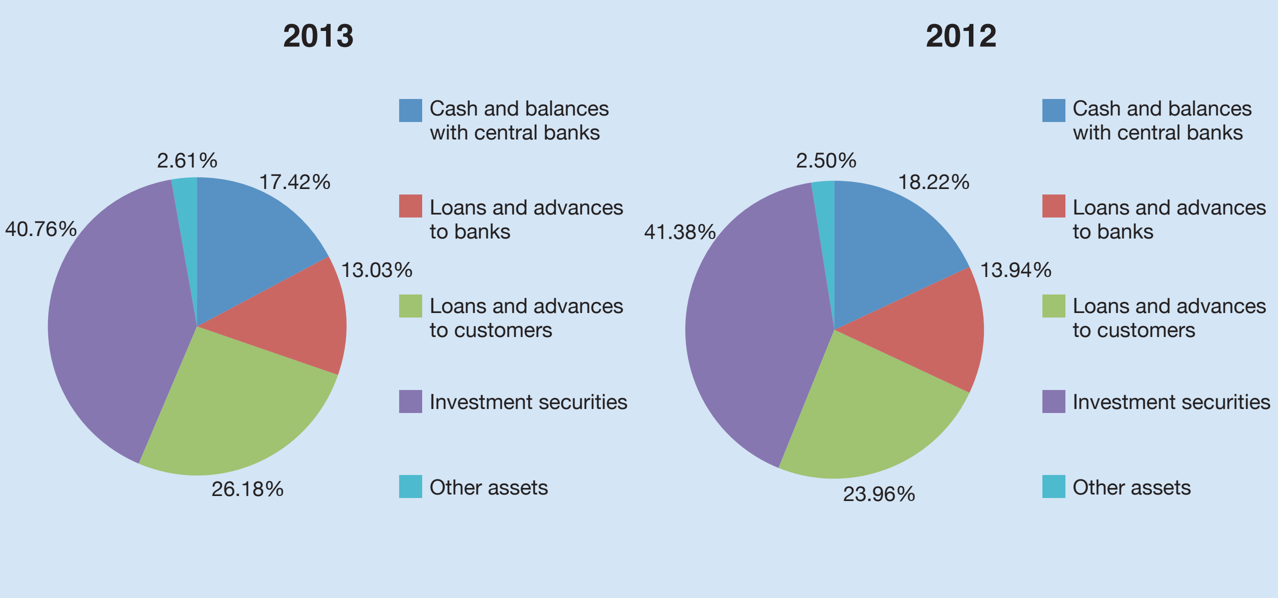
The assets side of the balance sheet is summarized in the following table:

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

Interest and Non-Interest Earning Assets	(LBP million)		Structure		% Change
	2013	2012	2013	2012	2013-2012
Cash and Balances with Central Banks	967,517	1,013,302	12.57%	13.75%	-4.52%
Due from Banks and Financial Institutions	804,451	892,502	10.45%	12.11%	-9.87%
Trading and Investment Securities	3,113,567	3,019,155	40.44%	40.97%	3.13%
Loans and Advances to Customers and Related Parties	1,977,985	1,728,088	25.69%	23.45%	14.46%
Other Assets	616	0	0.01%	-	-
Total Interest Earning Assets	**6,864,136**	**6,653,047**	**89.15%**	**90.27%**	**3.16%**
Total Non-Interest Earning Assets	**835,106**	**716,894**	**10.85%**	**9.73%**	**16.58%**
Total Assets	**7,699,242**	**7,369,941**	**100.00%**	**100.00%**	**4.47%**

Asset and Liability Management

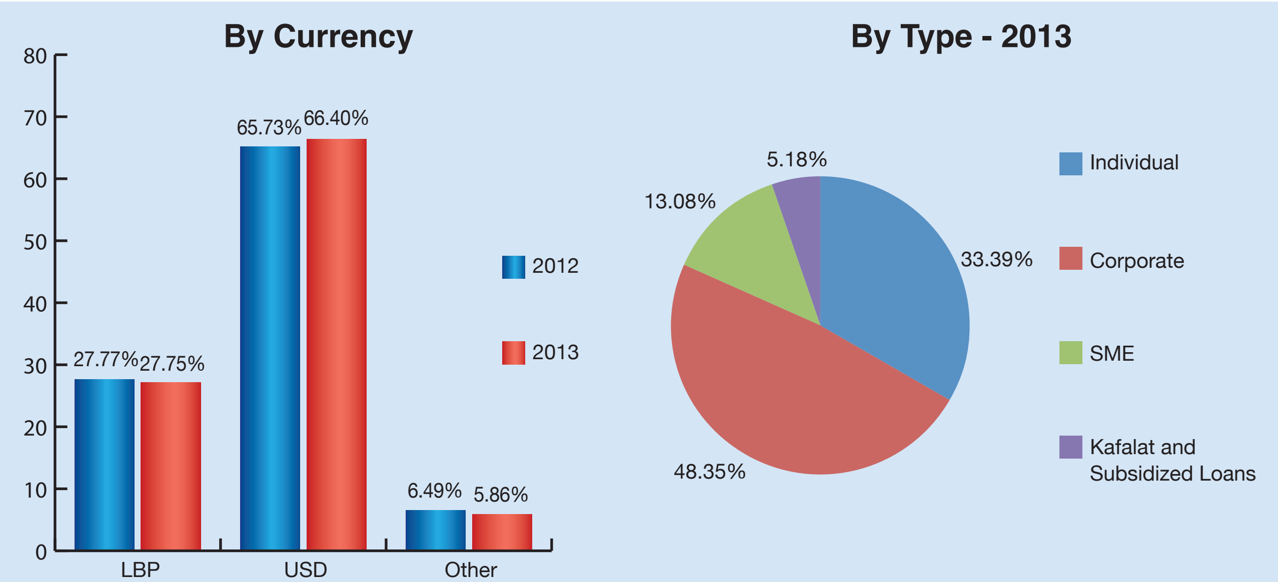
1. Use of Funds



The Bank utilizes a significant proportion of its funds in investments securities and loans and advances to customers and related parties which came to 23.96% in 2012, and increased to reach 26.18% in 2013. The growth of 4.47% in BBAC's total assets, which was primarily triggered by a 14.14 % increase in loans and advances to customers and related parties, displays the Bank's dynamic ability to seize profitable opportunities.

A greater percentage of investment is made in CDs and other debt securities followed by Treasury Bills in both years, which explains the reason behind the classification of 97.46% of investments in 2013 as amortized cost rather than FVTPL.

2. Loans and Advances by Currency / Type



A slightly greater percentage of foreign currency denominated loans was granted to customers: it went up from 65.73% in 2012 to 66.40% in 2013. These loans comprise a larger fraction of total loans and advances than Lebanese currency products, a feature which is in line with the prevailing market trend in the banking sector. Reflecting BBAC's rigorous pursuit of available profitable opportunities, the allocation of loans by type of customers did not witness any significant changes compared with 2012, as 48.35% of loans were granted to corporate clients and 33.39% to individual clients.

3. Interest-Earning Loans by Maturity / Geography

The breakdown of interest-earning loans by maturity witnessed some shifts from longer to shorter term maturities. As of 2013, 33.87% of the loans will mature within one month. Almost 77 % of the interest-earning loans will mature within one year, indicating that BBAC will enjoy an operating inflow in 2014. This also reflects a strong liquidity position, especially since a substantial portion of the loans will mature within one month.

From a geographic perspective, the bulk of the loans granted by BBAC is concentrated in Lebanon; 88% of them were granted in Lebanon, 8% in other Arab countries and 4% in the rest of the world. This structure did not vary drastically across the two years.

Profitability and Efficiency

1. Interest Margin Analysis

(LBP million)	2013 Total	2012 Total
Average Interest Earning Assets	6,758,592	6,012,081
Interest Paid	255,353	244,491
Interest Received	372,870	369,893
Net Interest Received	117,517	125,402
Cost of Average Interest Earning Assets (in %)	3.78%	4.07%
Return on Average Interest Earning Assets (in %)	5.52%	6.15%
Gross Interest Margin (in %)	**1.74%**	**2.09%**
Net Releases (Provisions) on Loans and Advances	(1,345)	(6.505)
Net Interest Margin (in %)	**1.72%**	**1.98%**
Average Interest Earning Assets to Average Assets (in %)	89.7%	86.65%
Gross Spread (in %)	1.56%	1.81%
Net Spread (in %)	1.54%	1.71%

BBAC continued its efforts to, firstly, reduce the cost of its average interest earning assets where it has fallen from 4.07% in 2012 to 3.78% in 2013, and, secondly to maximize the utilization of sources of funds increasing its average earning assets by 12.41%. Nevertheless, this was caught up with a decrease in the return on average interest earning assets, which was a result of the market trend, which also led to a decline in the net interest margin from 1.98% to 1.72%.

2. Profit before Income Tax

The structure of revenues and expenses remained relatively stable across the two years. Revenues increased by approximately 2.52% due to higher trading and net gain on securities and commission income in 2013 as they increased by 32.81% and 15.23% respectively.

In addition, expenses rose by 4.72%; this increase was greater than that of revenues.

Moreover, interest expense witnessed a mere 4.44% increase, which meant that BBAC was able to maintain its income at a suitable and acceptable cost.

3. Management Efficiency Ratios

A bank's efficiency is related to the right allocation of resources in order to generate the optimum revenue. It is basically measured by the employment of expenses to source of income. BBAC's rigorous efficiency-based strategy enabled the preservation of net profit level despite the decline of spreads in the market. The cost to income ratio increased slightly from 53.38% in 2012 to 54.46% due to an increase in operating expenses by 4.26 %. This principally reflects BBAC's expansion efforts, and was driven mainly by a rise in staff expenses which grew by 5.8% during 2013. The number of branches increased from 39 to 41 and the average cost per branch remained almost the same in 2013.

03

AUDITORS' REPORT

2013

CONTENTS

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

Report on the stand alone financial statements

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

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 stand-alone 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 stand-alone financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2013, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

PricewaterhouseCoopers

KPMG

PricewaterhouseCoopers

Beirut, Lebanon
14 May 2014

Balance sheet at 31 December 2013

	Note	2013 LL Million	2012 LL Million
ASSETS			
Cash and balances with Central Banks	5	**1,341,093**	1,343,062
Deposits with banks and financial institutions	6	**1,003,266**	1,027,138
Loans and advances to customers	7	**2,015,380**	1,765,774
Debtors by acceptances	8	**49,513**	52,467
Financial assets:			
- Fair value through profit or loss	9	**79,645**	106,781
- Amortised cost	10	**3,058,724**	2,942,982
Investment in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,669**	7,669
Property and equipment	13	**80,042**	71,615
Intangible assets	14	**3,085**	2,229
Other assets	15	**31,670**	26,800
		7,673,611	7,350,041
Non-current assets classified as held for sale	16	**25,631**	19,900
Total assets		**7,699,242**	7,369,941
LIABILITIES			
Deposits from banks and financial institutions	17	**182,254**	213,712
Current income tax liabilities	32	**7,238**	5,419
Financial liabilities held at fair value through profit or loss	9	**-**	12,679
Deposits from customers	18	**6,784,716**	6,464,313
Engagements by acceptances	8	**49,513**	52,467
Other liabilities	19	**27,714**	23,196
Retirement benefit obligations	20	**23,703**	22,071
Total liabilities		**7,075,138**	6,793,857
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	**151,505**	134,421
Retained earnings	22	**202,947**	172,011
Total equity		**624,104**	576,084
Total equity and liabilities		**7,699,242**	7,369,941

The financial statements on pages 34 to 101 were authorised for issue by the directors on 14 May 2014 and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman and General Manager

The notes on pages 39 to 101 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2013

	Note	2013 LL Million	2012 LL Million
Interest and similar income	23	**372,870**	369,893
Dividend income		**2,353**	4,343
Interest and similar expenses	23	**(255,353)**	(244,491)
Net interest and similar income		**119,870**	129,745
Net loan impairment charges	24	**(1,345)**	(6,505)
Net interest and similar income after loan impairment charges		**118,525**	123,240
Fee and commission income	25	**37,662**	32,685
Fee and commission expense	25	**(5,455)**	(4,165)
Net fee and commission income		**32,207**	28,520
Net trading income	26a	**12,423**	13,424
Net (loss) gain on investment securities at fair value through profit or loss	26b	**(2,192)**	280
Net gain on investment securities at amortised cost	27	**10,990**	2,274
Other operating income	28	**1,254**	1,745
Personnel expenses	29	**(55,170)**	(52,146)
Depreciation and amortisation charges	30	**(4,938)**	(4,219)
Other operating expenses	31	**(34,219)**	(34,109)
Profit before income tax		**78,880**	79,009
Income tax expense	32	**(13,399)**	(14,023)
Profit for the year		**65,481**	64,986
Other comprehensive income		**-**	-
Total comprehensive income for the year		**65,481**	64,986

The notes on pages 39 to 101 are an integral part of these financial statements.

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

	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 2012	144,000	75,375	36	117,460	144,190	481,061
Total comprehensive income for the year	-	-	-	-	64,986	64,986
Redemption of preferred shares "A" (note 21)	-	(75,375)	-	-	-	(75,375)
Issuance of preferred shares "B" (note 21)	-	120,600	-	-	-	120,600
Dividends relating to 2011 (note 33)	-	-	-	-	(14,138)	(14,138)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	(1,050)	(1,050)
Transfers from retained earnings (note 22)	5,016	-	-	16,961	(21,977)	-
At 31 December 2012	149,016	120,600	36	134,421	172,011	576,084
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
Dividends relating to 2012 (note 33)	-	-	-	-	(17,460)	(17,460)
Interest paid on cash contributions to capital (note 33)	-	-	-	-	(1)	(1)
Transfers from retained earnings (note 22)	-	-	-	17,084	(17,084)	-
At 31 December 2013	**149,016**	**120,600**	**36**	**151,505**	**202,947**	**624,104**

The notes on pages 39 to 101 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2013

	Note	2013 LL Million	2012 LL Million
Cash flows from operating activities			
Profit before income tax		**78,880**	79,009
Adjustments for non cash-items:			
Net loan impairment charges	24	**1,345**	6,505
Depreciation charge	13	**4,125**	3,635
Amortisation charge	14	**813**	584
Loss on disposal of property and equipment	28	**73**	76
Gain on disposal of assets classified as held for sale	28	**(596)**	(1,214)
Net loss on investment securities at fair value through profit or loss		**(1,429)**	(551)
Net gain on investment securities at amortised cost	27	**(10,990)**	(2,274)
Dividends income		**(2,353)**	(4,343)
Provision for retirement benefit obligations	20	**2,275**	4,276
		72,143	85,703
Balances with Central Banks	5	**(75,290)**	(278,404)
Deposits with banks and financial institutions	6	**(50,315)**	9,465
Investment securities at fair value through profit or loss	9	**28,565**	64,084
Loans and advances to customers	7	**(257,238)**	(180,249)
Investment securities at amortised cost	10	**(104,752)**	294
Other assets	15	**(4,870)**	5,056
Deposits from banks and financial institutions	17	**(31,458)**	51,786
Deposits from customers	18	**307,724**	699,924
Other liabilities	19	**4,518**	6,152
Dividends received		**2,353**	4,343
Employee benefits paid	20	**(643)**	(1,286)
Income taxes paid	32	**(11,580)**	(11,599)
Net cash (used in) generated from operating activities		**(120,843)**	455,269

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

	Note	2013 LL Million	2012 LL Million
Cash flows from investing activities			
Purchase of intangible assets	14	**(1,669)**	(1,201)
Purchase of property and equipment	13	**(13,519)**	(10,515)
Proceeds from disposal of property and equipment		**894**	836
Proceeds from disposal of assets classified as held for sale		**1,152**	**2,777**
Net cash used in investing activities		**(13,142)**	(8,103)
Cash flows from financing activities			
Interest paid on cash contributions to capital		**(1)**	(1,050)
Dividends paid		**(17,460)**	(13,971)
Redemption of preferred shares "A"		**-**	(75,375)
Issuance of preferred shares "B"		**-**	120,600
Net cash (used in) generated from financing activities		**(17,461)**	30,204
Cash and cash equivalents at beginning of the year	34	**1,397,641**	920,271
Net cash (used in) generated from operating activities		**(120,843)**	455,269
Net cash used in investing activities		**(13,142)**	(8,103)
Net cash (used in) generated from financing activities		**(17,461)**	30,204
Cash and cash equivalents at end of year	34	**1,246,195**	1,397,641

The notes on pages 39 to 101 are an integral part of these financial statements.

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

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 appears under number 28 in the list of Lebanese banks. 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 has also prepared under a separate cover 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 stand-alone financial statements should read them together with the Group’s consolidated financial statements for the year ended 31 December 2013 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 land and buildings, financial assets held for trading at fair value through profit or loss and financial liabilities designated at fair value through profit or loss.

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

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

The financial statements are presented in Lebanese pounds, which is the Bank’s functional and presentation currency. Except as otherwise indicated, the figures shown in the financial statements are stated in LL million.

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the 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

Except for the changes below, the Bank has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

(a) New and amended standards adopted by the Bank

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

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

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

- Amendment to IFRS 7, 'Offsetting financial assets & financial liabilities'. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The impact of this amendment will not be significant on the Bank's financial statements.

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

- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12 and IAS 27 for investment entities. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition and which display particular characteristics. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make. The impact of these amendments will not be significant on the Bank's financial statements.

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

- IFRS 13, 'Fair value measurement', (effective from 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard will not have a material impact on the Bank's financial statements. In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value prospectively. The change has no significant impact on the measurements of the Bank's assets and liabilities, but the Bank has included new disclosures in the financial statements, which are required under IFRS 13.

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

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

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

- IAS 32 'Financial Instruments: Presentation', the IASB issued an amendment to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. This standard will not have a material impact on the Bank's financial statements.

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'.

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'. 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 in profit or loss in the same period of its declaration by the subsidiaries. A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency.

(b) Transactions and balances

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

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 gains (losses) on financial instruments held 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 designated at fair value through profit or loss, and financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading. Those financial instruments are recognised in the balance sheet as "Financial liabilities held at fair value through profit or loss".

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of comprehensive income and are reported as "Net gains (losses) on financial instruments held at fair value through profit or loss". Interest expenses on financial liabilities held for trading are included in "Interest and similar expenses".

Financial liabilities for which the fair value option is applied are recognised in the balance sheet as "Financial liabilities designated held at fair value through profit or loss". Fair value changes relating to these financial liabilities designated at fair value through profit or loss are recognised in "Net gain on investment securities at fair value through profit or loss".

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. 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.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

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
Derivatives – non-hedging</td><td>Unlisted and Listed</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td>Financial liabilities designated at fair value through profit or loss</td><td colspan="3">Credit linked deposits, derivatives</td></tr>
<tr><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.

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 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. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

2.9 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. The same principle is applied for wealth management, and custody services that are continuously provided over an extended period of time.

2.10 Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's right to receive payment is established.

2.11 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

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

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 2013 (2012 - nil).

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 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, exchange-traded options), including recent market transactions, or valuation techniques (for example, for swaps and currency transactions), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Embedded derivatives that cannot be independently transferred from the host contract are accounted for along with the entire hybrid contract at either amortised cost or at fair value. Unlike IAS 39, there is no more bifurcation. Embedded derivatives linked to other indexes (for example, equity, performance, credit default swaps) would not pass the amortised cost test and the entire hybrid would be accounted for at fair value.

2.16 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases. The leases entered into by the Bank, are principally operating leases, where a significant portion of the risks and rewards of ownership are retained by another party, the lessor. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The total payments made under operating leases are charged to "other operating expenses" in the statement of comprehensive income on a straight-line basis over the period of the lease.

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

2.17 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 fair value, which reflects market conditions at the date of the balance sheet.

Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is based on valuations performed periodically by external appraisers.

The Bank only enters as lessor into lease agreements that are classified as operating leases (IAS 17). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in "Investment properties".

2.18 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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to 'real estate revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against 'real estate revaluation reserve' in equity; all other decreases are charged to the statement of comprehensive income.

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	16 - 17

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were impaired as at 31 December 2013 (2012 - nil).

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.

2.19 Intangible assets

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

Intangible assets comprise only computer software licenses. Intangible assets are recognised at cost.

The Bank chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

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

2.20 Non-current assets classified as held for sale

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

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

2.21 Income tax

(a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity.

Tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set-off against deferred tax liabilities carried in the balance sheet.

The Bank does not offset income tax liabilities and current income tax assets.

(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 tax related to fair value re-measurement of properties, which are recognised in other comprehensive income, is also recognised in other comprehensive income.

2.22 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 fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Local requirements:

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

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

2.23 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.

2.24 Financial guarantee contracts

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

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.

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 initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of comprehensive income within other operating expenses.

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

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

(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.

2.26 Comparatives

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

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

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

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

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

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 board of directors has established the Board Risk Committee (BRC), which is responsible for developing and monitoring the Bank's risk management framework.

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. In addition, internal audit is responsible for the independent review of risk management and the control environment.
The Board Risk Committee oversees the compliance with the Bank's risk management policies and procedures, and reviews 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 Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from 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. The credit risk section specialises in the management of the credit risk for individuals as well as the credit portfolio in general, in addition to the credit monitoring function. It reports to the chief risk officer.

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

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

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

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

3.1.1 Credit risk measurement

(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 as supported by the Treasury department.

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).

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 on yearly basis; the Bank performs credit reviews of the portfolio of loans on hand.

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 is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Master netting arrangements

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

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

The primary purpose of these 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 required cash margin set by the credit committee based on the credit rating of each customer (usually a margin of 15% is blocked 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 classification of loans follows the BDL basic circular no. 58 (grading system). The impairment provision shown in the balance sheet at year-end is derived from each of the six supervisory rating grades. However, the majority of the impairment provision comes from the bottom two gradings shown under ''Bad and doubtful" below. Performing category includes (Normal, follow-up and special mention gradings).The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's internal and regulatory rating

	2013 Credit risk exposure (%)	**2013 Impairment provision (%)[1]**	2012 Credit risk exposure (%)	2012 Impairment provision (%)[1]
1. Performing	**95%**	**2%**	94%	2%
2. Sub-standard	**1%**	**27%**	1%	25%
3. Doubtful	**3%**	**82%**	4%	80%
4. Bad	**1%**	**100%**	1%	100%
	100%		100%	

The total impairment constitutes 5.6% (2012 – 6.1%) of the total gross loans portfolio.

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

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	
	2013 LL Million	2012 LL Million
Assets		
Balances with central banks	**1,260,417**	1,280,674
Deposits with banks and financial institutions	**1,003,266**	1,027,138
Loans and advances to customers		
Loans to individuals		
- Personal	**109,068**	106,726
- Credit cards	**11,998**	10,421
- Mortgages	**349,323**	318,545
- Other	**202,577**	188,131
Loans to corporate entities		
- Large corporate customers	**974,419**	830,756
- Small and medium size enterprises ("SMEs")	**263,666**	217,748
- Kafalat loans	**21,920**	27,150
- Subsidised loans	**82,409**	66,297
Debtors by acceptances	**49,513**	52,467
Investment securities at fair value through profit or loss (debt securities)	**54,843**	78,745
Investment securities at amortised cost	**3,058,724**	2,942,982
Other assets	**19,346**	14,625
At 31 December	**7,461,489**	7,162,405

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

	Maximum exposure	
	2013 LL Million	2012 LL Million
Letters of guarantee	**218,524**	198,761
Letters of credit	**144,408**	258,120
Loan commitment (unused facilities)	**95,885**	79,482
	458,817	536,364

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2013 and 2012, 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, 42% of the total maximum exposure is derived from investment securities (2012 - 42%); 27% is derived from loans and advances to customers (2012 - 25%) and 17% is derived from balances with Central Banks (2012 - 18%).

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:

- 95% of the loans and advances portfolio is categorised in the top three grades of the internal rating system (2012 - 94%);
- 27% of the gross loans and advances portfolio is fully collateralised and the net exposure (gross loan amount less provisions and collaterals) represents 11% of the total gross loans and advances portfolio.
- 89% of the loans and advances portfolio are considered to be neither past due nor impaired (2012 - 90%);
- 66% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2012 – 60%), of which 55% is denominated in Lebanese pounds (2012 – 54%), whose risk of default is considered nil, and
- 29% of the Bank's debt securities portfolio classified at amortised cost is allocated to certificates of deposits issued by the Central Bank of Lebanon (2012 - 35%), of which 89% is denominated in Lebanese pounds (2012 - 79%), 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 2013 and as at 31 December 2012. For this table, the Bank has allocated exposures to regions based on the country of use of its 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	1,132,101	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**
Financial assets						
Balances with central banks	1,176,150	103,146	-	1,378	-	1,280,674
Deposits with banks and financial institutions	161,207	289,593	201,521	374,322	495	1,027,138
Loans and advances to customers	1,550,252	119,675	2,335	58,146	35,366	1,765,774
Debtors by acceptances	49,932	1,824	-	50	661	52,467
Investment securities at fair value through profit or loss (debt securities)	45,256	-	-	31,965	1,524	78,745
Investment securities at amortised cost	2,842,283	5,120	12,833	82,746	-	2,942,982
Other assets	13,817	2	-	806	-	14,625
At 31 December 2012	**5,838,897**	**519,360**	**216,689**	**549,413**	**38,046**	**7,162,405**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2013		2012	
	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	**1,899,218**	**1,003,266**	1,689,149	1,027,138
Past due but not impaired	**125,240**	**-**	84,303	-
Individually impaired	**111,160**	**634**	106,908	634
Gross	**2,135,618**	**1,003,900**	1,880,360	1,027,772
Less: allowance for impairment	**(120,238)**	**(634)**	(114,586)	(634)
Net	**2,015,380**	**1,003,266**	1,765,774	1,027,138
Individually impaired	**(92,300)**	**(634)**	(88,685)	(634)
Collective allowance	**(27,938)**	**-**	(25,901)	-
Total	**(120,238)**	**(634)**	(114,586)	(634)

The total impairment charge for loans and advances is LL 121 billion (2012 - LL 115 billion) of which LL 93 billion (2012 - LL 89 billion) represents the individually impaired loans and the remaining amount of LL 28 billion (2012 - LL 26 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.

(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**				
	Personal LL Million	**Credit cards LL Million**	**Mortgages LL Million**	**Other LL Million**	**Large corporate customers LL Million**	**SMEs LL Million**	**Kafalat LL Million**	**Subsidized LL Million**	**Total LL Million**
Grades:									
1. Normal	106,320	12,094	318,616	192,591	790,987	235,816	18,560	56,786	1,731,770
2. Follow-up	511	34	6,814	913	136,388	3,148	-	3,916	151,724
3. Special mention	2,221	40	-	2,420	8,636	2,407	-	-	15,724
At 31 December 2013	**109,052**	**12,168**	**325,430**	**195,924**	**936,011**	**241,371**	**18,560**	**60,702**	**1,899,218**

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
1. Normal	102,130	10,544	290,792	118,242	740,653	272,852	24,051	43,938	1,603,202
2. Follow-up	744	2	6,109	1,364	51,668	686	-	21	60,594
3. Special mention	1,696	26	-	1,776	18,224	2,597	596	438	25,353
At 31 December 2012	**104,570**	**10,572**	**296,901**	**121,382**	**810,545**	**276,135**	**24,647**	**44,397**	**1,689,149**

(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	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Past due:							
Up to 30 days	9,203	4,092	25,284	5,736	703	16,971	61,989
30-60 days	4,529	1,542	5,781	3,736	109	-	15,697
60-90 days	4,064	931	-	1,678	239	-	6,912
Above 90 days	10,737	2,578	7,429	12,203	1,853	5,842	40,642
At 31 December 2013	**28,533**	**9,143**	**38,494**	**23,353**	**2,904**	**22,812**	**125,240**
Fair value of collateral	**49,065**	**33,589**	**119,130**	**55,503**	**2,737**	**42,825**	**302,849**

	Individuals (retail customers)		Corporate entities				
	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Past due:							
Up to 30 days	19,628	4,345	8,338	6,998	1,374	18,945	59,628
30-60 days	4,206	1,259	5,563	1,088	458	107	12,681
60-90 days	1,338	757	2,525	383	207	416	5,626
Above 90 days	1,165	801	616	921	697	2,168	6,368
At 31 December 2012	**26,337**	**7,162**	**17,042**	**9,390**	**2,736**	**21,636**	**84,303**
Fair value of collateral	**39,913**	**34,946**	**102,380**	**33,596**	**1,909**	**23,195**	**235,939**

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 2013

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	16,897	21	1,216	4,016	48,096	37,710	2,059	1,145	111,160
Fair value of collateral	12,597	-	1,394	2,261	25,528	29,946	1,404	1,276	74,406

At 31 December 2012

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	16,881	3	1,396	13,963	44,829	27,489	837	1,510	106,908
Fair value of collateral	8,613	-	1,461	3,433	29,922	33,976	284	-	77,689

(ii) Deposits with banks and financial institutions

The total amount of individually impaired deposits with banks and financial institutions as at 31 December 2013 was LL 634 million (2012 - LL 634 million). No collateral is held by the Bank, and an impairment provision of LL 634 million (2012 - LL 634 million) has been recognised to cover the exposure.

(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. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired are as follows:

	2013 LL Million	2012 LL Million
Loans and advances to customers - individuals		
Term loans - performing loans	**2,183**	2,312
Term loans - non - performing - loans	**2,593**	2,800
	4,776	5,112

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2013 and 2012, 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)	-	-	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**

	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)	-	-	33,563	-	-	45,182	78,745
Investment securities at amortised cost	-	-	87,266	10,227	3,082	2,842,407	2,942,982
At 31 December 2012	**-**	**-**	**120,829**	**10,227**	**3,082**	**2,887,589**	**3,021,727**

3.1.7 Repossessed collateral

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

	2013 LL Million	2012 LL Million
Nature of assets		
Residential property- carrying amount	**6,287**	-

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within 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 market risks arising from trading and non-trading activities are managed by the Treasury department. Regular reports are submitted to the Board of Directors, Asset Liability Committee ("ALCO") to monitor and limit market risk.

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

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

Sensitivity analysis

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

Foreign exchange risk

If the foreign currency exchange rate increases/decreases by 1%, the net effect [gain/(loss)] is as follows:

	2013		2012	
	USD LL Million	Euro LL Million	USD LL Million	Euro LL Million
Effect on profit	**2,422**	**(43)**	2,467	(3)

Interest rate risk

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

	2013		2012	
	USD LL Million	Euro LL Million	USD LL Million	Euro LL Million
Effect on profit	**931**	**(1,879)**	3,226	(1,901)

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.

These exposure limits are set out in compliance with the limits set by the BDL (basic circular no. 32) and closely monitored 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 2013 and 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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	**43,826**	**348,911**	**32,742**	**1,344**	**31,994**	**458,817**

At 31 December 2012

	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	384,300	817,968	113,550	1,118	26,126	1,343,062
Deposits with banks and financial institutions	19,051	864,931	108,233	11,074	23,849	1,027,138
Loans and advances to customers	490,408	1,160,729	51,813	43,530	19,294	1,765,774
Debtors by acceptances	-	45,977	3,520	-	2,970	52,467
Investment securities at fair value through profit or loss (debt securities)	25,436	53,309	-	-	-	78,745
Investment securities at amortised cost	1,793,776	1,110,122	39,084	-	-	2,942,982
Other assets	3,481	10,170	815	-	159	14,625
Total financial assets	**2,716,452**	**4,063,206**	**317,015**	**55,722**	**72,398**	**7,224,793**
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	6,731	57,817	129,465	1	19,698	213,712
Financial liabilities held at fair value through profit or loss	-	12,679	-	-	-	12,679
Deposits from customers	2,497,711	3,698,663	183,770	55,799	28,370	6,464,313
Engagements by acceptances	-	45,977	3,520	-	2,970	52,467
Other liabilities	9,384	1,406	566	-	20	11,376
Total financial liabilities	**2,513,826**	**3,816,542**	**317,321**	**55,800**	**51,058**	**6,754,547**
Net on-balance sheet financial position	**202,626**	**246,664**	**(306)**	**(78)**	**21,340**	**470,246**
Credit commitments	**45,953**	**426,047**	**29,972**	**197**	**34,194**	**536,363**

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. 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 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**		

At 31 December 2012

	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	96,909	151,821	45,546	441,694	277,332	329,760	1,343,062
Deposits with banks and financial institutions	664,062	210,528	15,112	-	2,800	134,636	1,027,138
Loans and advances to customers	621,875	179,475	485,307	369,907	71,524	37,686	1,765,774
Debtors by acceptances	-	-	-	-	-	52,467	52,467
Investment securities at fair value through profit or loss (debt securities)	-	15,350	16,117	26,363	18,343	2,572	78,745
Investment securities at amortised cost	61,679	107,838	359,443	1,499,642	914,380	-	2,942,982
Other assets	-	-	-	-	-	14,625	14,625
Total financial assets	**1,444,525**	**665,012**	**921,525**	**2,337,606**	**1,284,379**	**571,746**	**7,224,793**
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	163,261	40,629	958	-	6,681	2,183	213,712
Financial liabilities held at fair value through profit or loss	-	5,896	6,783	-	-	-	12,679
Deposits from customers	4,895,694	357,389	578,591	223,920	822	407,897	6,464,313
Engagements by acceptances	-	-	-	-	-	52,467	52,467
Other liabilities	-	-	-	-	-	11,376	11,376
Total financial liabilities	**5,058,955**	**403,914**	**586,332**	**223,920**	**7,503**	**473,923**	**6,754,547**
Total interest repricing gap	**(3,614,430)**	**261,098**	**335,193**	**2,113,686**	**1,276,876**		

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 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)**

At 31 December 2012

	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	426,014	150,853	45,263	478,568	499,187	1,599,884
Deposits with banks and financial institutions	798,527	210,694	15,194	-	3,549	1,027,964
Investment securities at fair value through profit or loss (debt securities)	28,444	15,976	19,403	35,340	21,581	120,744
Investment securities at amortised cost	74,881	132,024	516,954	1,911,140	1,011,788	3,646,787
Total financial assets	**1,327,866**	**509,547**	**596,814**	**2,425,048**	**1,536,105**	**6,395,380**
LIABILITIES						
Deposits from banks and financial institutions	164,549	40,523	957	-	7,380	213,409
Financial Liabilities at fair value through profit and loss	-	6,006	6,933	-	-	12,939
Deposits from customers	5,287,944	358,763	592,678	246,929	1,629	6,487,943
Engagements by acceptances	8,975	22,269	21,223	-	-	52,467
Other liabilities	11,375	-	-	-	-	11,375
Total liabilities	**5,472,843**	**427,561**	**621,791**	**246,929**	**9,009**	**6,778,133**
Net financial (liabilities) / assets	**(4,144,977)**	**81,986**	**(24,977)**	**2,178,119**	**1,527,096**	**(382,753)**

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 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 (mainly United Kingdom).

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, and prepayment and defaults rates.

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

Valuation technique using significant unobservable inputs – Level 3

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

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

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the assets or paid to transfer the liability in an order by transaction between market participants at the measurement date

The bank uses widely recognized valuation models for determining the fair value of common financial instruments.

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 categorised.

At 31 December 2013

	Level 1 LL Million	Level 2 LL Million	Level 3 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**

(b) Financial instruments not measured at fair value

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

At 31 December 2012

	Level 1 LL Million	Level 2 LL Million	Level 3 LL Million	Total fair values LL Million	Total carrying amount LL Million
ASSETS					
Balances with Central Banks (i)	-	1,236,182	-	1,236,182	1,280,674
Deposits with banks and financial institutions (i)	-	1,260,039	-	1,260,039	1,027,138
Loans and advances to customers (ii)	-	1,770,462	-	1,770,462	1,765,774
Investment securities at amortised cost (iii)	1,209,963	1,818,393	-	3,028,356	2,942,982
Total financial assets	**1,209,963**	**6,085,076**	**-**	**7,295,039**	**7,016,568**
LIABILITIES					
Deposits from banks and financial institutions (iv)	-	211,445	-	211,445	213,712
Deposits from customers (iv)	-	6,433,002	-	6,433,002	6,476,992
Total financial liabilities	**-**	**6,644,447**	**-**	**6,644,447**	**6,690,704**

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

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

(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 is 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 represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

(iii) Investment securities at amortised cost

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

(iv) Deposits from banks 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 – fair value hierarchy

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**

At 31 December 2012

	Level 1 LL Million	Level 2 LL Million	Total LL Million
Investment securities at fair value through profit or loss:			
- Debt securities	19,746	58,999	78,745
- Equity securities	8,224	19,812	28,036
Total assets measured at fair value	**27,970**	**78,811**	**106,781**
Financial liabilities held at fair value through profit or loss	-	12,679	12,679
Total liabilities measured at fair value	**-**	**12,679**	**12,679**

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 standards is supported by a program of periodic reviews undertaken by the internal audit department. 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 apply mitigation techniques that may help lower the capital requirements;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines issued by BDL (in line with the guidelines issued by the Basel committee). The required information is filed with the authority on a semi-annual basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel Ratio') above the minimum level set by BDL. 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's regulatory capital is managed by its Board of Directors and monitored by the Risk Management department.

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

- Tier I capital: common shares, non-cumulative perpetual preferred shares, cash contributions (net of goodwill), unspecified banking reserve, legal reserve, retained earnings and reserves created by appropriations of retained earnings (except for real estate revaluation reserve); and

- Tier II capital: subordinated loans, revaluation surplus on real estate (as approved by BDL) and preferred shares (except non-cumulative).

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2013 and 2012. During these two years, the foreign branches complied with all the externally imposed capital requirements to which they are subject.

Tier I Capital

	2013 LL Million	2012 LL Million
Share capital - common shares	**149,667**	149,667
Share capital - preferred shares and cash contributions to capital	**120,636**	120,636
Unidentified banking reserve	**57,969**	40,624
Legal reserve	**64,291**	50,376
Reserve for capital increase	**3,872**	1,801
Retained earnings	**170,170**	133,301
Less: intangible assets	**(3,498)**	(2,957)
Total qualifying Tier I Capital	**563,107**	493,448

Tier II Capital

Real estate revaluation reserve	**10,000**	10,000
Total qualifying Tier II Capital	**10,000**	10,000
Total regulatory Capital	**573,107**	503,448

Risk- weighted assets

On-balance sheet	**3,651,537**	3,650,707
Off-balance sheet	**262,100**	207,232
Market risk	**49,107**	43,753
Operational risk	**285,042**	270,095
Total risk-weighted assets	**4,247,786**	4,171,787
Basel ratio (%)		
Tier 1 Capital	**13.26%**	11.82%
(Tier 1 + Tier 2) Capital	**13.49%**	12.06%

In 2014, the Banking Control Commission issued memo no. 3/2014 requesting banks to disclose their capital adequacy ratio for financial year end 2013 and onwards based on the new computation. The new memo decreased the risk weights on foreign denominated sovereign debt from 100% to 50% leading to the witnessed increase in Basel ratio from 12.06% in 2012 to 13.49% in 2013.

4 Critical accounting estimates and judgements

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

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

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

(a) Impairment losses on loans and advances

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

Where the net present value of estimated cash flows differs +/- 5%, the impairment loss is estimated LL 1,151 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. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. These models are validated and periodically reviewed by the financial control department. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(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. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 1,500 million.

5 Cash and balances with central banks

	2013 LL Million	2012 LL Million
Cash in hand	**72,659**	61,258
Other money market placements	**16,000**	111,300
Balances with central bank other than mandatory reserve deposits	**269,380**	262,740
Included in cash and cash equivalents (note 34)	**358,039**	435,298
Mandatory reserve deposits with central banks	**703,579**	679,905
Mandatory reserve – cash in hand (Central Bank of Iraq)	**8,017**	1,130
Placements with BDL other than mandatory reserves	**264,413**	219,579
Interest receivable – BDL	**7,045**	7,150
	983,054	907,764
	1,341,093	1,343,062
Current	**617,525**	624,036
Non-current	**723,568**	719,026
	1,341,093	1,343,062

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

	2013 LL Million	2012 LL Million
Current accounts	**378,462**	348,055
Placements with other banks (with original maturities of less than 3 months)	**486,917**	574,793
Items in course of collection from other banks	**22,777**	39,495
Included in cash and cash equivalents (note 34)	**888,156**	962,343
Deposits with banks and financial institutions	**115,194**	65,116
Less: allowance for impairment	**(634)**	(634)
Interest receivable	**550**	313
	115,110	64,795
	1,003,266	1,027,138
Current	**985,787**	1,024,338
Non-current	**17,479**	2,800
	1,003,266	1,027,138

7 Loans and advances to customers

	2013 LL Million	2012 LL Million
Medium and long term loans	**1,618,643**	1,425,003
Overdrafts	**299,357**	245,704
Short term loans	**65,080**	59,776
Scheduled loans	**22,789**	17,570
Discounted bills	**5,744**	5,661
Loans and advances to related parties (note 36)	**4,922**	5,976
Net debit against credit accounts – speculation accounts	**790**	7,313
Creditors accidentally debtors	**1,277**	1,661
Unpaid bills	**957**	526
Interest receivable	**4,899**	4,262
Non-performing loans:		
- Substandard	**22,390**	21,890
- Doubtful and bad	**88,770**	85,018
Gross loans and advances to customers	**2,135,618**	1,880,360
Less: allowance for impairment (i)	**(120,238)**	(114,586)
Net loans and advances to customers	**2,015,380**	1,765,774
Current	**1,522,268**	1,286,657
Non-current	**493,112**	479,117
	2,015,380	1,765,774

(i) Allowance for impairment account breakdown is as follows:

	2013 LL Million	2012 LL Million
Unrealised interest		
Facilities rated substandard	**5,967**	5,538
Facilities rated doubtful	**20,608**	20,994
Facilities rated bad	**7,209**	6,502
	33,784	33,034
Specific allowance	**58,516**	55,651
Collective allowance		
Facilities provided locally	**25,596**	23,184
Facilities provided by a foreign branch ("Iraq")	**1,395**	1,770
Other	**947**	947
	27,938	25,901
	120,238	114,586

Collective provision recorded against facilities provided locally, includes a collective provision taken against facilities provided to clients operating in Syria. The Bank computed the collective provision 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:

	2013 Specific allowance for impairment LL Million	2013 Collective allowance for impairment LL Million	2012 Specific allowance for impairment LL Million	2012 Collective allowance for impairment LL Million
At 1 January	**88,685**	**25,901**	81,040	26,212
Increase in impairment allowances (note 24)	**3,975**	**3,958**	8,003	3,685
Unrealised interest	**5,636**	**-**	5,826	-
Reversal of impairment (note 24)	**(6,588)**	**-**	(5,183)	-
Transfers	**1,921**	**(1,921)**	1,215	(3,996)
Write-off	**(1,329)**	**-**	(2,216)	-
At 31 December	**92,300**	**27,938**	88,685	25,901

8 Debtors and engagements by acceptances

	2013 LL Million	2012 LL Million
Customers' acceptances	**49,513**	52,467

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

	2013 LL Million	2012 LL Million
Listed debt securities		
Lebanese treasury bills (eurobonds)	**23,977**	19,746
Other debt securities	**-**	2,156
	23,977	21,902
Unlisted debt securities		
Lebanese treasury bills	**30,715**	25,436
Other debt securities	**151**	31,407
	30,866	56,843
Total debt securities at fair value through profit or loss	**54,843**	78,745
Equity securities		
- Listed	**3,205**	8,224
- Unlisted	**21,597**	19,812
Total equity securities at fair value through profit or loss	**24,802**	28,036
Total investment securities at fair value through profit or loss	**79,645**	106,781

The above mentioned financial assets are held for trading purposes.

In addition to the above, the Bank held hybrid contracts (i.e. debt securities with embedded derivatives), as shown below:

	2013 LL Million	2012 LL Million
Credit default swap - credit linked note (a)	-	31,407
Credit default swap - credit linked deposit (b)	-	12,679

(a) The Bank invested in debt securities that contain an embedded derivative. In case of default prior to maturity, the issuer can settle the notes with the delivery of Lebanese treasury bills.

(b) The Bank issued credit linked deposits for its customers with preferential interest rates. At maturity, the Bank can settle the deposits with the delivery of Lebanese treasury bills denominated in US Dollars ("USD"). These deposits are linked to the credit risk of the Lebanese treasury.

Embedded derivatives that cannot be independently transferred are accounted for with the host contract at fair value through profit or loss (considered as one instrument). For more information, refer to note 2.15.

10 Financial assets at amortised cost

	2013 LL Million	2012 LL Million
Listed debt securities		
- Eurobonds	**892,835**	812,671
- Other debt securities	**70,807**	54,351
	963,642	867,022
Unlisted debt securities		
- Lebanese treasury bills	**1,108,364**	964,333
- Certificates of deposit - BDL (denominated in LL)	**783,117**	829,443
- Certificates of deposit - BDL (denominated in USD)	**96,123**	200,757
- Certificates of deposit - commercial banks	**18,110**	18,101
- Securitisation funds	**24,815**	-
- Other debt securities	**64,553**	63,326
	2,095,082	2,075,960
Total investment securities at amortised cost	**3,058,724**	2,942,982
Current	**548,787**	528,960
Non-current	**2,509,937**	2,414,022
	3,058,724	2,942,982

All debt securities have fixed coupons.

The movement in investment securities at amortised cost is summarised as follows:

	2013 LL Million	2012 LL Million
At 1 January	**2,942,982**	2,941,002
Exchange differences on investment securities	**1,657**	208
Additions	**824,603**	553,747
Disposals (sale and redemption)	**(710,518)**	(551,975)
At 31 December	**3,058,724**	2,942,982

11 Investment in subsidiaries

	% ownership	2013 LL Million	2012 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.

(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 1,902 million (2012 – LL 1,808 million).

(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 5,098 million (2012 – LL 4,893 million).

12 Investment properties

	Land LL Million	Buildings LL Million	Total LL Million
At 1 January 2012	**5,747**	**218**	5,965
Reclassification of accumulated depreciation (note 13)	-	1,833	1,833
Transfer to property and equipment (note 13)	-	(129)	(129)
At 31 December 2012	**5,747**	**1,922**	**7,669**
At 31 December 2013	**5,747**	**1,922**	**7,669**

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

	2013 LL Million	2012 LL Million
Rental income (note 28)	**138**	127
Maintenance expenses (note 31)	**(163)**	(175)
	(25)	(48)

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 2012							
Cost or valuation	51,118	15,097	10,782	9,018	323	20,402	106,740
Accumulated depreciation	(12,642)	-	(8,170)	(5,725)	(121)	(12,731)	(39,389)
Net book amount	**38,476**	**15,097**	**2,612**	**3,293**	**202**	**7,671**	**67,351**
Year ended 31 December 2012							
Opening net book amount	38,476	15,097	2,612	3,293	202	7,671	67,351
Additions	819	3,412	2,675	1,083	109	2,417	10,515
Transfers from investment properties (note 12)	129	-	-	-	-	-	129
Disposals	-	-	(754)	(112)	(46)	-	(912)
Transfers	2,965	(3,789)	-	-	-	824	-
Depreciation charge (note 30)	(1,220)	-	(1,199)	(539)	(27)	(650)	(3,635)
Reclassification of accumulated depreciation (note 12)	(1,833)	-	-	-	-	-	(1,833)
Closing net book amount	**39,336**	**14,720**	**3,334**	**3,725**	**238**	**10,262**	**71,615**
At 31 December 2012							
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**

	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 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**

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

	2013 LL Million	2012 LL Million
Cost	**40,436**	35,564
Accumulated depreciation	**(6,305)**	(5,778)
Net book amount	**34,131**	29,786

In 1998 revaluation of land and building was performed by licensed independent valuers (and approved by the Central Bank of Lebanon). 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 tender 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 building has been performed since 1998. Accordingly, there were no transfers between levels up to 31 December 2013.

The preliminary assessment conducted by the Bank shows a revaluation surplus of approximately LL 70 billion (gross of applicable capital gain tax).

As at 31 December 2013, the resulting revaluation gain was not recorded in the Bank's financial statements.

14 Intangible assets

	Computer Software Licenses LL Million
At 1 January 2012	
Cost	6,465
Accumulated amortisation	(4,853)
Net book amount	**1,612**
Year ended 31 December 2012	
Opening net book amount	1,612
Additions	1,201
Amortisation charge (note 30)	(584)
Closing net book amount	**2,229**
At 31 December 2012	
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**

There were no capitalised borrowing costs related to the acquisitions that occurred during the year (2012 – nil).

15 Other assets

	2013 LL Million	2012 LL Million
Advances on purchases of property and equipment (i)	**10,402**	10,476
Electronic card facilities – not yet allocated to client accounts (ii)	**6,114**	3,407
Prepaid expenses	**1,922**	1,699
Receivable from National Social Security Fund (iii)	**2,124**	1,855
Other receivables	**4,071**	2,606
Doubtful receivables (iv)	**14,590**	14,310
Less: allowance for impairment	**(7,553)**	(7,553)
	31,670	26,800
Current	**18,438**	15,582
Non-current	**13,232**	11,218
	31,670	26,800

(i) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2012 - LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. In November 2011, the contractor obtained the license to start the construction.

(ii) This account represents transactions executed by the clients on their electronic cards but not yet allocated on 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 doubtful receivables of LL 2.9 billion (2012 - LL 2.7 billion) from one of the Bank’s money dealers. Management recorded a provision of LL 1.8 billion (2012 - LL 1.8 billion) to cover the expected loss. This account also includes an amount of LL 3.2 billion (2012 - 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. Moreover, this account includes amounts receivable from two employees of LL 8.4 billion (2012 - LL 8.4 billion), which were involved in fraudulent activities. Management recorded a provision of LL 2.5 billion (2012 - 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:

	2013 LL Million	2012 LL Million
At 1 January	**19,900**	21,463
Acquisitions during the year	**6,287**	-
Disposals during the year	**(556)**	(1,563)
At 31 December	**25,631**	19,900

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

In accordance with IFRS 5, assets held for sale are recorded at the lower of carrying value and fair value less cost to sell. 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.

17 Deposits from banks and financial institutions

	2013 LL Million	2012 LL Million
Deposits from banks	**166,806**	156,689
Deposits from financial institutions	**15,376**	55,798
Interest payable	**72**	1,225
	182,254	213,712
Current	**182,254**	207,102
Non-current	**-**	6,610
	182,254	213,712

Deposits from banks and financial institutions are classified as liabilities at amortised cost. Included in deposits from banks and financial institutions are fixed - interest deposits amounting to LL 182 billion (2012 - LL 207 billion) and variable - interest deposits amounting to nil (2012 - LL 6.6 billion).

18 Deposits from customers

	2013 LL Million	2012 LL Million
Term deposits	**4,765,772**	4,804,181
Current/settlement accounts (a)	**1,110,925**	1,029,818
Deposits from related parties (note 36)	**113,816**	109,614
Deposits held as collateral (b)	**767,133**	494,500
Interest payable	**27,070**	26,200
Deposits from customers	**6,784,716**	6,464,313
Current	**6,585,270**	6,240,554
Non-current	**199,446**	223,759
	6,784,716	6,464,313
(a) Current/settlement accounts:		
Checking and current accounts	**728,609**	677,731
Debtors accidentally creditors	**43,547**	36,005
Payment orders	**19,885**	20,564
Public sector deposits	**68**	111
Saving accounts - demand	**318,816**	295,407
	1,110,925	1,029,818
(b) Deposits held as collateral:		
Blocked accounts against credit facilities	**618,894**	440,414
Margins on speculation accounts	**2,868**	5,521
Margins against issuance of letters of guarantee	**29,574**	23,413
Margins against issuance of documentary credits	**115,797**	25,152
	767,133	494,500

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

19 Other liabilities

	2013 LL Million	2012 LL Million
Due to credit card institution (i)	**5,862**	5,077
Due to National Deposit Guarantee Institution	**2,940**	2,778
Withholding taxes and other charges	**2,476**	2,710
Due to employees	**2,098**	1,820
Accrued expenses	**2,037**	3,499
Due to National Social Security Fund	**616**	509
Dividends payable and interest payable on cash contribution to capital	**198**	216
Due to clients	**39**	110
Other provisions	**9,991**	5,824
Other liabilities	**1,457**	653
	27,714	23,196

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

(i) This account represents transactions executed by the clients through their credit cards and not yet settled by the Bank.

20 Retirement benefit obligations

Provision for retirement benefit obligations comprises the following:

	2013 LL Million	2012 LL Million
Provision for retirement benefit obligations	**23,908**	22,276
Advances against retirement benefit obligations	**(205)**	(205)
	23,703	22,071

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

	2013 LL Million	2012 LL Million
At 1 January	**22,276**	19,286
Charge for the year (note 29)	**2,275**	4,276
Payments during the year	**(643)**	(1,286)
At 31 December	**23,908**	22,276

The principal assumptions used were as follows:

	2013	2012
Discount rate	**9%**	8%
Future salary increases	**6%**	6%

The Bank contributes to the National Social Security Fund post-employment defined benefit plan. The plan entitles employees to receive a lump sum amount computed based on the number of years and their final salary.

21 Share capital and cash contributions to capital

	2013 LL Million	2012 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 non-cumulative redeemable shares (preferred shares 'B') with a nominal value of LL 1,000 each and at an issue price of LL 15,075 (USD 10 per share). These shares were fully issued and paid.

22 Other reserves and retained earnings

	2013 LL Million	2012 LL Million
Reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**63,206**	56,658
Reserve for unidentified banking risks (c)	**57,969**	48,969
Reserve for capital increase (d)	**2,905**	2,332
Reserve for liquidation of assets classified as held for sale (e)	**5,449**	4,719
Other reserves	**915**	682
	151,505	134,421
Retained earnings (f)		
Retained earnings – available for distribution ("REA")	**197,334**	166,559
Retained earnings – not available for distribution ("RENA")	**5,613**	5,452
	202,947	172,011

(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.

(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 requirements of BDL 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 accounts) as a reserve for unidentified banking risks. This reserve should be no less than 1.25 percent of the Bank's risk weighted assets by the end of 2017 and no less than 2 percent by the year 2027. This reserve is considered as part of Tier I capital, but 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) Retained earnings

	2013 LL Million	2012 LL Million
At 1 January	**172,011**	144,190
Profit for the year	**65,481**	64,986
Dividends declared (note 33)	**(17,460)**	(14,138)
Interest on cash contributions to capital (note 33)	**(1)**	(1,050)
Transfer to legal reserve	**(6,548)**	(6,499)
Transfer to reserve for unidentified banking risks	**(9,000)**	(8,345)
Transfer to reserve for liquidation of assets classified as held for sale	**(963)**	(903)
Transfer to reserve for capital increase (note 28)	**(573)**	(1,214)
Transfer for capital increase (a)	**-**	(5,016)
At 31 December	**202,947**	172,011

(a) On 9 March 2012, an extraordinary general assembly was held to increase the Bank's common shares through appropriation of LL 5.016 billion from retained earnings

Cumulative unrealised gains (gross of losses) are recorded under caption (''RENA") within the retained earnings and will become available for distribution (i.e. reclassified to REA) upon disposal.

Movement on RENA'S is summarised as follows:

	2013 LL Million	2012 LL Million
At 1 January	**5,452**	2,403
Unrealised gain on investment securities at fair value through profit or loss (note 26)	**1,492**	3,120
Revaluation gains related to investment securities sold (reclassified to REA)	**(1,331)**	(71)
At 31 December	**5,613**	5,452

23 Net interest and similar income

	2013 LL Million	2012 LL Million
Interest and similar income		
Loans and advances:		
- Customers	**129,942**	117,880
- Banks and financial institutions	**37,995**	27,125
- Loans and advances to related parties (note 36)	**299**	317
	168,236	145,322
Investment securities at fair value through profit or loss	**4,665**	7,131
Investment securities:		
- Amortised cost	**199,969**	217,440
	372,870	369,893
Interest and similar expenses		
Deposits from customers	**(249,992)**	(233,868)
Deposits from banks and financial institutions	**(722)**	(6,095)
Deposits from related parties (note 36)	**(4,639)**	(4,528)
	(255,353)	(244,491)

24 Net loan impairment charges

	2013 LL Million	2012 LL Million
Loans and advances to customers		
Reversal of impairment (note 7)	**6,588**	5,183
Increase in impairment allowance - collective (note 7)	**(3,958)**	(3,685)
Increase in impairment allowance- specific (note 7)	**(3,975)**	(8,003)
	(1,345)	(6,505)

25 Net fee and commission income

	2013 LL Million	2012 LL Million
Fee and commission income		
Credit-related fees and commissions	**10,816**	10,471
Commissions on banking operations	**10,202**	8,811
Commissions on letters of credit and guarantees	**8,573**	8,090
Commissions on transfers	**4,585**	2,144
Brokerage fees	**2,942**	2,501
Other	**544**	668
	37,662	32,685
Fee and commission expense		
Commissions on banking operations	**(3,088)**	(2,785)
Brokerage fees paid	**(1,704)**	(1,189)
Other	**(663)**	(191)
	(5,455)	(4,165)
Net fee and commission income	**32,207**	28,520

26a Net trading income

	2013 LL Million	2012 LL Million
Net gains on foreign exchange transactions (realised)	**7,300**	9,460
Net gains on foreign exchange translation (unrealised)	**5,123**	3,964
	12,423	13,424

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

	2013 LL Million	2012 LL Million
Unrealised loss on investment securities at fair value through profit or loss	**(2,921)**	(3,671)
Unrealised gain on investment securities at fair value through profit or loss (note 22)	**1,492**	3,120
Realised gain on sale of investment securities at fair value through profit or loss	**125**	831
Unrealised loss on financial liabilities held at fair value through profit or loss	**(888)**	-
	(2,192)	280

27 Net gain on investment securities at amortised cost

	2013 LL Million	2012 LL Million
Sale of investment securities amortised cost	**10,990**	2,274

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

- In January 2013, the Bank performed an exchange transaction with BDL on a portion of its certificate of deposits portfolio with a nominal value of LL 100 billion. This transaction included mainly certificates of deposits maturing in a short term period and generated a profit of LL 4.5 billion.
- In February 2013, the Bank performed an exchange transaction with BDL on a portion of its certificate of deposits portfolio with a nominal value of LL 100 billion. This transaction mainly included certificates of deposits maturing in a short term period 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 certificate of deposits portfolio with a nominal value of LL 120 billion. This transaction only included certificates of deposits maturing in a period not exceeding 6 months and generated a profit of LL 2.3 billion.

As for 2012, the Bank sold investment securities from its amortised cost portfolio for the following reasons:

- In February 2012, the Bank performed an exchange transaction with BDL on a portion of its debt securities portfolio with a nominal value of LL 7.5 billion. This transaction only included debt securities maturing in a period not exceeding 6 months and resulted in a loss of LL 0.03 billion.
- In January 2012, the Bank performed an exchange transaction with BDL on a portion of its unlisted treasury bills (“TBs”) portfolio with a nominal value of LL 20 billion. This transaction only included TBs maturing in a period not exceeding 6 months and generated a profit of LL 0.3 billion.
- In January 2012, the Bank performed an exchange transaction with BDL on a portion of its TBs portfolio with a nominal value of LL 15 billion. This transaction only included TBs maturing in a period not exceeding 6 months and generated a profit of LL 0.2 billion.
- In November 2012, the Bank performed an exchange transaction with BDL on a portion of its TBs portfolio with a nominal value of LL 68 billion. This transaction only included TBs maturing in a period not exceeding 6 months and generated a profit of LL 1.7 billion.

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

28 Other operating income

	2013 LL Million	2012 LL Million
Gain on disposal of assets classified as held for sale (note 22)	**573**	1,214
Loss on disposal of property and equipment	**(73)**	(76)
Rental income (note 12)	**138**	127
Other	**616**	480
	1,254	1,745

29 Personnel expenses

	2013 LL Million	2012 LL Million
Wages and salaries	**36,273**	33,800
Social security costs	**5,186**	4,428
Scholarship	**3,425**	2,250
Transportation	**2,343**	2,265
Pension costs - defined benefit plan (note 20)	**2,275**	4,276
Medical expenses	**1,313**	1,370
Training expenses	**397**	396
Other employee benefits	**3,958**	3,361
	55,170	52,146

30 Depreciation and amortisation charges

	2013 LL Million	2012 LL Million
Depreciation charge (note 13)	**4,125**	3,635
Amortisation charge (note 14)	**813**	584
	4,938	4,219

31 Other operating expenses

	2013 LL Million	2012 LL Million
Office supplies and utilities	**5,478**	5,605
Professional fees	**3,135**	2,856
Advertising expense	**3,122**	4,629
Deposit guarantee premiums	**2,942**	2,780
Software costs	**2,497**	1,599
Repairs and maintenance	**1,952**	2,022
Travel expense	**1,595**	1,499
Operating leases	**1,318**	1,193
Directors' remuneration (note 36)	**1,131**	1,124
Insurance expense (note 36)	**1,022**	851
Subscriptions	**1,030**	1,198
Municipality and other taxes	**878**	1,797
Directors' attendance fees (note 36)	**653**	711
Donations	**612**	836
Expenses related to investment properties (note 12)	**163**	175
Other	**6,691**	5,234
	34,219	34,109

32 Income tax expense

	2013 LL Million	2012 LL Million
Lebanon branches ("Head Office")	**11,207**	11,254
Foreign branches (Cyprus and Iraq)	**2,192**	2,769
Tax charge for the year	**13,399**	14,023

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Bank's domicile as follows:

	2013 LL Million	2012 LL Million
Profit before income tax	**78,880**	79,009
Tax using the domestic corporation tax rate of 15% (2012 - 15%)	**11,832**	11,851
Different tax rates in other countries	**(119)**	(333)
Add back charges not accountable for tax purposes:		
Differences between accounting and fiscal depreciation	**47**	86
Net unrealised loss on investment securities and financial liabilities	**348**	83
Donations and other provisions	**537**	1,984
Other	**754**	352
Income tax expense	**13,399**	14,023

The income tax rate applicable to Head Office income is 15% (2012 - 15%). The income tax rate applicable to Cyprus branch is 12.5% (2012 - 10%). As for Iraqi branches, profits are not subject to income tax.

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

	2013 LL Million	2012 LL Million
At 1 January	**5,419**	2,995
Charge for the year	**13,399**	14,023
Payments during the year	**(11,580)**	(11,599)
At 31 December	**7,238**	5,419

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

Lebanon branches ("Head Office")	**3,405**	2,829
Foreign branches (Cyprus and Iraq)	**3,833**	2,590
At 31 December	**7,238**	5,419

In 2014, the Bank incurred an additional tax amount of LL 3 billion following the inspection performed by the Ministry of Finance covering the years 2008 to 2011.

The fiscal years 2012 and 2013 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 for the year ended 31 December as follows:

	2013 LL Million	2012 LL Million
LL 70 (2012 - LL 55) per common share	**10,080**	7,920
LL 190 (2012 - LL 1,244) per preferred share (designated ''A'')	**950**	6,218
LL 804 per preferred share (designated ''B'')	**6,430**	-
	17,462	14,138

In addition the Bank paid interest on cash contribution of LL 1 million (2012 - 1.05 billion)

After the reporting date, the following dividends were proposed by the board of directors. These dividends have not been recognised as liabilities and there are no tax consequences.

	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.

	2013 LL Million	2012 LL Million
Cash and balances with Central Banks (note 5)	**358,039**	435,298
Deposits with banks and financial institutions (note 6)	**888,156**	962,343
	1,246,195	1,397,641

35 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings involving claims by and against the Bank at 31 December 2013, which arose in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to which Bank is party to have a significantly adverse effect on the balance sheet of the Bank.

(b) Loan commitments, guarantees and other financial facilities

At 31 December 2013, 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 as follows:

	2013 LL Million	2012 LL Million
Letters of guarantee (i)	**218,524**	198,761
Letters of credit	**144,408**	258,120
Loan commitment (unused facilities)	**95,885**	79,482
	458,817	536,363

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

	2013 LL Million	2012 LL Million
Guarantees given to customers	**135,437**	116,886
Guarantees against bank facilities	**83,087**	81,875
	218,524	198,761

36 Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 45% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon) which owns 37% of the ordinary shares. The remaining 18% 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)	
	2013 LL Million	2012 LL Million	**2013 LL Million**	2012 LL Million
Loans and advances (note 7)	**4,922**	5,976	**-**	-
Interest income (note 23)	**299**	317	**-**	-

No provisions have been recognised in respect of loans given to related parties (2012 - nil).

Loans and advances to related parties comprise loans with variable rates and fixed rates of LL 4.03 billion (2012 - LL 3.8 billion) and LL 0.89 billion (2012 - LL 2.2 billion) respectively. The majority of these loans are secured by real estate mortgages.

As stipulated by Code of Money and Credit article 12, and as the loans and advances to related parties exceed 1% of the Bank's Tier one capital (note 3.6), all 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)	
	2013 LL Million	2012 LL Million	**2013 LL Million**	2012 LL Million
Deposits (note 18)	**36,566**	38,099	**77,250**	71,515
Interest expense (note 23)	**1,753**	2,891	**2,886**	1,637

Deposits from related parties are unsecured and comprise deposits with variable rates (repayable on demand), and fixed rates (repayable at maturity) of LL 20.6 billion (2012 - LL 18.9 billion) and LL 93.2 billion (2012 - LL 90.7 billion) respectively.

Interest incurred on related parties balances totaled LL 4,639 million (2012 – LL 4,528 million).

(c) Other transactions with related parties

	2013 LL Million	2012 LL Million
Insurance expense – Bank (note 31)	**1,022**	851
Insurance expense – staff	**432**	271
Cost of other services received	**546**	531
Commissions paid	**14**	14

(d) Key management compensation

Directors' remuneration (note 31)	**1,131**	1,124
Directors' attendance fees (note 31)	**653**	711
Other key management compensation	**2,807**	2,249

04

NETWORK

2013

NETWORK

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National Bank of Abu Dhabi

Amman
Jordan Ahli Bank Plc

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

Madrid
BBVA SA

Milano
Intesa Sanpaolo SpA

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.

Vienna
Unicredit Bank Austria AG

Zurich
Credit Suisse

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.