بنك بيروت ش.م.ل.

Bank of Beirut s.a.l.

Banking Beyond Borders

Annual Report 2014

ANNUAL REPORT 2014

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Chairman´s Message

Chairman's Message

"IN 2014, WE EXTENDED OUR CONSISTENT TRACK RECORD OF CREATING EXCEPTIONAL VALUE FOR OUR SHAREHOLDERS AND OUR STAKEHOLDERS."

THE YEAR IN RETROSPECTIVE

The political climate and historically volatile conditions prevalent in the Levant continued to dampen business sentiment and economic prospects. Despite this, Lebanon's financial sector remained robust. The majority of Lebanese banks already surpass the capital adequacy ratio established by Basel III and the Central Bank's conservative regulations shielded the sector which remained the cornerstone of the Lebanese economy and its flagship.

PERFORMANCE DELIVERED

In 2014, Bank of Beirut once again achieved profitable growth across all key areas. The outstanding execution by our strategic business units is even more notable, particularly in the Levant, when measured against a backdrop of historically challenging conditions.

OUTSTANDING 2014 HEADLINE NUMBERS

- Record profitability, an all-time high, reaching USD 176 million, a 20.9% leap from 2013;
- Assets grew to USD 14.915 billion, an increase of 9.53%, reflecting a USD 835 million rise in our deposit base to USD 11.147 billion;
- Loans advanced by USD 375 million (+9.96%) to USD 4.174 billion.
- We perpetuated for seven years running our undisputed number one rank in Lebanon in Trade Finance, with USD 6.2 billion in letters of credit opened in 2014 and a market share of some 30%.

SIMULTANEOUSLY PRESERVING AND IMPROVING OUR INCOME, EARNINGS AND BALANCE SHEET QUALITY

Significant operational quality highlights include:
- Increasing liquidity to 80.6%
- Restricting net non-performing loans over total assets to 29 basis points at the 2014 year end, a particularly noteworthy result;
- Building Bank of Beirut's Capital Adequacy Ratio to 14.45%, well in excess of Basel III standards;
- Containing our Cost to Income Ratio at 43.15%, even after taking into account the opening of new branches, together with a 7.51% increase in our workforce.

The strategy of diversification across revenue streams proved worthy, as foreign affiliates and local subsidiaries registered outstanding growth. Group income was distributed across diversified business units with significant increases from Bank of Beirut – Lebanon, +14.74%; Bank of Sydney, +77.52%; Bank of Beirut – Oman, +26.11%; Bank of Beirut – Cyprus, +35.80%; Beirut Life, +57.60%; BoB Finance, +82.66%; and BoB Invest, +29.49%.

DELIVERING AND EXCEEDING SHAREHOLDER EXPECTATIONS

- Dividends per common share increased to USD 0.597, a 4.77% rise on 2013;
- Bank of Beirut common shares closed at a weighted average price of USD 18.62 producing Returns on Average Common Equity (ROCE) of 16.24% and Average Assets of 1.23% (ROAA).

A PE Ratio of 8.91 reflected the market's confidence in Bank of Beirut.

CUSTOMER CENTRIC BANKING

Our mandate and our priority is to understand and anticipate today's customers' needs. Listening and proposing **award-winning** solutions defines Bank of Beirut's Customer Centric banking philosophy.
- **Best Premium Banking Service** for our Premium Club by the Banker Middle East, a service line developed for distinguished clients seeking wealth and lifestyle management, best-in-class term deposit rates, and dedicated banking assistance;

- Banker Middle East also heralded our fidelity program as **Best in the Levant**, rewarding our customers for every banking transaction, the industry's most flexible redemption program.

Bank of Beirut also can be proud of the best SME cards in the Levant; an outstanding solution for entrepreneurs and SMEs with convenient payment solutions, expenditure management and responsive lending facilities.

DEPLOYING EFFECTIVE TECHNOLOGY AND INNOVATION WITH SECURITY

We continue to innovate, advance and benefit through our technology. In 2014 Group technology implementations included:
- 24/7 high tech HD walls;
- Smart ATMs with superior functionality;
- EMV smart chip cards;
- ATMeye camera cardless interface;
- ATM university tuition functionality.

Further Bank of Beirut technology developments will include leading-edge ATM user experiences and best in class security solutions.

CORPORATE SOCIAL RESPONSIBILITY

A measure of success for any institution organization is the imprint it leaves on society.

In line with our pledge to support education and thanks to a long-standing partnership with AMIDEAST, we continue to provide university students with access to mentorship and coaching, helping to prepare for a better future.

In 2014 we renewed our engagement with humanitarian and social initiatives working with charitable organizations in Lebanon, including key cultural initiatives aimed at preserving the unique heritage of the Lebanese people. We have in addition considerably contributed to the development and growth of rural areas where our Bank has a presence.

OUTLOOK FOR 2015 AND BEYOND

It is truly an honor to lead the Bank of Beirut Group, and to work with such fine men and women, both locally and internationally. While we have clearly executed effectively on our growth strategy to date, we will not become complacent. We will seek continuous improvement. In order to achieve this, we will infuse, train and grow our pool of talented people.

We place great value on strong and enduring relationships with our customers, supported by the principles of prudent banking. A win-win proposition.

We have momentum; we have a differentiated plan, and both the resources and the resolve to drive Bank of Beirut forward in 2015, and in the years to come.

Salim G. Sfeir
Chairman of the Board - CEO

Bank of Beirut at a Glance

Brief History

With a well-targeted focus, Bank of Beirut has not only grown to become one of today's leading commercial banks in Lebanon, but has also proved to be a pioneer in more than one field. After taking the lead in "Super Affluent Net-Worth Specific Services in Lebanon" according to Euromoney Private Banking and Wealth Management Survey; and receiving Zawya Funds Ranking Award for its "Beirut Golden Income Fund II and winning the "Best CSR Initiative", Bank of Beirut was recognized in 2014 as the "Fastest Growing Bank in Lebanon" by "Banker Middle East" magazine.

Bank of Beirut adopted its present name in 1970, 7 years following its establishment as a commercial bank. In 1993, the 5-branch Bank was acquired by a group of businessmen and bankers, headed by the current Chairman - CEO, Mr. Salim G. Sfeir. Its strategic alliances with regional Arab banking institutions and acquisitions have enhanced its market position and leveraged its expertise into local and regional markets. Bank of Beirut, 35th bank in Lebanon in 1993, and one of Lebanon's five banks listed on the Beirut Stock Exchange in 1997, has climbed up to reach the 7th position today by assets with 62 branches in Lebanon and 22 spanning 4 continents.

In 2005, Bank of Beirut established "BOB Finance s.a.l.", a wholly owned financial institution regulated by the Central Bank of Lebanon; in 2007, Bank of Beirut Invest s.a.l., an independent wholly owned specialized banking subsidiary, was created; in 2009, BoB Finance was appointed one of two exclusive Agents of Western Union in Lebanon; and in 2011, "Beirut Life Co.", an insurance company offering a full array of life insurance services, was initiated. In 2012, the new (corporate identity and logo) reflecting the restyled brand image were adopted, and in 2013, B-Smart, the first virtual branch, opened its doors.

The primary activities of Bank of Beirut include retail banking services; commercial, corporate and correspondent banking services; as well as trade finance services and asset management services targeting high net-worth customers in both domestic and regional markets. Acknowledged in the list of the "Fastest Movers" banks in the world, Bank of Beirut is the leading provider of cash management services to commercial clients in Lebanon.

On the international level, Bank of Beirut provides commercial banking services in the United Kingdom and throughout Europe through its wholly owned subsidiary, Bank of Beirut (U.K.) Ltd, regulated by the Financial Conduct Authority (FCA). The Bank also operates a branch in Germany (Frankfurt); a branch in Cyprus (Limassol) regulated by the Central Bank of Cyprus; four branches in the Sultanate of Oman (Muscat, Ghubrah , Sohar and the Waves) regulated by the Central Bank of Oman; a representative office in the United Arab Emirates (Dubai) to service the Gulf region; a representative office in Nigeria (Lagos); a representative office in Iraq (Baghdad); a representative office in Libya (Tripoli); and a representative office in Ghana (Accra) in addition to a subsidiary in Australia, Bank of Sydney LTD., previously Beirut Hellenic Bank Ltd. with a network of 16 branches located in Sydney, Melbourne, and Adelaide, regulated by the Australian Prudential Regulatory Authority ("APRA").

Mission and Values

Integrity and Trust are our guiding values.
We abide by the highest ethical standards and the strictest privacy and confidentiality when conducting any kind of transaction.
We strive to build long-lasting relationships by satisfying the evolving needs of our customers.
We attempt to meet the requirements of our clients by developing first-class services and products.
We make every effort to upgrade our services to reach the highest level of excellence.
We offer our most valuable asset, our second-to-none dedicated staff, a congenial work environment and development opportunities.
We strive to be a leading participant in the regional economic development of the community wherever Bank of Beirut is present.

Corporate Governance Guidelines

Introduction

Given the vital role of banks in the Lebanese economy, as well as the impact of good governance on the successful standing of these institutions, the following guidelines were developed in adherence with the policies set forth by Central Bank of Lebanon, the Banking Control Commission and the Association of Banks in Lebanon.

Bank of Beirut Corporate Governance is driven by the Board of Directors' principal responsibility to act in good faith and with prudence while abiding by a set of values and standards that promote the stakeholders' interests.

Governance Framework

Bank of Beirut faithfully operates under corporate governance policies and practices designed to ensure that the Bank performance maximizes long-term shareholder value.

The Governance framework of the Bank is documented in the "Corporate Governance Guidelines" and the charters of the Board Audit Committee, the Board Risk & Compliance Committees and the Board Credit Committee, all of which are subject to continuous review and fine-tuning when deemed necessary. These guidelines hinge on the evolving needs and expectations of depositors, regulators, investors and the market at large.

The Board of Directors has overall responsibility to Bank of Beirut; this responsibility is not limited to approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values, but also includes enforcing adequate, effective, and independent controls. The Board authority is presently vested in eight individuals and one corporation, two of which comprise Managing Directors while the remaining seven are non-executive members.

The Board Audit Committee (BAC) promotes compliance with regulatory requisites as well as transparency of financial statements and reports.

The Board Risk & Compliance Committee (BRCC) evaluates and manages all key business risks by administering policies and procedures.

The Board Credit Committee (BCC) is the highest credit approval authority at the Bank, and its main function is the Approval/Ratification of any commercial credit request exceeding USD 1,000,000.

Seventeen other management committees, each functioning according to its own charter, focus on specific day-to-day operations of the Bank:

1. Management Committee
2. Asset/Liability Management Committee
3. Credit Committee
4. Credit Committee for Financial Institutions
5. Anti-Money Laundering and Counter-Financing of Terrorism Committee
6. Asset Recovery Committee
7. Real Estate Committee
8. Foreign Affiliates Committee
9. Retail & Branches Committee
10. Products and packages committee
11. Marketing and Communication Committee
12. Human Resources Committee
13. Information Technology Committee
14. Investment Committee for Funds and Structured Products and Derivatives
15. Operational Risk management Sub-Committee
16. Corporate Information Security Sub-Committee
17. Corporate Business continuity Committee

The Bank has established a Code of Conduct Policy divided into six major themes: General Principles, Business Ethics, Confidentiality, Conflicts of Interest, Business Relationships, and Protection of the Bank's Assets. It is the Board's prerogative to ensure these tenets.

Corporate Governance and Business Principles

Bank of Beirut has consistently operated under corporate governance policies and practices that are designed to ensure that the performance of the Bank is always geared towards maximizing long-term shareholder value.

The Governance framework of the Bank is documented through the formally adopted "Corporate Governance Guidelines" and the Board and Management Committees' Charters, which are subject to continual updating and refinement as the Board may deem necessary in view of adapting to its needs and to the expectations of depositors, regulators, investors and the markets generally.

The Board of Directors has overall responsibility to Bank of Beirut, including approving and overseeing the implementation of the Bank strategic objectives, risk strategy, corporate governance and corporate values; and ensuring that adequate, effective, and independent controls are in place.

In bearing his share of the collective responsibilities of the board, each board member has a “duty of care” and a “duty of loyalty” to the Bank.
Under the direction of the Board, the Senior Management ensures that the activities of the Bank are consistent with the business strategy, risk tolerance/appetite and policies approved by the Board.

In discharging its overall responsibilities, Bank of Beirut Board of Directors:

- Approves the overall business strategy of the Bank, taking into account its long-term financial interests and safety
- Approves and oversees the implementation of the Bank overall risk strategy and policy and approves the Bank risk management framework
- Approves the compliance policy and the internal control systems
- Approves significant corporate actions, and recommends the General Meeting of Shareholders to pass the appropriate resolutions in this respect whenever needed
- Reviews regularly major policies and processes and controls with Senior Management and/or internal control functions
- Ensures that the control functions are properly positioned, staffed and resourced and that they carry out their responsibilities independently and effectively
- Ensures that related party transactions are performed at arm’s length and approved by the Board and the shareholders in compliance with applicable laws and regulations
- Adopts a set of corporate values and a code of ethics
- Approves credit lines that exceed the internal lending limit

Composition of the Board of Directors

Members of the Board of Directors of Bank of Beirut s.a.l. were elected by the General Assembly of Shareholders held on April 23, 2014, for a term expiring in 2016.

The Board of Director currently comprises nine members.
The majority of the Board members are non-executive/independent Directors; the criteria for the selection of new Directors include unquestionable integrity and character, successful professional background, and the ability and willingness to commit adequate time to the Bank.

The Bank´s Committees

The Bank day-to-day activities are managed through various Committees that have been established with specific missions, authorities and responsibilities.

The Bank has Seventeen Committees including, among others, the Board Audit Committee, the Board Risk & Compliance Committee, the Management Committee, ALCO and the Credit Committee as more fully described below. The Board is fully apprised of all important decisions governing the Bank’s overall operations as submitted and recommended by the various Committees.

Board Audit Committee

Main Functions
The Board Audit Committee (“BAC”) is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the process for monitoring compliance with laws and regulations.

Members
The members of the Board Audit Committee are 4 Independent Non-Executive Board Members and the Head of Internal Audit.

Meetings
The Committee meets once each quarter and with the external auditors at least once a year.
The Board Audit Committee holds, at least once a year, a private meeting with the Head of Internal Auditor in the absence of Management members/executives.

Responsibilities
- Validates the Audit Charter developed by the Internal Audit Department, including the mission and scope of work, independence, responsibility and authority of Internal Audit function, as well as the reporting lines to the Board of Directors
- Reviews and agrees on the annual Audit Plan (once a year)
- Agrees on the appointment and remuneration of the Head of Internal Audit
- Agrees on the Internal Audit budget and resources to support the necessary audit effort
- Assesses the findings and recommendations raised by the Internal Audit Department
- Ensures the adequacy and the effectiveness of the internal control systems of the Bank
- Ensures that internal control policies and procedures (including Anti-Money Laundering procedures) have been developed and studies recommendations for their enhancement
- Assesses the reliability and accuracy of the financial information reported to management and external users
- Ensures that a proper follow up has been established to implement the decisions of the Board of Directors, and that Management is monitoring the effectiveness of the internal control system
- Reviews, on a regular basis, the relationship between Management and Internal and External Auditors.
- Discusses external auditors’ findings as well as the conclusions and the recommendations raised in their reports
- Evaluates the external auditors’ performance for the preceding fiscal year, and reviews their fees
- Reviews the Bank’s compliance with legal and regulatory provisions

Board Risk & Compliance Committee (˝BRCC˝)

Main Functions
The Board Risk & Compliance Committee oversees all Risk Management and Compliance activities carried out throughout the Bank to identify, evaluate and manage all key business risks.
The Committee also ensures that systems, policies and procedures are in place to manage these risks and that all risk issues that exceed the internal set trigger limits are referred to the Board of Directors.

Members
The Board Risk & Compliance Committee consists of a minimum of three Board members of which at least one is independent and non-executive, the other members being all non-executives:
- Deputy Chief Executive Officer
- 3 Non-executive Board Members
- Chief Risk Officer
- Head of Risk Management Department
- Head of Compliance Department

Meetings
The Board Risk & Compliance Committee meets at least every quarter.

Responsibilities
- Formulates a strategy for the assumption of risk and the management of capital in order to be in line with the business objectives of the Bank
- Reviews and recommends to the Board, once a year at least, the Internal Capital Adequacy Assessment Process (ICAAP) document
- Develops an internal Risk Management Framework and ensures that sound policies are implemented for the management of the eight risk areas which are: Credit, Liquidity, Market, Operational, Legal, Strategic, Business and Reputation Risks
- Manages and reviews all the risks covered by the ALCO and the Credit Committee with a particular focus on Operational Risk, Legal Risk, Reputational Risk, Strategic Risk and Credit Portfolio Risk.
- Ensures that adequate policies are in place for all the main risks covered and that the bank’s internal risk limits are strictly abided by.
- Ensures that the Bank is always in conformity with Basel requirements
- Reviews regularly the progress in the implementation of the risk strategy and submits recommendations for remedial action in case of weakness in the implementation

- Reviews the annual report set by the Head of the Risk Management Division and addressed to the Board
- Reviews the AML/CFT policy & procedures on implementing the provisions of the Law on fighting money laundering and other applicable CBL rules and regulations
- Reviews Compliance reports prepared by the Head of Compliance, which include the extent to which the Bank is compliant with various laws and regulations

Board Credit Committee

Main Functions
The Board Credit Committee is the highest credit approval authority at the Bank and its main function is to approve/ratify all the commercial credit requests exceeding USD 1,000,000.

Members
The Board Credit Committee comprises 5 members:
- Chairman – Chief Executive Officer
- Vice Chairman
- Deputy Chief Executive Officer and Board Member
- 2 Board Members

Meetings
The Committee meets on need basis.

Responsibilities
- Decides (for ratification) on all credit applications exceeding USD 1,000,000 based on a summary prepared by the Credit Division, including the facilities existing v/s proposed, outstanding balances, conditions, securities, highlights on financials, account activity with BoB and briefing on customer's activity and need for facilities in addition to Guarantors net worth (where applicable)
- Forms and delegates all or a portion of its authorities to subcommittees (such as the Credit Committee)

Management Committee

Main Functions
The Management Committee is the highest executive body in charge of overseeing the day-to-day operations of the Bank.

Members
The Management Committee comprises 8 members:
- Chairman - Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Commercial Banking Officer
- Chief Credit Officer
- Chief Administration Officer
- Chief Risk Officer
- Chief Financial Officer
- Chief Information Officer

Meetings
The Management Committee meets on quarterly basis and may also meet more frequently.

Responsibilities
- Sets the global strategic plan along with the corporate objectives of the Bank
- Follows up on the Action Plan of all the Bank Divisions and Departments
- Follows up on the progress of all IT projects
- Discusses any new project, including but not limited to: Merger/Acquisition, Partnership Agreement, Investments in companies / financial institutions, establishment of banks abroad, opening of new branches, new activity at the Bank (leasing, factoring, etc.)
- Follows up on the decisions of a number of other Committees established to provide the Senior Management with a more effective monitoring of specific areas of operations.

Bank of Beirut at a Glance

Asset/Liability Management Committee (ALCO)

Main Functions
The assets and liabilities of Bank of Beirut are managed to maximize shareholder value while protecting the institution from any financial consequences arising from adverse changes in exchange rates and interest rates.

Members
ALCO comprises 5 members:
- Chairman – Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Risk Officer
- Chief Financial Officer
- Director - Head of Global Markets Division

Meetings
The committee meets once a week and may meet more frequently.

Responsibilities
- Sets the financial objectives of the Bank and follows up on the overall performance as compared to budget and the Peer Group
- Reviews reports on liquidity risk, market risk and capital management
- Identifies balance sheet management issues, such as, balance sheet gaps, interest rate gaps/profiles etc. that lead to under-performance
- Determines funding strategy and reviews deposit-pricing for the local market
- Reviews the liquidity contingency plan for the Bank
- Determines the Bank's investment strategy and the proprietary portfolio (trading, available-for-sale and investment)
- Monitors the compliance with approved regulatory ratios (mainly capital adequacy and liquidity)
- Manages the Bank's capital in terms of hedging (structural FX position), allocation, and risk level
- Approves the granting of limits to financial institutions whether in Lebanon or abroad (correspondents)

Credit Committee

Main Functions
- Decides on credit applications up to an aggregate limit of USD 1,000,000 based on the analysis and recommendations of the Credit Division and approves any excess over limits related to any commercial file
- Decides on the classification and rating of loans and approves the transfer of problematic accounts to the Loan Recovery Department
- Forms and delegates all or a part of its authorities to subcommittees, subject to the Board's approval
- Approves, whenever requested, any commercial file related to foreign branches
- Oversees the administration and effectiveness of the Bank's credit policies through the review of such processes, reports and other information as it deems appropriate
- Ensures that the Bank's lending policies are adequate and that lending activities are conducted in accordance with applicable laws and regulations
- Monitors the performance and quality of the Bank's credit portfolio through the review of selected measures of creditworthiness, trend, or any other information deemed appropriate
- Approves target market(s) based on industry concentration and risk acceptance criteria and allocates lending resources among diversified activities

Members
- Chairman of the Board - CEO
- Deputy CEO
- Chief Commercial Banking Officer
- Chief Credit Officer

Meetings
The Credit Committee meets on need basis; however, files are usually signed through circulation.

Credit Committee for Financial Institutions

Main Functions
The CCFI is the sole credit approval authority for Banks and Financial Institutions at Bank of Beirut s.a.l.
Its main function is the approval of all limits to banks and other financial institutions up to an aggregate limit per bank not exceeding 10% of Bank of Beirut's shareholders' equity.

Members
The Credit Committee for Financial Institutions includes:
- Chairman – Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Credit Officer
- Chief Commercial Banking Officer
- Chief Executive Officer of the relevant foreign subsidiary who requested the limit

Meetings
The Committee meets on ad hoc basis upon the request of the Chairman-CEO.

Responsibilities
- Decides on credit applications based on the study prepared by the Financial Institutions Unit at the Credit Division at the request of the Correspondent Banking Department or the recommendation of the Credit Committee of Bank of Sydney or the recommendation of the Management Committee of BOB-UK.
- Approves Banks and Financial Institutions files presented by overseas branches
- Approves any excess over limits related to any bank limit, provided it is temporary and specific to a given transaction
- Ensures the compliance with the relevant lending policies to Financial Institutions
- Monitors the performance and quality of the Bank's correspondents and financial institution exposure through the review of selected measures of creditworthiness, trend or any other information deemed appropriate
- Approves target market(s) based on the potential to build business, business recurrence, geographic ties, culture, and risk acceptance criteria, and thus allocates lending capacity among diversified activities

Anti-Money Laundering (AML) & Counter Financing of Terrorism (CFT) Committee

Main Functions
The AML/CFT Committee ensures that Bank of Beirut Group (domestic and overseas branches, affiliates, subsidiaries and representative offices) complies with relevant AML/CFT laws and regulations, and their related internal policies and procedures.
The Committee is responsible for overseeing the Group's AML/CFT policies and procedures and their implementation, as well as the application of various AML/CFT laws and regulations pertaining to each jurisdiction where the Bank has direct presence in terms of banking practice.

Members
The AML/CFT Committee comprises:
- Nominee of the Chairman Chief Executive Officer to act in his stead – Chairman of the Committee
- Head of Compliance Department
- Chief Risk Officer
- Chief Administration Officer
- Head of Internal Audit Department
- Director - Head of Retail & Branches Division

Meetings
The AML/CFT Committee meets at least once a month

Responsibilities
- Reviews/Approves the AML Manual on implementing the provisions of the Law on Fighting Money Laundering and other applicable CBL rules and regulations
- Reviews/Approves a KYC form for customer identification ensuring adequate financial and banking operational controls to avoid involvement in money laundering operations
- Ascertains the proper implementation and effectiveness of AML/CFT policies, procedures and regulations
- Reviews policies, procedures and regulations related to fighting money laundering and terrorism financing, and keeps up with modern methods and developments
- Reviews/Approves a staff training program on the methods of controlling financial and banking operations in accordance with the legal and regulatory texts
- Reviews the reports submitted by the Compliance Department and Internal Audit on suspicious/unusual operations and high-risk accounts, regarding cash deposits/withdrawals, transfers and the link between these operations and economic activities
- Comments on the reports and takes the decision of reporting suspicious cases to the Special Investigation Commission
- Monitors, when the operation exceeds ten thousand US dollars or its equivalent, the adequacy of exemption procedures and determines the exemption ceiling and modifies it according to developments in the client's economic situation

Asset Recovery Committee

Main Functions
The Asset Recovery Committee assists the Loan Recovery Department in maximizing the recovery of value and minimizing the costs on the Bank problematic loan portfolio.

The Committee evaluates workout solutions for loans (whether commercial or retail) and decides on the settlement method.

Members
The Asset Recovery Committee comprises 5 members:
- Chairman – Chief Executive Officer
- Vice Chairman
- Deputy Chief Executive Officer
- Chief Credit Officer
- Head of Loan Recovery Department

Meetings
The Committee meets on a monthly basis and more often when necessary.

Responsibilities
- Analyzes and decides upon the workout strategy on the problematic loans presented by the Loan Recovery Department
- Approves the transfer of files from the Loan Recovery Department to the Legal when intending legal actions
- Approves write-offs upon recommendations from the Loan Recovery Department
- Analyzes the statistical data of the Loan Recovery and follows up the evolution of the portfolio
- Approves waiving or reducing penalty interests, commissions and/or legal fees upon cash settlement of the loan
- Approves capital cancellation
- Approves rescheduling of Non-Performing Loans
- Approves the foreclosing of assets against debts provided no other feasible settlement proposal is forthcoming

Real Estate Committee

Main Functions
The Real Estate Committee assists the Real Estate Department in managing the portfolio of foreclosed properties.

Members
The Real Estate Committee consists of 5 members:
- Chairman – Chief Executive Officer
- Vice Chairman
- Deputy Chief Executive Officer
- Chief Credit Officer
- Head of Real Estate Department

Meetings
The Committee meets on monthly basis and may also meet when necessary.

Responsibilities
- Follows up on the foreclosed property database and administration
- Follows up on the registration of foreclosed properties in the Bank's name
- Follows up on the auction results for foreclosed properties
- Approves the sale of foreclosed properties in both terms of pricing and credit conditions

Foreign Affiliates Committee

Main Functions
- Reviews and comments the business plans, budgets, financial statements and documents submitted by the affiliates
- Requests the affiliates to take the appropriate remedial measures and to verify their proper implementation in case of sub-par performance or any risk issue
- Proposes, when needed, the dispatch of a team to the affiliates with the intention of on-site assessment of their strategy, performance, results and risks
- Provides the parent company Board with summaries of minutes of its meetings, accompanied with the quarterly report (business letter) to be submitted by each affiliate
- Ascertains that regulations are appropriately implemented by the management of each affiliate

Members
The Foreign Affiliates committee consists of:
- Chief Risk Officer
- Head of Internal Audit Department
- Head of Branches Operations
- Financial Manager

Meetings
The Foreign Affiliates Committee meets on a quarterly basis.

Retail & Branches Committee

Main Functions
The Retail & Branches Committee assists the Retail & branches Division in developing its business whether in terms of products, clients or performance.

Members
The Retail & Branches Committee comprises 6 members:
- Chairman – Chief Executive Officer
- Deputy Chief Executive Officer
- Director - Head of Retail and Branch Division
- Chief Risk Officer
- Head of Branch Network
- Head of Products & Package Development

Meetings
The Committee meets at least twice a month and may also meet when necessary.

Responsibilities
- Discusses the Retail Banking Division annual business plan and ensures that it is in conformity with the financial objectives set by the Asset / Liability Management Committee and the strategic objectives set by the Management Committee
- Follows up on Retail Banking Performance as compared to the established budget and takes the necessary measures to improve this performance
- Approves the launching of any new product/activity or the amendment of an existing product
- Approves the pricing of products whether standard or special
- Approves the targeted clients with respect to corporate sales

Products & Packages Committee

Main Functions
The products & packages committee monitors and reviews the development of new product strategies market trends and business strategy execution with regard to product environment.

Members
The products & packages committee comprises:
- Head of Retail & Branch Division – Committee Chair
- Head of Product & Package Development
- Head of Branch Network
- Head of Cards Business
- Head of Segments Sales Units
- Head of E-banking & Contact Center
- Head of Cards Services
- Head of Marketing & Communications
- Head of Product & Package Development

Meetings
The Committee meets on monthly basis or when necessary upon the call of its committee chair

Responsibilities
- Approves launching of new products
- Assesses the need to create/update/delete segments and products
- Defines sales targets and KPI's for segments and products
- Validates the product packages and pricing for the segments
- Obtains insights on customers' feedback from distribution channels

Marketing and Communication Committee

Main Functions
The MARCOM Committee assists and evaluates the MARCOM function in developing its brand marketing and communication strategy, both externally and internally, be it corporate and/or retail nature.

Members
The Marketing & Communication Committee comprises 5 members:
- Chairman – Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Commercial Banking Officer
- Director – Head of Retail and Branches Division
- Head of Marketing and Communications

Meetings
The Committee meets at least once a month.

Responsibilities
- Discusses the MARCOM department annual business/ MARCOM plan and ensures that it is in conformity with the financial & strategic objectives set by the Management Committee
- Follows up on MARCOM Performance as compared to the established budget and adopts the necessary measures to improve this performance
- Approves the launching of any new initiative or the amendment of an existing MARCOM campaign
- Approves the pricing of MARCOM campaigns that are related to the corporate brand and/or product or related to external and/or internal communication

Human Resources Committee

Main Functions
The Human Resources Committee is responsible for reviewing, assessing, and approving the Human Resources Strategy and ensuring that it is aligned with the overall Vision, Values and Strategy of the Bank.

Members
The Human Resources Committee comprises 4 members:
- Chairman - Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Administration Officer
- Head of Human Resources Department

Meetings
The Committee meets at least twice a month.

Responsibilities
- Follows up on the implementation of the Human Resources Strategic Plan
- Reviews and approves any modifications related to employee key policies, including recruitment, training, education, time and attendance, dress code and conduct
- Reviews the key HR Systems of the Bank (Salary Scale, Grading system, Bonus Distribution Model, Performance Appraisal system, etc.) on regular basis
- Monitors the Talent Management and Succession Planning strategies of the Bank
- Monitors and orients the employee disciplining directives and policies of the Bank and makes the final decisions in employee separation cases
- Supports and facilitates the building of the Bank Culture and nurtures the sense of belonging for all employees

Information Technology Committee

Main Functions
The Information Technology Committee is responsible for the IT strategy, policies and procedures; it is in charge of ensuring that the decisions meet Central Bank of Lebanon (CBL), Banking Control Commission (BCC) and external regulatory standards.

Members
The Information Technology Committee consists of 6 members:
- Chairman Chief Executive Officer
- Deputy Chief Executive Officer
- Chief Risk Officer
- Chief Financial Officer
- Chief Information Officer
- Chief Administration Officer

Meetings
The Committee meets at least once a month and when necessary.

Responsibilities
- Reviews, approves and monitors, at least once a year, the Bank Information Technology Strategy ensuring it is aligned with its Business Strategy
- Prioritizes all strategic projects according to a project investment dashboard that assesses each IT-related investment proposal based on business budget, outcomes and priorities
- Controls the preparation and implementation of the Master Plan
- Ensures that the transition of projects to operational status is properly planned and managed taking into account impacts on business and operational practices as well as existing IT systems and infrastructure
- Ensures that a culture of good governance of IT exists in the Bank by obtaining proof from the IT management of compliance with IT policies and procedures
- Monitors the performance of IT through appropriately developed Key Performance Indicators and Scorecards
- Ensures that Information Technology decisions conform with CBL, BCC and other external obligations including BASEL II, IFRS, Anti-Money Laundering and other legislations and laws
- Evaluates benefits and risks regarding emerging technologies
- Evaluates the technology risks through Key Risk Indicators, and makes recommendations pertaining to that area to the Bank Risk Committee
- Ensures adherence to, and when necessary, recommends modifications to information technology priorities, organization, and planning
- Ensures that IT policies and procedures are written, up-to-date and well implemented
- Ensures that complete support (human, technical and financial) is provided for the implementation of an Information Security Management System aligned with ISO 27001 and PCI DSS
- Ensures that business continuity and disaster recovery plans are implemented and followed in line with the Business Continuity Strategies and Recovery Objects approved by the Business Continuity Committee
- Approves and monitors the IT Department organization and decides on matters concerning the skills, deployment and advancement of technology specialists
- Approves any technology expenditure write-offs and any expenses in excess of US $100,000
- Reviews, approves and monitors all foreign entities IT strategic investments, group IT Governance and related regulatory country practices
- Reviews, approves, supports and monitors BoB Finance and Beirut Life/Brokers IT strategic capital investment and IT operational support

Investment Committee for Funds and Structured Products & Derivatives

Main Functions

- Launching and marketing of:
  - Structured products (whether or not capital guaranteed) the return of which is usually linked to the evolution of a given liquid underlying (Interest Rate, Equity Index, Basket …) Linked (or not) to a deposit program or any other type of Financial Products
  - Structured Products or products derived from any securitization operations
  - Certificates and Securities generating returns derived from commercial papers, capital gains on (or dividends received from) stocks or coupons received on bonds
  - Funds whether closed or open-ended
- Following up on the performance of the structured products and the funds and ensuring that the Investments are in line with the Fund's own Investment Policy in terms of products, concentration, leverage, and risk/return profile
- Ensuring full transparency to the investors, providing a full detailed description of the products and financial instruments, with expected returns and returns calculation and the risks that investors are exposed to presenting a detailed term sheet with terms and conditions to be signed by the potential investors

Members

- Director – Head of Global Markets Division
- Head of Asset Management
- Chief Risk Officer
- Chief Financial Officer

Meetings

The Investment Committee meets periodically and on need basis

Operational Risk Management Committee

Main Functions

The Operational Risk Management Committee reviews, discusses and coordinates the various issues related to Operational Risk Management process to ensure better management and measurement of the various related operational risks.

Members

The Operational Risk Management Committee comprises:

- Chief Administration Officer - Chairperson
- Chief Information Officer
- Head of Head Office Operations
- Head of Branch Solution
- Chief Risk Officer
- Head of Internal Audit Department

Meetings

The Committee meets on quarterly basis and when needed.

Responsibilities

- Reviews and approves Operational Risk Management policies across Bank of Beirut's Group
- Puts in place a framework to identify, assess, monitor and mitigate operational risks
- Reviews and discusses Operational Risk Management incidents reports to coordinate the needed support to deal with risk events and implement needed control measures
- Supports the implementation of new systems in relation to Operational Risk Management with the purpose of improving the Operational Risk Management environment
- Coordinates major initiatives to enhance the Operational Risk Management environment while ensuring that all guidelines and procedures are properly implemented
- Reviews operational risk assessments of new products/services/banking activities as prepared by the Operational Risk Department and works with respective management to close all operational risk concerns before the project is initiated.

Corporate Business Continuity Committee

Main Functions

The business continuity committee oversees and empowers the implementation of a Business Continuity Management program at the Bank and ensures that proper plans, expenditures and initiatives are taken to ensure that the Bank operational resiliency and business continuity objectives are continuously preserved and aligned with the overall business strategy and objectives.

Members

The business continuity committee comprises:

- Chief Administration Officer (CAO, Committee Chairman)
- Chief Risk Officer
- Chief Financial Officer
- Chief Information Officer
- Chief Credit Officer
- Director Retail and Branches Division
- Director - Head of Global Markets Division
- Head of Human Resources Department
- Head of Corporate Information Security & Business Continuity

Meetings

The Committee meets on annual basis and upon the request of any of its permanent members, whenever the need arises or in the event of the occurrence of a crisis or disaster situation.

Responsibilities

- Ensures the compatibility of the Business Continuity Management (BCM) Framework with the strategic direction of the Bank
- Defines / reviews the scope of Business Continuity Management (BCM).Approves and thereafter supports the implementation of the (BCM) throughout the Bank and Group branches
- Reviews and approves Business Continuity Plans and strategies across the Bank and Group branches
- Reviews Business Impact assessments and approves the resulting recovery objectives
- Approves and enforces recovery priorities of divisions, departments, services and products
- Oversees the creation, implementation, maintenance and testing of business continuity plans
- Provides the business input and support needed by the BCM program
- Communicates the importance of effective business continuity management and conforms to the BCM program requirements
- Provides adequate resources and expenditures to the BCM program
- Acts as the responsible body during a disaster or crisis in order to take the necessary decisions and ensures the effective implementation of business continuity plans

The Group

Organisational Structure

Bank of Beirut s.a.l.

Branches	Representative offices	Subsidiaries	
Cyprus Branch	Dubai (UAE)	Bank of Beirut Invest s.a.l.	100%
Muscat Branch Sultanate of Oman	Lagos (Nigeria)	BoB Finance s.a.l.	100%
Sohar Branch Sultanate of Oman	Baghdad (Iraq)	Beirut Brokers s.a.r.l.	100%
Ghubrah Branch Sultanate of Oman	Tripoli (Libya)	Bank of Sydney Ltd., Previously Beirut Hellenic Bank	100%
The Wave Branch Sultanate of Oman		Frankfurt Branch ◄ 100% Bank of Beirut (UK) Ltd.	100%
62 branches in Lebanon		Beirut Life Co. ◄ 90% Cofida Holding s.a.l.	100%

Board of Directors

Mr. Salim G. Sfeir
Chairman of the Board and CEO

Mr. Adib S. Millet
Vice-Chairman

Mr. Fawaz H. Naboulsi
Deputy CEO

Mr. Antoine A. Abdel Massih
Member

Emirates Bank P.J.S.C.
Represented by Mrs. Loubna Kassem - Member

H.E. Anwar M. El-Khalil
Member

Mr. Rashid Al-Rashid
Member

Mr. Antoine Y. Wakim
Member

Mr. Krikor E. Sadikian
Member

Management Abroad

Subsidiaries

United Kingdom
Bank of Beirut (UK) Ltd.
Managing Director and CEO: Sophoklis Argyrou

Germany (UK subsidiary branch)
Bank of Beirut UK Ltd. – Frankfurt Branch
General Manager: Karl-Friedrich Rieger

Australia (16 branches in Sydney, Melbourne and Adelaide)
Bank of Sydney Ltd., (Previously Beirut Hellenic Bank Ltd.)
CEO: Julie Elliott

Branches

Cyprus
Bank of Beirut – Cyprus Branch
Manager: Walid K. Gholmieh

Sultanate of Oman
Bank of Beirut – Sultanate of Oman Branches
(Muscat, Ghubrah , Sohar and The Wave)
Country Manager: Remy F. Zambarakji

Representative Offices

UAE
Bank of Beirut Dubai Representative Office
Chief Representative in UAE for the Gulf Region:
Balsam H. Al Khalil

Nigeria
Bank of Beirut Representative Office (Nigeria) Ltd.
Manager: Camille R. Chidiac

Iraq
Bank of Beirut Baghdad Representative Office
Representative: Ameer Kassem Abdel Hamid

Libya
Bank of Beirut Tripoli Representative Office
Representative: Mourad Belkassem Belhaj

The Subsidiaries

Bank of Beirut Group Entities and Subsidiaries:

- Bank of Beirut Invest s.a.l.
- Beirut Brokers s.a.r.l
- BoB Finance s.a.l.
- Beirut Life Co.
- Bank of Beirut (UK) Ltd.
- Bank of Sydney Ltd.

Subsidiaries

Bank of Beirut Invest s.a.l.

Established in 2007, Bank of Beirut Invest is the investment arm of the Group. It is fully owned by the Bank and subscribes to brokerage and capital market operations, asset and funds management, and lending the private sector on a long term basis; thereby increasing the role of the Bank as a major driver in the Lebanese economy. In addition to its long-term investment strategy, Bank of Beirut is specialized in the housing loan business, making it a first of its kind private investment bank in Lebanon with a highly qualified team to serve the real estate growing needs of Lebanese residents and expatriates.
Address:
Beirut - Riyad El Solh Street - Bank of Beirut Bldg. – Lebanon - Tel: 961 1 980222 | 333 - P.O.Box: 11-5522 Beirut

Beirut Brokers s.a.r.l.

Beirut Brokers s.a.r.l, a private insurance consultancy firm, represents the Bank's insurance arm that provides consultancy insurance services to corporate, institutional and individual customers by offering them a wide range of Bancassurance products in partnership with Bank of Beirut.
Address:
Jdeideh - Nahr el Mot Highway - Le Boulevard bldg - 9th & 10th floor – Tel: 961 1 900403 | 503 | 406 | 506

BoB Finance s.a.l.

BOB Finance s.a.l. is a financial institution governed by articles 178 to 182 of the Code of Money and Credit as well as by the regulations of the Central Bank of Lebanon. BOB Finance s.a.l. can engage in among other activities, lending, brokerage, as well as portfolio and asset management.
In 2009, BOB Finance was appointed as a Western Union Agent in Lebanon and has developed a network of over 700 sub-agents spread across Lebanon. In addition to the Money Transfer service, BoB Finance offers a variety of bill collection services, and has recently launched its C2B & B2C services, which target companies having receivables or payables. It is worth noting that Western Union Money Transfer service is available at all Bank of Beirut Branches.
Address:
Horch Tabet, Ste Rita Street - Daaboul Bldg. - Tel: 961 1 486504 | 507 - P.O. Box 11-7354

Beirut Life Co.

Launched in April 2012, "Beirut Life" is Bank of Beirut's Life Insurance Company offering the best array of life insurance products and services. Beirut Life s.a.l. provides the Bank with key opportunities to access the under-exploited Lebanese insurance market in terms of distinctive Life insurance products. Beirut Life offers securities, such as retirement plans and life insurance plans, aimed at protecting Bank of Beirut customers and their families against the financial impacts of life, death or disability.
Bank of Beirut is committed to innovation in products, services and technology. Beirut Life's software platform allows direct solutions at the Bank counters as well as the purchase of most of the insurance plans online. Beirut Life's objective is to build and sustain supreme financial capabilities to pay claims promptly, to accumulate healthy reserves and to generate benchmark profits for its shareholders. The company bears calculated risks, deals with renowned reliable reinsurers and prices its products fairly and competitively; but above all, it bonds with its customers through transparent products, providing value for their money and an outstanding service to better protect their own lives and those of their families.
Address:
Jdeideh - Nahr el Mot Highway - Le Boulevard bldg. - 9th & 10th floor – Tel: 961 1 900403 | 503 | 406 | 506

Bank of Beirut (UK) Ltd.

Bank of Beirut (UK) Ltd was incorporated in the United Kingdom in 2002 with a paid-up share capital of GBP 34.2 Million. It is the only Lebanese-owned bank with a full deposit taking license to operate in the UK. Bank of Beirut s.a.l. owns 100 % of the share capital of Bank of Beirut (UK) Ltd.

Bank of Beirut (UK) Ltd is authorized and regulated by the Financial Services Authority (FSA) under authorization number 219523. The Bank is a member of the Financial Services Compensation Scheme and is subject to the jurisdiction of the Financial Ombudsman Service.

Bank of Beirut (U.K.) Ltd commenced its operations on 9 December 2002, upon acquiring the business activities, assets and liabilities of the United Kingdom branch of Beirut Riyadh Bank S.A.L., established in London in 1981.

In October 2009, a full service office was opened in Frankfurt. Operating as a branch of Bank of Beirut (UK) Ltd, Frankfurt office is the only branch of a Lebanese-owned bank in Germany. It holds a full banking license granted by the FCA in UK and the BaFin in Germany and focuses primarily on corporate trade finance and correspondent banking services.

Address:

17a Curzon Street - London W1J 5HS - Tel: +44 (0) 207 529 1852

Bank of Sydney Ltd.

Bank of Sydney, formerly known as Beirut Hellenic Bank, was launched on 6 May 2013. The Board rebranded it as Bank of Sydney to reflect the image of a bank of choice to multicultural Australia. The Bank has customers and distribution channels across Australia as well as 16 branches in Sydney, Melbourne and Adelaide, offering customers relationship banking based on personal, flexible and competitively-priced services. Our team works closely with its customers in an effort to understand and meet their individual needs.

Bank of Sydney maintains a healthy loan-to-deposit ratio, a strong capital position and an enviable track record of outstanding credit quality offering customers added assurance and peace of mind. As an Australian deposit taking institution, the Bank is eligible for the Australian Government Deposit Guarantee. It boasts a highly experienced Trade Finance Division with an in-depth understanding of the Middle East and Mediterranean regions.

Address:

Sydney City Branch, Laiki Bank House, Level 4, 219-223 Castlereagh Street, 2000 Australia, Sydney - Tel: +61 2 8262 9000

Management Discussion and Analysis

INTRODUCTION

Bank of Beirut s.a.l. ("BOB") is a full-fledged Bank offering universal banking products and services covering Corporate, Commercial, Individual and Private Banking Services to a diversified client base. The Bank has operations in Lebanon, Europe, Australia, Middle East and Africa region. The Bank was incorporated as a commercial bank on 19 August 1963, under the name of "Realty Business Bank SAL". The Bank is registered in the Beirut Commercial Register under No. 13187 and on the Banks' List at the Central Bank of Lebanon, under No. 75. The Bank's Head Office is located in Foch Street, Bank of Beirut Building, Beirut Central District, Lebanon.

The Bank is one of the leading banks in Lebanon. At the end of 2014, the Bank ranked seventh among Lebanese banks as per major banking aggregates, namely in Assets, Deposits and sixth in Loans and fourth in Equity and third in Net profit.

The Bank, together with its banking and other subsidiaries, is engaged in a wide range of banking and financial activities in Lebanon and other Middle East countries, the United Kingdom, Germany, Cyprus, the United Arab Emirates, Sultanate of Oman, Australia, Iraq, Nigeria, Ghana and Libya. Through its presence in other countries, the Bank has been able to expand and diversify its income, assets and loan portfolio outside Lebanon and to widen the sources of its deposit base.

The Bank maintains one of the largest branch networks in Lebanon, with currently 62 branches, as well as one branch in Cyprus and four branches in Sultanate of Oman ("Oman"). Bank of Beirut (U.K.) Ltd. the Bank's wholly owned subsidiary based in the United Kingdom has one branch in London and another branch in Frankfurt. Bank of Sydney in Australia (previously Beirut Hellenic Bank), the Bank's fully owned subsidiary, was acquired in early 2011 and currently operates 16 branches. The Bank also operates a representative office located in Dubai, United Arab Emirates, to service the Gulf region; two representative offices located in Lagos, Nigeria and Accra, Ghana to cater for West Africa; a representative office located in Baghdad, Iraq and a representative office in Tripoli, Libya. The Bank has currently four wholly owned subsidiaries in Lebanon, BOB Finance SAL, Bank of Beirut Invest SAL, Beirut Broker Company SARL, Cofida Holding SAL, the latter owns 90% of Beirut Life SAL.

BASIS OF PRESENTATION

The analysis that follows highlights the Bank of Beirut consolidated performance for the year ended 31 December 2014, as compared to year 2013.
Financial information included in this report has, unless otherwise indicated, been derived from the Bank's audited consolidated financial statements as at and for the year ended 31 December 2014.
The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee and the regulations of the Central Bank of Lebanon ("CBL") and the Banking Control Commission ("BCC"), and include the results of the Bank and its consolidated subsidiaries. Deloitte & Touche and DFK Fiduciare du Moyen-Orient have audited the bank's consolidated financial statements for the year ended 31 December 2014.
The consolidated financial statements of Bank of Beirut s.a.l. include the Bank's financial statements, its foreign branches (Oman & Cyprus) and enterprises controlled by the Bank (its subsidiaries).

The consolidated subsidiaries consist of the following:

Subsidiary	Country of incorporation	Year of acquisition or incorporation	Percentage of Ownership	Business Activity
Bank of Beirut (UK) Ltd	United Kingdom	2002	100.00%	Banking
Bank of Beirut invest SAL	Lebanon	2007	100.00%	Investment Banking
Beirut Brokers Co. SARL	Lebanon	1999	100.00%	Insurance brokerage
BOB Finance SAL	Lebanon	2006	100.00%	Financial institution
Cofida Holding SAL	Lebanon	2008	100.00%	Holding
Beirut Life SAL	Lebanon	2010	90.00%	Insurance
Bank of Sydney Ltd.	Australia	2011	100.00%	Banking

The new IFRS 10 changes the definition of control to focus on whether an investor (a) has the power over the investee, (b) is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns.
As a consequence, the Group has changed its control conclusion in respect of the mutual funds managed by the Group entities. The following mutual funds have been consolidated with the Group financial statements:

Mutual Fund	Country of incorporation	Year of incorporation	Date of Liquidation
International Mix Fund	Lebanon	2005	Aug - 13
Beirut Preferred Fund	Lebanon	2006	May - 13
Beirut Lira Fund II	Lebanon	2009	Feb - 14
Beirut Golden Income II	Lebanon	2009	Aug - 14
Beirut Opportunities Fund	Lebanon	2009	Oct - 14
Excess Return Fund	Lebanon	2010	Aug - 13
Optimal Investment Fund	Lebanon	2010	
Beirut Preferred Fund II	Cayman Island	2013	

Unless otherwise indicated, all figures are expressed in LBP

References to the Bank's peer group are to the Alpha Bank Group consisting of the 14 banks with total deposits in excess of USD 2.0 billion each, as determined by Bankdata Financial Services WLL (Publishers of Bilanbanques).

YEAR 2014 PERFORMANCE OVERVIEW

Despite the economic slowdown in Lebanon, Bank of Beirut strengthened its franchise through good average growth in total assets and deposits underpinned by good performance of its international business and sustained growth within the Lebanese market. Over the years, the Bank has built an international presence which supports its ability to be the leading trade finance bank in the country and to cater to Lebanese expatriate communities. The gross income and profit at both the operating and net levels increased at a faster rate comparative to the peer.

The achieved growth has been in line with the long-term strategy adopted by the Bank to diversify its business activities towards a universal banking model and to expand regionally and internationally in profitable and relatively low-risk countries. It is to be noted that the Bank's long-term strategy is to attain a balanced breakdown of profits through activities in Lebanon and abroad.

The performance was characterized by remarkable growth in all main financial indicators. Capitalizing on the large branch network and the diversified product range, the Bank has achieved gains in market shares in both commercial and retail businesses, while maintaining its position as a leader in the Trade Finance line of business.

On consolidated basis, the Bank's total assets reached as at 31 December 2014 LBP 22,482 billion (USD 14.9 billion), growing by 9.53% year-on-year. The growth in size was mainly funded by the growth in deposits and equity.

	Balances		Growth	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%
Total Assets	20,527	22,484	1,957	9.53%
Customers' deposits	15,545	16,804	1,259	8.10%
Loans to Customers	5,722	6,292	570	9.96%
Shareholders' Equity	2,298	2,735	438	19.06%
Net profit	219	265	46	20.91%

PEER GROUP ANALYSIS

Bank of Beirut has been able to improve its peer group shares in most indicators and improved its ranking within the Alpha Group of Banks:

	Year 2014 Growth		BOB Group Share		BOB Ranking	
Description %	BOB	Peer	2013	2014	2013	2014
Total Assets	9.53%	10.33%	7.72%	7.67%	6	7
Customers' deposits	8.10%	9.46%	7.01%	6.92%	6	7
Loans to Customers	9.96%	11.75%	7.02%	6.91%	6	6
Shareholders' Equity	19.06%	12.27%	9.97%	10.57%	5	4
Net profit	20.91%	9.13%	8.47%	9.38%	5	3

On the other hand, Bank of Beirut has been able to achieve the following outstanding rankings as at 31 December 2014 within the peer group:

- Ranking 1st in "Equity to Asset ratio", indicating the high level of capitalization
- Ranking 1st in loan portfolio quality ratios, namely "Gross doubtful loans to gross loans", "Gross NPLs to Gross Loans", denoting the conservative management of the credit risk.
- Ranking 1st in Letters of Credit exposure, with a peer group share of 33.65%, evidencing the leading position in the Trade Finance business in the market.
- Ranked 2nd in Shareholders' Equity and Profits' Growth during year 2014
- Ranked 2nd in Return on Average Assets
- Ranked 3rd in Cost to Income ratio

A- BALANCE SHEET MANAGEMENT

The composition and size of the balance-sheet and contingent liabilities reflect the Board of Directors overall growth objectives and the risk appetite/tolerance for the group. The group strategy targets a sustainable growth, good financial standing while adopting a conservative risk management framework and adequate corporate governance guidelines.

a- Sources and Uses of Funds

Sources of Funds

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Deposit from banks and financial inst.	1,681	1,794	114	6.76%	8.19%	7.98%
Customers' deposits	15,545	16,804	1,259	8.10%	75.73%	74.74%
Liabilities under acceptance	368	382	14	3.81%	1.79%	1.70%
Other borrowings	298	484	185	62.10%	1.45%	2.15%
Certificates of Deposit	30	1	(30)	-97.75%	0.15%	0.00%
Other liabilities & provisions	307	284	(23)	-7.37%	1.49%	1.26%
Shareholders' equity	2,298	2,735	438	19.06%	11.19%	12.17%
Total	20,527	22,484	1,957	9.53%	100.00%	100.00%

The main source of funds was generated from customers' deposits which represented at the end of year 2014 74.74% of the funding sources, as compared to 75.73% at the end of 2013.

The customers' deposit base grew by LBP 1,259 billion in 2014 (+8.10%) while the Equity caption increased by LBP 438 billion (+19.06%) and its share increased to 12.17% at end of December 2014, as compared to 11.19% at year-end 2013. The increase in "Other borrowings" caption was mainly derived from facilities by central banks. The funding from banks and financial institutions increased during the year by LBP 114 billion.

Uses of Funds

The Bank's strategy places emphasis on maintaining high asset quality and a strong investment securities portfolio. While each entity of the group is abiding by the local regulations, and as part of the group risk management framework, the assets structure is subject to internal limits in terms of business lines, financial instruments, counter-party concentration and geographical distribution.

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Cash and deposits at Central Banks	4,088	4,273	184	4.51%	19.92%	19.00%
Deposit with banks and financial inst.*	2,409	2,298	(110)	-4.57%	11.73%	10.22%
Loans and Advances	5,722	6,292	570	9.96%	27.88%	27.98%
Customers' acceptance liability	368	382	14	3.81%	1.79%	1.70%
Investment securities	7,597	8,884	1,287	16.93%	37.01%	39.51%
Property and equipment	142	151	10	6.82%	0.69%	0.67%
Other assets	112	115	3	2.49%	0.55%	0.51%
Goodwill	89	89	(0)	-0.12%	0.43%	0.39%
Total	20,527	22,484	1,957	9.53%	100.00%	100.00%

* including loans to banks

The main utilization of funds was:

Loans to customers
Growing by LBP 570 billion, a growth of 9.96%, the share of the loan portfolio represented 27.98% of total assets as at 31 December 2014, as compared to 27.88% at the end of 2013.

Cash & Central Banks
Increasing during the year by LBP 184 billion (+4.51%) and representing 19.00% of total assets as at 31 December 2014, as compared to 19.92% at year-end 2013.

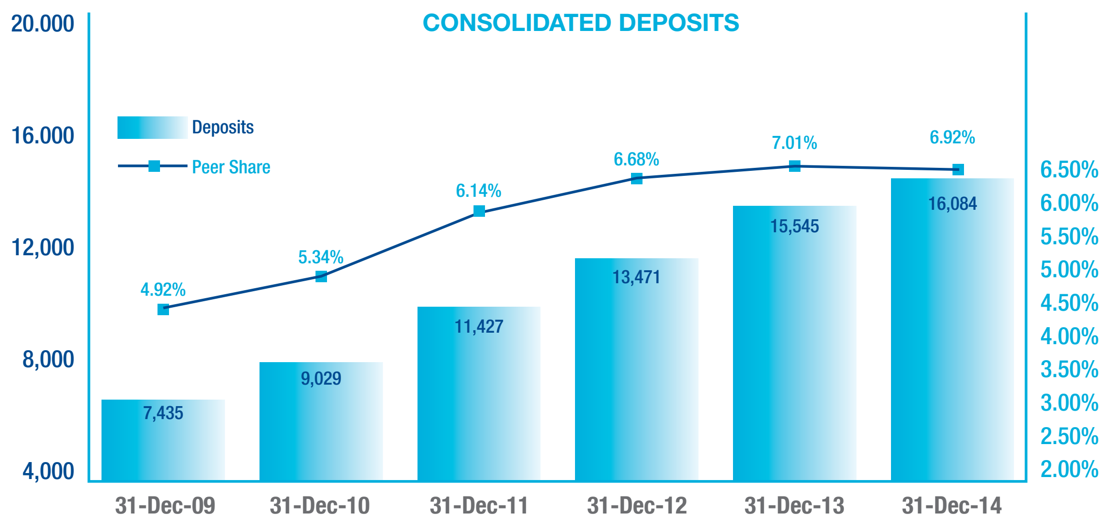
Due to banks and financial institutions
Decreasing slightly during the year by LBP 110 billion (-4.57%) and representing 10.22% of total assets as at 31 December 2014 as compared to 11.73% at year-end 2013.

Investment Securities
Increasing by LBP 1,287 billion (+16.93%) and representing 39.51% of total assets as at 31 December 2014 as compared to 37.01% at year-end 2013.

b- Customers' Deposits

Constituting the main funding source, the consolidated deposits base increased during year 2014 by LBP 1,259 billion, a year-on-year growth of 8.10%.

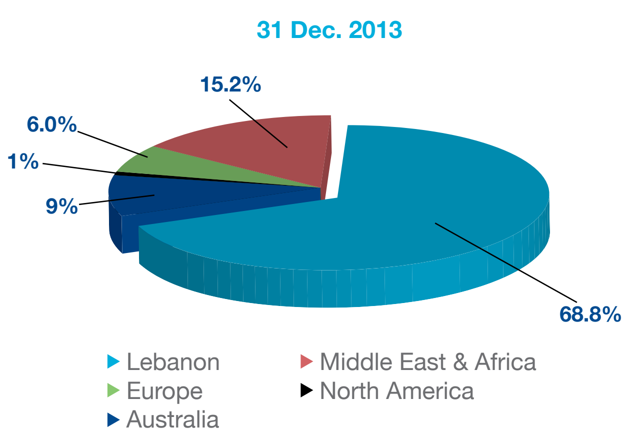
On consolidated basis, Bank of Beirut Group slightly underperformed the Alpha Group growth rate of 9.43%. Consequently, the Bank has been able to maintain its peer group share at 6.92%, slightly lower than 7.01% as at 31 December 2013.

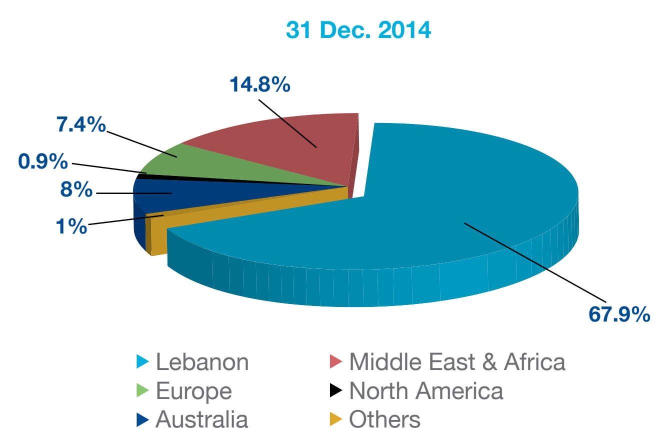


Geographical Distribution of Deposits

An analysis of customers' deposits by geographical area distribution reveals that the growth was largely contributed to Lebanon with a LBP 717 billion (+6.71%) with a remarkable growth in Europe for 34.32%. the slight increase in Australia was in fact related to the devaluation of the AUD against the USD.

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Lebanon	10,693	11,410	717	6.71%	68.78 %	67.90%
Middle East & Africa	2,365	2,484	119	5.04%	15.21%	14.78%
Europe	928	1,247	319	34.32%	5.97%	7.42%
North America	158	149	(9)	-5.60%	1.02%	0.89%
Australia	1,229	1,338	109	8.89%	9.02%	7.96%
Others	173	176	3	1.82%	0.00%	1.05%
Total	15,545	16,804	1,259	8.10%	100%	100%





Distribution by Type of Deposits

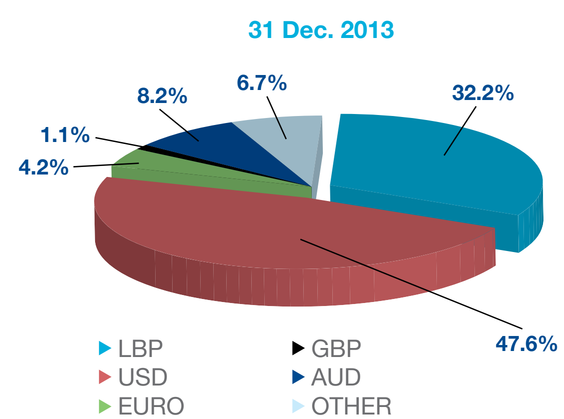
The breakdown of deposits by type has been relatively stable in 2014, with term deposits continuing to reflect the lion's share of 80.36% of total deposits as at 31 December 2014:

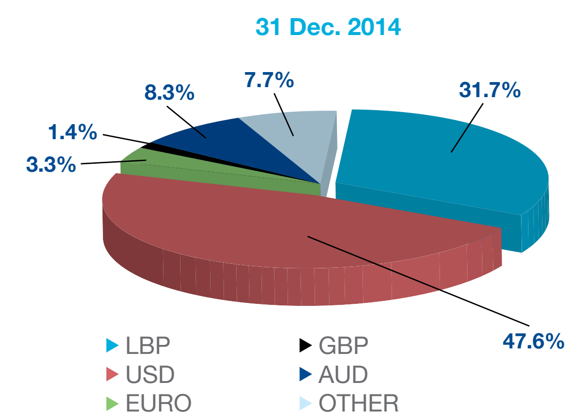
	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Demand deposits	1,726	2,055	329	19.09%	11.10%	12.23%
Term deposits	12,656	13,503	847	6.69%	81.41%	80.36%
Collateral against loans	907	971	64	7.11%	5.83%	5.78%
Margins on LCs	68	35	(33)	-48.45%	0.44%	0.21%
Margins on LGs	53	100	47	89.44%	0.34%	0.59%
Other margins	47	43	(4)	-9.14%	0.30%	0.25%
Accrued interest	90	97	7	8.23%	0.58%	0.58%
Total	15,545	16,804	1,259	8.10%	100.00%	100.00%

Deposits Distribution by Currency

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
LBP	5,010	5,323	313	6.25%	32.23%	31.68%
USD	7,398	8,000	602	8.14%	47.59%	47.61%
Euro	647	559	(88)	-13.66%	4.16%	3.32%
GBP	174	228	55	31.62%	1.12%	1.36%
AUD	1,273	1,392	119	9.33%	8.19%	8.28%
Other	1,043	1,302	258	24.75%	6.71%	7.75%
Total	15,545	16,804	1,259	8.10%	100.00%	100.00%

The LBP denominated deposits augmented by LBP 313 billion in 2014, recording an annual growth rate of 6.52%. From a foreign currency viewpoint, the USD continued to hold the largest share and registered a significant growth during 2014 by LBP 602 billion. The dollarization rate stood at 68.32% at the end of year 2014, as compared to 67.77% at year-end 2013.





c- Loans to Customers

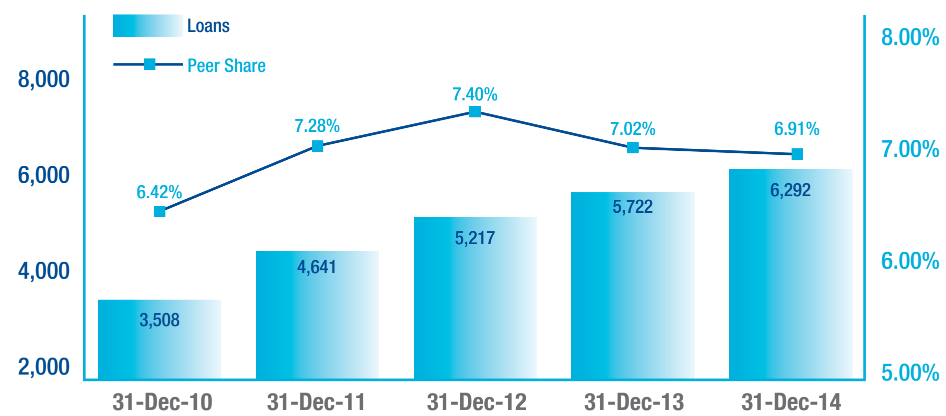
The loan to customers portfolio increased by LBP 570 billion in 2014, reaching LBP 6,292 billion, compared to LBP 5,722 billion at the end of year 2013.

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Regular loans to customers	5,604	6,182	579	10.33%	97.93%	98.26%
Regular loans to related parties	129	105	(24)	-18.64%	2.25%	1.66%
Substandard loans (net)	16	16	1	4.04%	0.27%	0.26%
Doubtful and bad loans (net)	13	49	35	265.37%	0.23%	0.77%
Collective provisions	(39)	(60)	(21)	52.88%	-0.69%	-0.95%
Total	5,722	6,292	570	9.96%	100.00%	100.00%

As clearly shown, the increase was mainly derived from the regular loans to customers.

The Bank's year-on-year growth of 9.96% slightly underperformed the 11.75% peer group growth rate achieved in 2014. Consequently, the peer group share has been declined from 7.02% in 2013 to 6,91% in 2014.

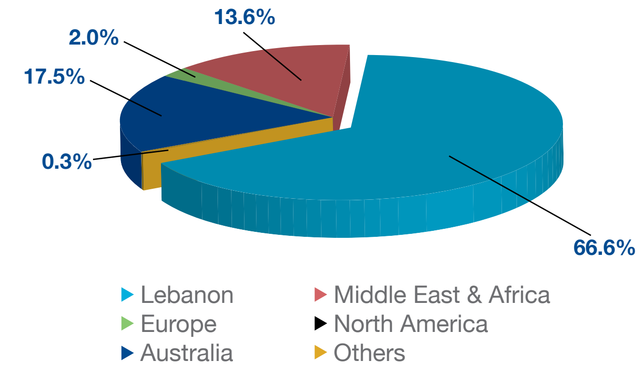
CONSOLIDATED LOANS



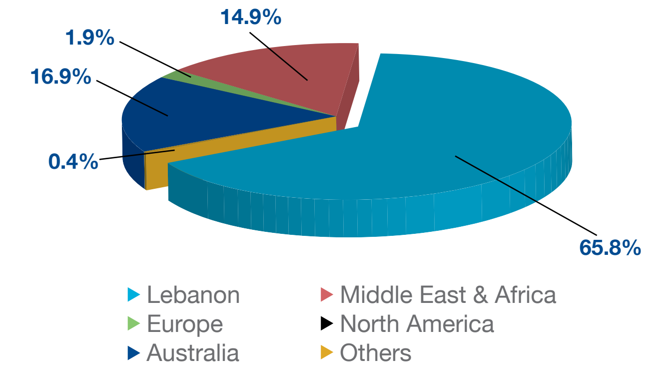
Distribution by Geographical Area

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Lebanon	3,812	4,143	331	8.68%	66.62%	65.84%
Middle East & Africa	777	935	158	20.27%	13.58%	14.86%
Europe	112	122	10	9.25%	1.95%	1.94%
North America	0	2	2	3106.56%	0.00%	0.04%
Australia	1,004	1,066	62	6.18%	17.55%	16.95%
Others	17	24	7	39.00%	0.30%	0.38%
Total	5,722	6,292	570	9.96%	100.00%	100.00%

31 Dec. 2013



31 Dec. 2014



Loans Distribution by Currency

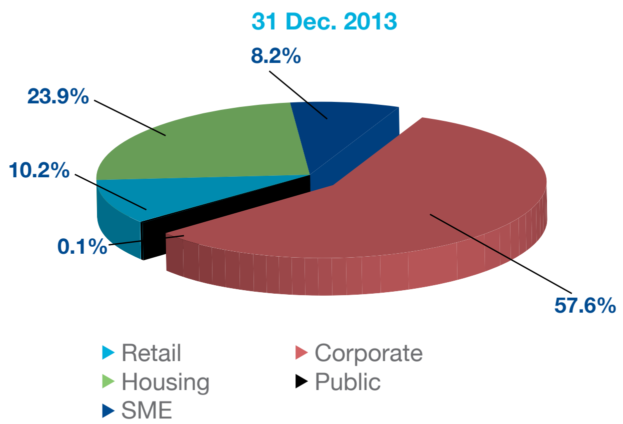
The LBP denominated Loans augmented by LBP 244 billion in 2014, recording an annual growth rate of 22.24%, mainly derived from the increase in housing loans. On the foreign currency side, the USD continued to hold the largest share and registered a significant growth during 2014 by LBP 246 billion.
The dollarization rate stood at 78.69%% at the end of year 2014, as compared to 80.83% for the peer group

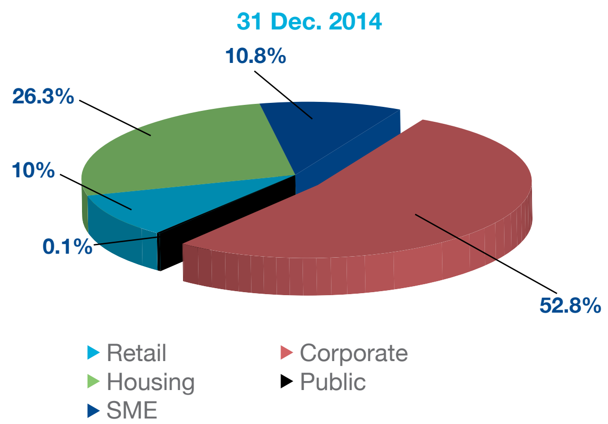
	Balances		Growth		Breakdown	
Currency (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
LBP	1,097	1,341	244	22.24%	19.17%	21.31%
USD	2,868	3,114	246	8.58%	50.12%	49.49%
Euro	286	205	(81)	-28.16%	5.00%	3.26%
GBP	32	11	(21)	-64.90%	0.57%	0.18%
AUD	967	959	(8)	-0.87%	16.90%	15.24%
Other	472	662	190	40.22%	8.25%	10.52%
Total	5,722	6,292	570	9.96%	100.00%	100.00%

Loans Distribution by Type of Loan

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Regular Loans	**5,732**	**6,287**	**555**	**9.68%**	**100.00%**	**100.00%**
Retail	587	626	40	6.75%	10.23%	9.96%
Housing	1,371	1,653	282	20.58%	23.92%	26.30%
SME	470	678	208	44.18%	8.20%	10.78%
Corporate	3,301	3,322	20	0.62%	57.59%	52.83%
Public Institutions	3	8	5	143.59%	0.06%	0.13%
Non Performing Loans	**29**	**65**	**36**	**123.92%**	**100.00%**	**100.00%**
Retail	7	5	(1)	-20.45%	23.29%	8.28%
Housing	3	6	4	128.70%	9.63%	9.83%
SME	1	20	19	1417.43%	4.57%	31.00%
Corporate	18	33	15	82.33%	62.51%	50.90%
Public Institutions	-	-	-	-	0.00%	0.00%
Collective Provisions	**(39)**	**(60)**	**(21)**	**52.88%**	**-0.69%**	**-0.95%**
Total Net Loans	5,722	6,292	570	9.96%		

As clearly shown in the table above, the main driver behind the increase in performing loans was the “housing” by LBP 282 billion and “SME” by LBP 208 billion.





Fair Value of Guarantees Against Loan Portfolio

	31-Dec-13			31-Dec-14		
Description (LBP billion)	Regular	NPLs	Total	Regular	NPLs	Total
Gross Balances	5,732	116	5,848	6,287	163	6,450
Unrealized Interest	-	(49)	(49)	-	(50)	(50)
Allowance for Impairment	-	(38)	(38)	-	(47)	(47)
Collective Provisions	(39)	-	(39)	(60)	-	(60)
Net Loans Balances	5,693	29	5,722	6,227	65	6,292
Pledged Funds	978	17	995	962	20	982
1st Degree Mortgage	4,731	48	4,779	5,090	45	5,135
Debt securities	321	0	321	350	-	350
Bank Guarantees	101	-	101	161	-	161
Vehicles	429	5	434	367	7	374
Fair Value of real guarantees received	**6,559**	**71**	**6,630**	**6,929**	**72**	**7,001**
Fair Value of other guarantees received	**6,127**	**3**	**6,130**	**6,666**	**3**	**6,669**
Real Guarantee Coverage Ratio	115.21%	243.34%	115.86%	111.27%	111.34%	111.27%

As clearly reflected in the table above, the fair value of the real guarantees, mainly Cash Collateral and Mortgages, represented 111% of the Loan portfolio, which indicates the high quality of the loan portfolio.

Distribution of Loans by Economic Sector

	Balances		Growth		Breakdown	
Sector/Industry (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Agriculture	80	27	(53)	-65.82%	1.40%	0.43%
Manufacturing & Industry	1,017	937	(80)	-7.87%	17.77%	14.89%
Financial Services	166	200	34	20.51%	2.91%	3.18%
Real Estate & Construction	1,126	1,577	450	39.97%	19.69%	25.06%
Trade and Services	2,063	1,877	(185)	-8.99%	36.05%	29.84%
Others	1,270	1,674	404	31.78%	22.20%	26.60%
Total	5,722	6,292	570	9.96%	100.00%	100.00%

The trade and service sectors remained the largest exposure during 2014.

Classification of Loans and Quality

	Balances		Growth	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%
Regular loans	5,732	6,287	555	9.68%
Substandard Loans	**16**	**16**	**1**	**4.04%**
Gross balances	22	21	(1)	-5.87%
Unrealized interest	(6)	(4)	2	-35.99%
Impairment allowances	(0)	(0)	(0)	-
Doubtful Loans	13	49	35	265.37%
Gross balances	94	142	48	51.13%
Unrealized interest	(43)	(47)	(4)	8.12%
Impairment allowances	(38)	(47)	(9)	24.56%
Collective Provisions	(39)	(60)	(21)	52.88%
Total Net Loans	5,722	6,292	570	9.96%

As shown in the table above, the net NPLs (after deduction of specific loan loss reserves) increased by LBP 35 billion. On the other hand, the Bank has been able to increase its collective provisions against the portfolio by LBP 21 billion.

Consequently, the loan portfolio quality ratios, as shown below, indicates clearly the high quality noting that Bank of Beirut is ranked number one among peer group banks in “Gross NPLs/Gross loans

Ratio	Bank of Beirut 31-Dec-13	Bank of Beirut 31-Dec-14	Bank of Beirut Variance	Peer Group 31-Dec-13	Peer Group 31-Dec-14
Regular Loans / Gross Loans	98.02%	97.48%	-0.54%	93.34%	93.57%
Gross SLs / Gross Loans	0.37%	0.32%	-0.05%	0.81%	0.70%
Gross DLs / Gross Loans	1.61%	2.20%	0.60%	5.85%	5.74%
Gross NPLs / Gross Loans	1.98%	2.52%	0.54%	6.66%	6.43%
Net SLs / Net Loans	0.27%	0.26%	-0.01%	0.71%	0.59%
Net DLs / Net Loans	0.23%	0.77%	0.54%	1.34%	1.46%
Net NPLs / Net Loans	0.51%	1.03%	0.53%	2.05%	2.05%
Unrealized Interest on SLs / Gross SLs	27.88%	20.29%	-7.59%	17.43%	20.26%
Specific LLRs on DLS /Gross DLs	85.84%	65.76%	-20.07%	78.43%	75.95%
Specific LLRs on NPLs / Gross NPLs	74.94%	60.03%	-14.91%	70.98%	69.91%
Total LLRs / Gross NPLS	108.87%	96.97%	-11.89%	87.05%	85.41%
Net NPLs / Total Assets	0.14%	0.29%	0.15%	0.63%	0.64%
Net NPLs / Total Shareholders' Equity	1.26%	2.38%	1.11%	7.25%	7.20%
Collective provisions / Net Loans	0.69%	0.95%	0.27%	1.14%	1.05%

SLs: Substandard Loans, DLs: Doubtful Loans, LLRs: Loan Loss Reserves

d- Investment Securities Portfolio

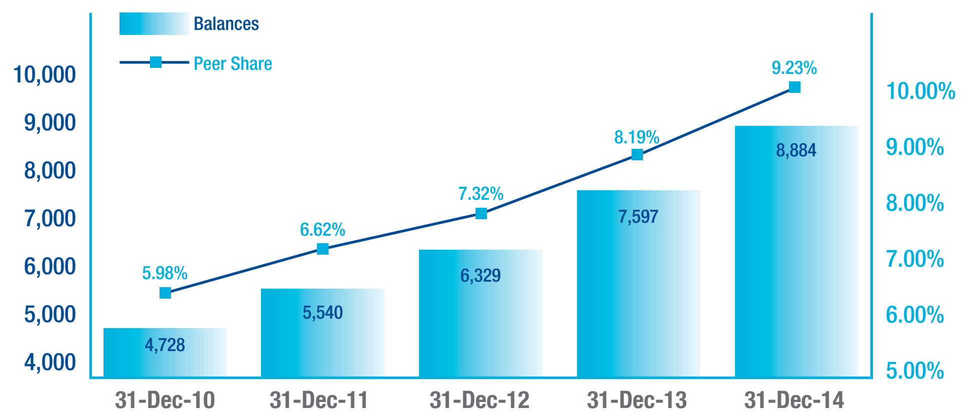
The Bank's securities portfolio, which consists of both fixed and variable income securities, increased by LBP 1,287 billion during 2014, an annual growth rate of 16.93%, to reach LBP 8,884 billion and representing 39.51% of total assets as at 31 December 2014.

Sector/Industry (LBP billion)	Balances 31-Dec-13	Balances 31-Dec-14	Growth Amount	Growth %	Breakdown 31-Dec-13	Breakdown 31-Dec-14
Lebanese Govn't Treasury bills & bonds	5,186	6,161	975	18.81%	68.25%	69.35%
CDs issued by CBL	1,385	1,835	450	32.52%	18.22%	20.65%
Financial private sector debt securities	770	604	(166)	-21.55%	10.13%	6.80%
Foreign Government treasury bonds	32	61	29	89.53%	0.42%	0.69%
Certificates of deposit by financial sector	44	36	(8)	-18.65%	0.58%	0.40%
Unquoted equity securities	48	56	8	15.62%	0.63%	0.63%
Quoted equity securities and funds	11	8	(3)	-26.75%	0.15%	0.09%
Accrued interest	122	123	2	1.47%	1.60%	1.39%
Total	7,597	8,884	1,287	16.93%	100.00%	100.00%

As shown in the table above, the main growth was derived from the increase in Lebanese Treasury Bills and Eurobonds by LBP 975 billion, while the investment in Certificates of Deposit issued by the Central Bank of Lebanon increased also by LBP 450 billion (+32.51%)

The peer group share increased gradually during the year to reach 9.23% at the end 2014.

INVESTMENT SECURITIES



Distribution by Classification

The main increase in investment securities was for the Debt instruments classified at amortized cost by LBP 966 billion and representing 87.24% of the total portfolio. The Fair Value through Profit and Loss (FVTPL) investment securities' consists mainly of securities held by the mutual funds controlled by the Bank.
It is also to be noted the low level of equity instruments' share out of the total investment securities' portfolio, registering a low level of 0.72% as at 31 December 2014.

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Debt instruments at Amortized Cost	6,784	7,750	966	14.25%	89.29%	87.24%
Debt Instruments at FVTPL	754	1,070	316	41.86%	9.93%	12.04%
Total Debt Instruments	7,538	8,820	1,282	17.01%	99.22%	99.28%
Equity instruments at FVTPL	56	59	3	4.55%	0.74%	0.66%
Equity instruments at FVTOCI	4	5	2	53.30%	0.05%	0.06%
Total Equity Instruments	60	64	4	7.47%	0.78%	0.72%
Total	7,597	8,884	1,287	16.93%	100.00%	100.00%

Fair Value of Debt Instruments Classified at Amortized Cost

	31-Dec-13			31-Dec-14		
Description (LBP billion)	Cost*	Fair Value	Unrealized	Cost*	Fair Value	Unrealized
Lebanese government bonds	2,487	2,456	(31)	3,198	3,210	12
CDs issued by BDL	1,109	1,119	10	1,438	1,451	13
Lebanese treasury bills	2,268	2,279	11	2,368	2390	22
Private sector debt securities	770	790	20	604	609	5
CDs issued by private sector	43	42	(1)	36	35	(0)
Total	6,676	6,686	9	7,645	7,695	51

*Excluding Accrued Interest

As shown in the table above, the valuation of the amortized cost debt securities at year-end 2014 revealed a positive variation of LBP 51 billion, as compared to LBP 9 billion as at 31 December 2013.

e- Property and Equipment

	Balances		Growth	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%
Buildings	89	93	3	3.58%
Furniture	11	13	3	25.22%
Equipment	10	12	2	21.71%
Vehicles	0	0	0	70.77%
Key Money	2	2	(0)	-0.01%
Installations and improvements	18	19	1	4.22%
Advance on Capital expenditures	12	13	1	6.85%
Total	142	151	10	6.82%

As shown in the table above, the increase in "Properties and Equipment" (net of depreciation) was LBP 10 billion (+6.82%). It is to be noted that the share of "property and equipment" in total assets was around 0.67% as at 31 December 2014, as compared to 1.23% for the peer group.

B- PROFITABILITY

Overview

The consolidated total net profit increased in 2014 by 20.91% to LBP 265 billion, as compared to LBP 219 billion for the year 2013.

This growth in profitability was driven by the growth in business activities, coupled with efficient management of interest rate margins, high commission base and effective cost containment policy, with a focus on consistently increasing the non-interest base revenues.

The positive growth in the net earnings was due to the increase in "operating income" LBP 72.9 billion (+14.20%) combined with the increase in total operating expenses by LBP 17.3 billion (+6.85%), increase in credit risk allowances by LBP 13.8 billion (+65.65%), and the increase of income tax provisions by LBP 9.8 billion (+23.61%).

	Balances		Growth	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%
Interest income*	932,248	1,059,248	127,000	13.62%
Interest expense*	(578,546)	(656,869)	(78,322)	13.54%
Net interest income	353,701	402,379	48,678	13.76%
Net fee & commission income	97,679	113,927	16,249	16.63%
Other non-interest income	83,153	104,918	21,765	26.18%
Operating income	534,533	621,225	86,692	16.22%
Impairment losses	(20,982)	(34,756)	(13,774)	65.65%
Net operating income	513,550	586,468	72,918	14.20%
Operating expenses	(252,985)	(270,307)	(17,323)	6.85%
Profit before income taxes	260,566	316,161	55,595	21.34%
Income taxes	(41,321)	(51,076)	(9,755)	23.61%
Net profit after income taxes	219,245	265,085	45,840	20.91%
Non-controlling interest	(30,217)	(44,653)	(14,436)	47.77%
Net profit (Equity holders)	189,028	220,432	31,404	16.61%

* including interest on financial assets & liabilities designated at FVTPL for better comparison

Net Interest Income

Description (LBP billion)	Year		Growth		Breakdown	
	2013	2014	Amount	%	2013	2014
Placements with Central Banks	93,055	121,397	28,342	30.46%	9.98%	11.46%
Placements with banks *	39,470	47,930	8,460	21.43%	4.23%	4.52%
Financial assets at amortized cost	386,257	444,855	58,598	15.17%	41.43%	42.00%
Financial assets at FVTPL	54,510	62,013	7,503	13.76%	5.85%	5.85%
Loans to customers	358,956	383,053	24,097	6.71%	38.50%	36.16%
Interest income	932,248	1,059,248	127,000	13.62%	100.00%	100.00%
Banks and financial Institutions	17,950	20,534	2,585	14.40%	3.10%	3.13%
Customers' Deposit	553,274	628,001	74,727	13.51%	95.63%	95.61%
Certificates of Deposit	1,468	265	(1,203)	-81.95%	0.25%	0.04%
Other Borrowings	5,855	8,069	2,213	37.80%	1.01%	1.23%
Interest expense	578,546	656,869	78,322	13.54%	100.00%	100.00%
Net Interest Income*	353,701	402,379	48,678	13.76%		

* including loans to banks

As reflected in the table above, the net interest income increased by 13.76% in the year 2014. This was mainly due to the increase in interest income (+13.62%), combined with an increase in interest expenses by 13.54%.

As a result, the main spreads indicators have witnessed a notable stability in spite of the continuous pressure on interest margins:

Ratio	2013	2014	Variance
Interest income / average assets	4.91%	4.93%	0.01%
Interest expense / average assets	-3.05%	-3.05%	-0.01%
Interest spread (net interest income / average assets)	1.86%	1.87%	0.01%
Interest income / average interest earning assets	5.23%	5.24%	0.01%
Interest expense / average interest bearing liabilities	-3.62%	-3.61%	0.01%
Interest differential	1.61%	1.63%	0.02%
Yield on earning assets	5.23%	5.24%	0.01%
Cost of earning assets	-3.24%	-3.25%	0.00%
Interest margin	1.98%	1.99%	0.01%
Average interest earning assets / average assets	94.01%	94.06%	0.05%
Interest expense / Interest income	62.06%	62.01%	-0.05%
Net interest income / Operating income	66.17%	64.77%	-1.40%

Non-interest Income

Description (LBP billion)	Years		Growth	
	2013	2014	Amount	%
Net Fee and commission income	97,679	113,927	16,249	16.63%
Dividends received	4,196	4,071	(124)	-2.96%
Realized Gain from sale of investment securities	74,985	85,204	10,219	13.63%
Change in fair value of trading portfolio	(8,728)	(1,965)	6,763	-77.49%
Net Gain on sale of foreclosed assets	798	475	(323)	-40.50%
Net Gain on sale of property and equipment	510	39	(471)	-92.44%
Share in profit of an associate	3,297	4,162	864	26.22%
Foreign exchange gain	14,535	16,234	1,698	11.68%
Charge on forward contract	(4,035)	(3,678)	357	-8.84%
Other non-interest income	(2,405)	377	2,783	-115.69%
Total	180,832	218,846	38,014	21.02%

The 21.02% positive annual growth rate was mainly derived from the increase in the net gain from investment securities by LBP 10.2 billion (mainly representing the gain from sale and swaps with CBL of financial assets measured at amortized cost). The net fee income increased significantly by LBP 16.2 billion (+16.63%).

The non-interest income ratios witnessed a notable enhancement during the year 2014 as compared to year 2013:

Ratio	2013	2014	Variance
Net non-interest income/average assets	0.95%	1.02%	0.06%
Non-interest income/operating income	33.83%	35.23%	1.40%
Non-interest income/average deposits	1.25%	1.35%	0.11%
Net commissions received/average deposits	0.67%	0.70%	0.03%

Other Operating Expenses

Description (LBP billion)	Years		Growth	
	2013	2014	Amount	%
Staff expenses	133,156	144,181	11,024	8.28%
General operating expenses	103,345	107,613	4,269	4.13%
Depreciations and amortizations	16,484	18,513	2,030	12.31%
Total	252,985	270,307	17,323	6.85%

The main drivers behind the 6.85% year-on-year increase in the operating expenses could be summarized by the following:

- Staff count grew by 121 during the year, mainly in Lebanon, by 98 new staff.
- Increased IT investment (strategic new applications e.g. Core Banking, CRM, Online Banking, Mobile Banking, etc.) and the advertising cost (including the re-branding and TV campaigns).

Operating Efficiency

On the operating efficiency level, cost to income ratio decreased remarkably to 43.51% in 2014 from 47.33% in 2013, significantly less than the peer group average of 50.0%.

Ratio	Unit	2013	2014	Variance
Cost ratios				
Staff expenses / operating income	%	24.91%	23.21%	-1.70%
General expenses / operating income	%	19.33%	17.32%	-2.01%
Depreciation / operating income	%	3.08%	2.98%	-0.10%
Cost to income ratio	%	47.33%	43.51%	-3.82%
Cost to average assets	%	1.33%	1.26%	-0.08%
Effective tax rate	%	15.86%	16.16%	0.30%
Operating efficiency				
Number of staff	Count	1,611	1,732	121
Number of branches and banking units	Count	81	83	2
Staff per branch	Count	19.9	20.9	1.0
Average assets per average staff	LBP million	12,086	12,866	780
Average deposits per average staff	LBP million	9,241	9,677	436
Staff expenses per average staff	LBP million	85	86	1
Operating income per average staff	LBP million	341	372	31
Net income per average staff	LBP million	140	159	19
Assets per branch	LBP million	253,425	270,897	17,472
Total deposits per branch	LBP million	191,920	202,458	10,538
Operating income per branch	LBP million	6,599	7,485	885
Net income per branch	LBP million	2,707	3,194	487

As signaled in the table above, the Bank has been able to preserve and enhance most of the operating efficiency indicators within good ranges.

Management Discussion and Analysis

Profitability Indicators

Ratio	Year 2013	2014	Variance
Return on Average Assets (ROAA)	1.16%	1.23%	0.08%
Return on Average Equity (ROAE)	9.90%	10.53%	0.64%
Return on Average Common Equity (ROACE) *	15.84%	16.24%	0.40%
+ Yield on earning assets	5.23%	5.24%	0.01%
- Cost of earning assets	-3.24%	-3.25%	0.00%
= Interest margin	1.98%	1.99%	0.01%
x Average interest earning assets / average assets	94.01%	94.06%	0.05%
= Interest Spread	1.86%	1.87%	0.01%
+ Net non interest income / average assets	0.95%	1.02%	0.06%
= Asset Utilization Ratio	2.82%	2.89%	0.07%
x Net operating margin	41.02%	42.67%	1.66%
o.w. Cost to income	47.33%	43.51%	-3.82%
o.w. Credit Cost	3.34%	5.45%	2.12%
o.w. Other provisions	0.59%	0.14%	-0.45%
o.w. Tax Cost	7.73%	8.22%	0.49%
= Return on average assets (ROAA)	1.16%	1.23%	0.08%
x Leverage (average assets/average equity)	8.56	8.55	-1.83%
= Return on average equity (ROAE)	9.90%	10.53%	0.64%

* calculated as common earnings (group share) / average common equity excluding non-controlling interest

Return on Average Assets increased significantly in 2014 to 1.23% from 1.16% in 2013, due mainly to the higher increase in profit as compared to assets; However, Bank of Beirut has been able to rank 2nd among the peer group banks in this ratio as per Bankdata report as at 31 December 2014 noting that the Average ROAA for the Alpha Group stood at 1.01% for year 2014 as compared to 1.02% for 2013.

The return on average equity (ROAE) increased to 10.53%, while the return on average common equity stood at a comfortable level of 16.24%*.

Peer Group Comparison

Ratio	Year 2014 BOB	Peer	Variance	Ranking
Return on Average Assets (ROAA)	1.23%	1.01%	0.22%	2
Leverage (average assets/average equity)	8.54	11.43	(2.79)	1
Return on Average Equity (ROAE)	10.53%	11.55%	-1.02%	9
Interest Spread	1.84%	1.92%	-0.05%	8
Net non-interest income / average assets	1.02%	0.96%	0.06%	5
Cost to income	43.26%	50.00%	-6.49%	3

Calculation of Earnings per Common Share

Description (LBP billion)	Years 2013	Years 2014	Growth Amount	Growth %
Consolidated net profit	219,245	265,085	45,840	20.91%
(Less) Non-Controlling interests	(30,217)	(44,653)	(14,436)	47.77%
Consolidated net profit - Equity holders of the Group	189,028	220,432	31,404	16.61%
(Less) Priority Dividends on Priority Common Shares	-	(1,883)	(1,883)	-
Dividends on non-cumulative Preferred Shares	(55,961)	(55,961)	-	0.00%
Preferred Shares series "E"	(7,236)	(7,236)	-	0.00%
Preferred Shares series "F"	(9,045)	(9,045)	-	0.00%
Preferred Shares series "G" - convertible	(12,714)	(12,714)	-	0.00%
Preferred Shares series "H"	(14,246)	(14,246)	-	0.00%
Preferred Shares series "I"	(12,720)	(12,720)	-	0.00%
Common Earnings	133,067	162,588	29,521	22.18%
Weighted average number of Common Shares	50,151,838	50,103,496	(48,342)	-0.10%
Weighted average number of Priority Common Shares	-	1,487,310	1,487,310	
Total weighted average number of Common Shares	50,151,838	51,590,806	1,438,968	2.87%
Effect of dilutive Potential Common Shares	-	-	-	
Basic Earnings per common share LBP	2,653	3,151	498	18.77%
Basic Earnings per priority common share LBP		4,417	4,417	
Diluted Earnings per share LBP	2,653	3,151	498	18.77%

The common earnings (net profit attributable to common shareholders) recorded a positive growth of 22.18% after accounting for the Preferred Shares dividends and the priority dividends for Priority Common Shares.
The Basic Earnings per Common Share (EPS) increased to LBP 3,151 in year 2014, from LBP 2,653 for the year 2013. The increase is mainly due to the growing common earnings (+22.18%) and despite the increase in weighted average number of Common Shares +2.87%).

C- CAPITALIZATION

The Bank's consolidated equity grew by LBP 438 billion, reaching LBP 2,735 billion as at 31 December 2014, an increase of 19.06% compared to 2013 year-end.

Description (LBP billion)	Balances 31-Dec-13	Balances 31-Dec-14	Growth Amount	Growth %
Ordinary share capital	68,131	71,159	3,028	4.44%
Shareholders' cash contribution to capital	20,978	20,978	-	0.00%
Priority Common Shares	-	150,753	150,753	
Non-cumulative Preferred Shares	783,825	783,825	-	0.00%
Issue premium on Common Shares	232,108	232,108	-	0.00%
Legal reserve	94,603	112,248	17,645	18.65%
Reserve for general banking risks	135,135	172,732	37,597	27.82%
Regulatory reserves for doubtful debts	5,249	4,302	(947)	-18.05%
Other free Reserves	34,791	31,763	(3,028)	-8.70%
Retained Earnings	198,131	226,888	28,757	14.51%
Revaluation of change in FV of forward contracts (hedging)	(8,969)	-	8,969	-100.00%
Cumulative Change in FV of currency positions (hedging instruments)	(18,517)	(30,606)	(12,089)	65.29%
Owned buildings revaluation surplus	1,669	1,669	-	0.00%
Cumulative change in fair value of investment securities	351	2,272	1,922	548.18%
Regulatory reserves for assets acquired on satisfaction of debts	6,371	7,484	1,113	17.47%
Treasury Shares	(45,503)	(47,830)	(2,327)	5.11%
Currency translation adjustment	11,217	15,343	4,127	36.79%
Non-controlling interest	588,913	759,856	170,943	29.03%
Net Income of the year - Group Share	189,028	220,432	31,404	16.61%
Total	2,297,511	2,735,376	437,865	19.06%

The growth in Equity was mainly derived from the following:
- Issuance of USD 100 million priority common shares. The operation has been materialized in September 2014.
- Increase in reserves and retained earnings by LBP 80 billion
- The increase in non-controlling interests by LBP 170 billion due to the increase in net asset value of consolidated mutual funds,
- The increase in net profit – group share by LBP 31 billion.

With the achieved level of equity, Bank of Beirut was the bank which reflected the highest capitalization levels in its peer group, realizing the 1st rank among the Alpha Group banks, with "equity to asset ratio" of 12.17% as at 31 December 2014 as compared to 8.82% for the peer group.

Capital Structure

The Bank's capital constitutes Common and Preferred Shares as follows:

Share Type	Number of Shares		Growth	
	31-Dec-13	31-Dec-14	Amount	%
Common Shares	50,467,400	50,467,400	-	0.00%
Priority Common Shares	-	4,762,000	4,762,000	
Preferred Shares Series "E"	2,400,000	2,400,000	-	0.00%
Preferred Shares Series "F"	3,000,000	-	(3,000,000)	-100.00%
Preferred Shares Series "G"	3,570,000	3,570,000	-	0.00%
Preferred Shares Series "H"	5,400,000	5,400,000	-	0.00%
Preferred Shares Series "I"	5,000,000	5,000,000	-	0.00%
Preferred Shares Series "J"	-	3,000,000	3,000,000	
Total	69,837,400	74,599,400	4,762,000	6.82%

As shown in the table above, the Bank has issued during September 2014 4,762,000 new Common Share with priority feature for USD 100 million. In addition, the bank has exercised his right to redeem Preferred Shares series "F" with total value of USD 75 million and a dividend rate of 8% and replaced it by preferred shares series "J" for the same amount with a dividend rate of 6.50%.

Preferred Shares Overview

Currently, the total issue values of the outstanding Preferred Shares stood at around USD 519.95 million, representing 28.66% of total shareholders' equity. The main features of the outstanding Preferred Shares are as follows:

Description	Series "E"	Series "G"	Series "H"	Series "I"	Series "J"
Number of shares	2,400,000	3,570,000	5,400,000	5,000,000	3,000,000
Issue price per share	$25.00	$35.00	$25.00	$25.00	$25.00
Issue Size (USD 000's)	$60,000	$124,950	$135,000	$125,000	$75,000
Issue Size (C/V LBP million)	90,450	188,362	203,513	188,438	113,063
Dividend rate p.a.	8.00%	6.75%	7.00%	6.75%	6.50%
Non-Cumulative	Yes	Yes	Yes	Yes	Yes
Perpetual	Yes	Yes	Yes	Yes	Yes
Redeemable	Yes	Yes	Yes	Yes	Yes
Convertible to common shares	No	Yes	No	No	No
Redemption price per share	$25.00	$35.00	$25.00	$25.00	$25.00
Conversion exercise price	-	$35.00	-	-	-
Redemption right holder	BOB	BOB	BOB	BOB	BOB
Conversion right holder	-	Holder	-	-	-
Listing on Beirut Stock Exchange	Yes	No	Yes	Yes	Yes
Issue date	13-Nov-08	29-Sep-10	30-Jun-11	19-Nov-12	17-Nov-14
Closing date	30-Dec-08	29-Dec-10	28-Sep-11	28-Dec-12	26-Dec-14
First redemption exercise date	30-Dec-13	30-Dec-16	30-Dec-16	30-Dec-17	30-Dec-19
Second redemption exercise date	30-Dec-15				
Conversion right exercise date		30-Dec-15			

Capital Adequacy

Maintaining its position as the Bank with highest capitalization level among the peer group banks, Bank of Beirut reflected a very healthy set of Capital ratios.

The high level of capital adequacy confirmed the Bank's strategy in strengthening the Capital base in order to fund its expansion strategy, in addition to complying comfortably with the Basel III requirements; taking into consideration the increasing risk weights applied on the exposure to Lebanese sovereign risk.

Capital Adequacy Ratio under Basel III

Description (LBP billion)	Balances / Ratio		Variation	
	31-Dec-13	31-Dec-14	Amount	%
Common Equity (Net)	774,868	1,028,036	253,168	32.67%
Additional Tier 1 Capital (Net)	786,106	783,825	(2,281)	-0.29%
Net Tier 2 Capital	6,933	10,258	3,325	47.96%
Total Regulatory Capital	1,567,907	1,822,119	254,212	16.21%
RWA - Credit Risk	10,808,772	11,615,432	806,660	7.46%
RWA - Market Risk	129,207	154,376	25,169	19.48%
RWA - Operational Risk	787,090	841,200	54,110	6.87%
Total RWA	11,725,069	12,611,008	885,939	7.56%
Total Capital Ratio	13.37%	14.45%	1.08%	
Common Equity Ratio Tier 1 Ratio	6.61%	8.15%	1.54%	
Tier 1 Capital Ratio	13.31%	14.37%	1.05%	
Tier 2 Capital Ratio	0.06%	0.08%	0.02%	

Under Basel III, the Capital Adequacy ratio stood at year-end 2014 at 14.45%, up from 13.37% as at 31 December 2013, as compared to the minimum required ratio of 11.50%.

Pursuant to Central Bank Decision No 11714 dated 3 March 2014, with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15
Common Equity Tier 1 Ratio	5.00%	6.00%	7.00%	8.00%
Tier 1 Capital Ratio	8.00%	8.50%	9.50%	10.00%
Total Capital Ratio	10.00%	10.50%	11.50%	12.00%

As shown in the tables below, Bank of Beirut is already compliant with Basel III capital requirements, more specifically, with a common equity ratio of 8.15% (as compared to 7.00% minimum required).

Minimum Regulatory Ratios (LBP million)	Minimum Ratios		Excess Capital	
	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14
Common Equity Tier 1 Ratio	6.00%	7.00%	71,364	145,266
Tier 1 Capital Ratio	8.50%	9.50%	564,343	613,815
Capital Ratio	10.50%	11.50%	336,775	371,853

D- SHARE INFORMATION

Common Share Performance

Indicator	Unit	31-Dec-13	31-Dec-14	Variance
Common Share market price	LBP	28,643	27,738	(905)
Priority Common Share market price	LBP	-	31,658	31,658
Weighted average market price of Common & Priority Share	LBP	28,643	28,076	(567)
Common equity book value (1)	LBP million	868,812	1,133,851	265,039
Common Share book value	LBP	17,215	20,530	3,315
Market Capitalization (end of period)	LBP million	1,445,513	1,550,618	105,105
Market Value added	LBP million	576,700	416,767	(159,934)
Market Value added/Market capitalization	%	39.90%	26.88%	-13.02%
Basic EPS / Common Share market price	%	9.26%	11.36%	2.10%
Price to common earnings - P/E Ratio (2)	Times	10.80	8.91	(1.89)
Price to common book value - M/B Ratio	Times	1.66	1.37	(0.30)
Price to assets	%	7.04%	6.90%	-0.15%

(1) Including the common earnings of the year & Excluding non-controlling interest (2) Calculated as basic earnings per share / Common Share market price

The Common Share market price has declined slightly during 2014. However, and due to the issuance of new Common Priority Shares, the market capitalization stood at around LBP 1,551 billion (USD 1,028 million), and the "price to book value" decreased to 1.37 times as compared to 1.66 times at the end of year 2013. The "price to assets" ratio stood at a very healthy level of 6.90%, one of the lowest in the market.

E- DIVIDENDS

The Board of Directors has resolved, during its meeting held on 3 April 2015, a cash dividend per Common Share (DPS) at the level of LBP 900, which is higher by 4.77% over last year Dividend per Share. The year 2014 DPS upgraded the dividend yield to 3.24%, as compared to 3.00% in 2013.

Appropriation of Bank of Beirut (local and foreign branches) net profit 2014:

Description (LBP 000's)	Variance
Net profit Bank of Beirut SAL	187,150,388
Dividends on Preferred Shares	(55,960,850)
Priority Dividends on Priority Shares	(1,883,380)
Legal Reserve	(18,715,039)
Reserve for General Banking Risk	(42,000,000)
Reserves on Foreclosed Assets	(1,535,981)
Reserves - Net gain on sale of A154 CMC Properties	(474,628)
Total deductions	(120,569,878)
Net profit eligible for distribution	66,580,510
Number of outstanding Common Shares	55,229,400
Available dividend per Common Share (LBP)	1,206
Suggested Dividend per Common Share (LBP)	900
Total suggested dividends to Common Shareholders	49,706,460
Retained earnings	16,874,050

Consequently, the comparative dividend indicators on consolidated basis stood as follows:

Description (LBP billion)		Balances / Ratio 2013	Balances / Ratio 2014	Variation Amount	Variation %
Dividend per Common Share (DPS)	(LBP)	859	900	41	4.77%
Priority dividend per Priority Share)	(LBP)	-	396	396	
Number of outstanding ordinary Common Shares		50,467,400	50,467,400	-	0.00%
Number of oustanding priority Common Shares		-	4,762,000	4,762,000	
Total number of Common Shares		50,467,400	55,229,400	4,762,000	%9.44
Total Dividends on Common Shares		43,351	49,706	6,355	%14.66
Total priority dividends on Priority Shares		-	1,883	1,883	
Total Dividends on non-cumulative Preferred Shares		55,961	55,961	-	%0.00
Total Dividends (common and non-cumulative preferred)		99,312	107,551	8,238	%8.30
Ordinary common share market price		28,643	27,738	(905)	-3.16%
Priority Common Share market price		-	31,658	31,658	
Dividend yield per ordinary Common Share (DPS/Price)		3.00%	3.24%	0.25%	%8.19
Dividend yield per priority Common Share (DPS/Price)		0.00%	4.09%	4.09%	
Common Share dividend payout ratio (% of net profit group share)		22.93%	23.40%	0.47%	2.05%
Preferred Share dividends payout ratio (% of net profit group share)		29.60%	25.39%	-4.22%	-14.25%
Total dividends payout ratio (Net Profit)		52.54%	48.79%	-3.75%	-7.13%

F- LIQUIDITY

The conservation of adequate liquidity has invariably been the Bank's policy to retain a high level of liquid assets and a diversified and stable funding base.
Monitored and controlled by the Asset Liability Committee (ALCO), the liquidity position of the Bank is managed on daily basis by the Treasury Department and liquidity risks are consistently measured, monitored, and scrutinized by the Risk Management Department. Ensuring low liquidity risk is evidenced by the following factors:

- Sufficient high-quality liquid assets, including high level placements with well reputed and highly rated global banks
- Diversification in the securities portfolio
- Stability in customers' deposits
- Manageable cash flow mismatching gaps
- Non-reliance on whole-sale funding

The liquidity ratios, in both local and foreign currencies, maintained the healthy levels of 2013 while the loan to deposit ratio increased slightly to the level of 37.44%.

Ratio	31-Dec-13	31-Dec-14	Variance
Loans in LBP to deposits in LBP ratio	21.89%	25.19%	3.30%
Loans in FCY to deposits in FCY ratio	43.90%	43.13%	-0.78%
Loans to deposits ratio	36.81%	37.44%	0.63%
Deposits (LBP) / Assets (LBP)	78.06%	75.61%	-2.45%
Deposits (FCY) / Assets (FCY)	74.67%	74.34%	-0.33%
Deposits / Assets	75.73%	74.74%	-0.99%
Investment securities portfolio/Total Assets	37.01%	39.51%	2.50%
Total Liquid Assets (LBP) / Total Liabilities (LBP)	99.75%	95.44%	-4.31%
Total Liquid Assets (FCY) / Total Liabilities (FCY)	70.37%	73.82%	3.45%
Total Liquid Assets / Total Liabilities	79.52%	80.60%	1.08%

G- ASSET QUALITY

Assets Composition

The Bank's assets comprise mainly liquid assets (primary liquidity and investment securities) which represented 68.74% of total assets as at 31 December 2014, as compared to 68.66% at year-end 2013.
Loans to customers represented 27.98% as at 31 December 2014 as compared to 27.88% at the end of the previous year.

	BOB	
Description (%)	31-Dec-13	31-Dec-14
Cash and deposits at central banks	19.92%	19.00%
Due to banks & Fis (incl. loans)	11.73%	10.22%
Loans and Advances	27.88%	27.98%
Customers' acceptance liability	1.79%	1.70%
Investment securities	37.01%	39.51%
Property and equipment	0.69%	0.67%
Other assets	0.55%	0.51%
Goodwill	0.43%	0.39%
Total	100.00%	100.00%

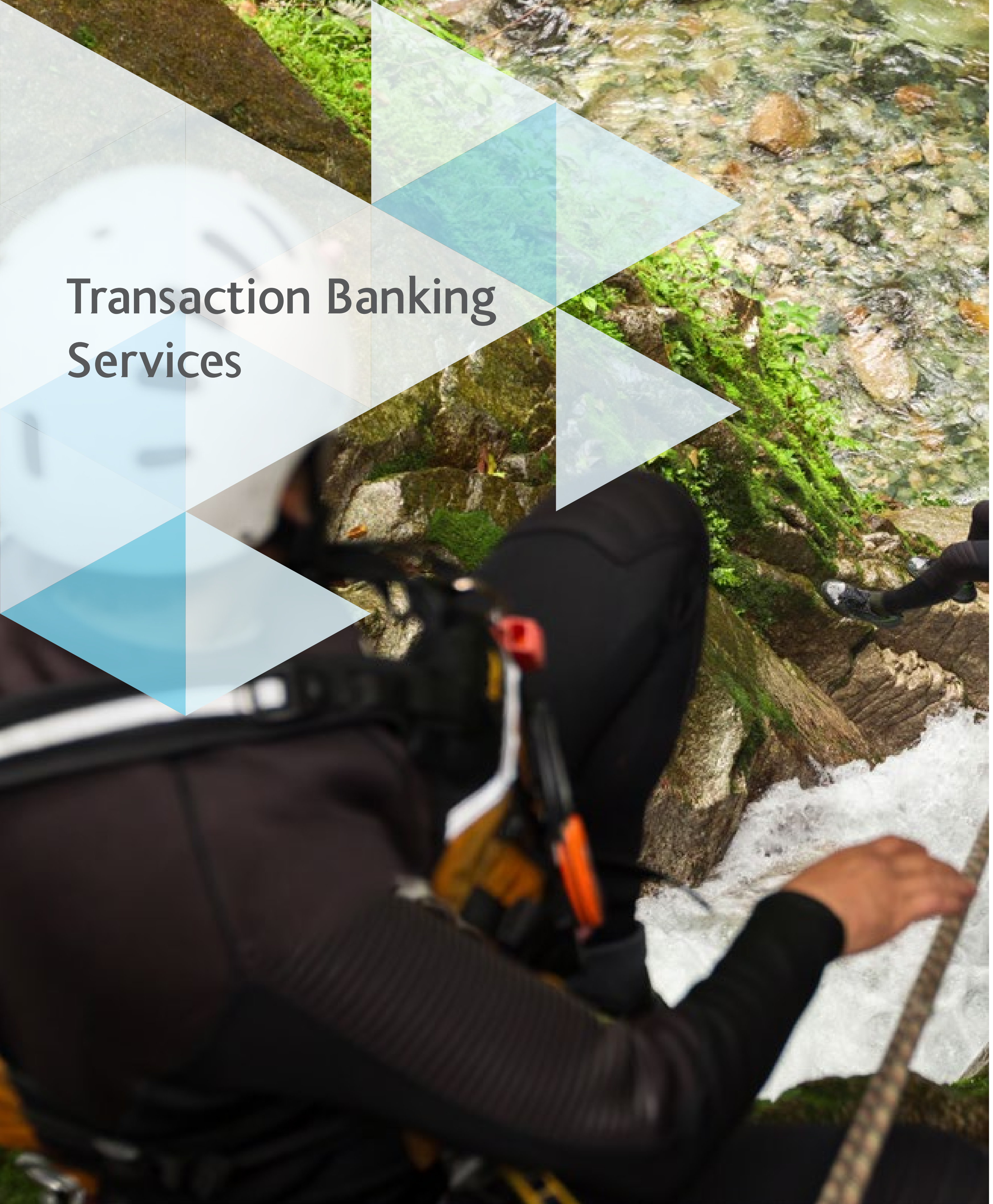
Liquid assets/Assets	68.66%	68.74%
Loans / Assets	27.88%	27.98%
Fixed Assets / Assets	0.69%	0.67%
Goodwill / Assets	0.43%	0.39%

Sovereign Risk

The Lebanese sovereign risk ratios registered a slight increase during year 2014. The total sovereign exposure (Treasury and Central Bank of Lebanon) to total assets reached 49.42% as at 31 December 2014 as compared to 47.35% as at 2013 year-end.

	Balances		Variation		% of Total Assets	
Description (LBP billion)	31-Dec-13	31-Dec-14	Amount	%	31-Dec-13	31-Dec-14
Compulsory Reserves at CBL	1,446	1,588	142	9.84%	7.04%	7.06%
Free placements at CBL	1,844	1,897	53	2.90%	8.98%	8.44%
CDs issued by CBL	1,385	1,835	450	32.52%	6.74%	8.16%
Treasury bills	5,186	6,161	975	18.81%	25.26%	27.40%
Total	9,860	11,481	1,622	16.45%	48.03%	51.06%

2014 Achievements



Transaction Banking Services

Bank of Beirut is indeed proud to pioneer electronic services to Corporate and Institutional clients in Beirut as we fully understand Cash Management's implications customer's day-to-day operations and the importance it plays in the development of their business activities.

Innovative cash management solutions are indispensable in today's fast moving business environment. Bank of Beirut, the leading local provider of cash management services, continuously aims to improving customer experience through development of packaged and tailor-made products and industry wide solutions.

A strong addition to Bank of Beirut's capabilities in 2014 includes real time SWIFT reporting, full integration with the Port of Beirut authority for real time billing and settlement as well as the capability to issue payments to governmental and semi-governmental entities with a click. Bank of Beirut also leverages the capabilities offered by CBL CLEAR and is currently offering medium to large scale clients the ability to integrate host-to-host for a seamless account payables solution.

Our payable solution also includes a simple but enhanced Pay Card service; to the complexity of a closed loop systems tailored for commercial needs, rendering payments to the non-bankable population easier than ever.

Corporate Online Banking Platform

Bank of Beirut is the first local Bank to offer a corporate online banking platform allowing companies to process all types of transaction, at any time with a full workflow approval in line with companies' bylaws. Clients are able to process local and international wires with online SWIFT reporting.

Several additions to the platform, such as, ERP integration for full payable solution and Demand Draft issuance for government and semi-government entities contributed to making Bank of Beirut corporate banking portal a one stop-shop for our commercial customers.

Pay Cards close loop Solution

Following the significant success of the Pay Cards Solution that enables companies to process payments to their suppliers or non-bankable employees, a Pay Card close loop solution was tailored specifically for large corporations and NGO's supporting refugees in Lebanon to assist them in saving time and cost while keeping track of all the allocations and expenditures executed by each individual. It consists of distributing pay cards that can be used on selected POS machines only to purchase food and other goods.

Integration with Port of Beirut

As of June 2014, the integration of Port of Beirut allowed Bank of Beirut customers to issue online payments and settle in real time Port Beirut Bills. Port of Beirut will instantly be notified of the payment.
Having the exclusivity to offer this service to its clients, Bank of Beirut boosted its market share by attracting the majority of the clearing agents and freight forwarders in the marketplace.
To complement this service, the Demand Draft payment feature allows customers to issue and print cheques in favor of the Customs Authorities at any of Bank of Beirut branches in an automated manner.

Local and International Payments with a simple Click!

More advanced local and international payment options were made available after partnering with BOB Finance to allow commercial clients seamless and automated payment process to issue payments via the Western Union network in over 200 countries worldwide.

Geographic Expansion

Following the considerable success of the transaction banking services achievement in Beirut, Bank of Beirut expanded on the international level and launched Cash Management Services in the Sultanate of Oman through its four - branch network located in Muscat-Shatt al Qurum, Ghubrah, the Wave and Sohar.

Information Technology

As we actively started 2015 anew, IT transformation plan is well underway to help us as a Bank differentiate ourselves within the markets we serve and achieve significant economies of scale through centralized resources. As demands for a nimbler response to customer requirements, reduction of risk and operating costs continue to impact the way we conduct business today, across many areas, our priorities have been reshuffled to focus on strategic high-level projects requiring a higher degree of skills, directions, discipline and organization.

The main headlines of Technology and Business enablement in support of the Bank's strategic and operational objectives are depicted below:

IT Strategic achievements

In 2014, we adopted several strategic moves aiming at optimizing our customers' time with an impressive year-over-year compounded growth in online and ATM transactions over the last 4 years.

Smart ATMs: As we aim to reach more digital customers with Smart ATMs, we upgraded our ATM network and features to become a fully functioned service with cash and check deposit solutions, including Phone Bill Payment for mobile line providers etc. New features have been added such as cardless ATM University Tuitions and ATM Credit Card Payment.

Digital Banking Channel: In addition to the enhancements developed for the Online Banking platform, a new release added improved services to our Beirut and Oman Corporate and Consumer Online platforms including additional security features.
By visiting Bank of Beirut Smart branches, our clients can live the transformation from physical to digital, and thus benefit from: Video conferencing with a contact center agent, Account opening via remote teller, Instantaneous cash or cheque deposit, bill payment, University Tuition Payment via smart ATM, Immediate debit card delivery and activation via onsite representative, Fund transfers (all kind) via online banking, and more.

Second Laserfiche Run Smarter Award: For the Second consecutive year, **Bank of Beirut** won the Laserfiche **Run Smarter Award** from LaserFiche (Electronic Document Archiving). The **Award Ceremony** took place in Anaheim California, USA celebrating the most ingenious and creative Laserfiche users from around the world, representing Fortune 500 companies from multiple industries.

Service Excellence

During the course of 2014, we worked diligently on providing service excellence to our internal and external customers. From advanced products to enhanced services, we focused on adding value to our customers wherever they are in the world and no matte their needs. Our support covered Lebanon and overseas entities as well as infrastructure, digital and physical premises.

IT Governance and Regulatory Compliance: We are developing a stronger IT Governance Process by improving and complying with the Internal and External Audits as well as the requests of the Banking Control Commission and by ensuring that all policies and procedures are updated and formalized.

Throughout 2014, Bank of Beirut compounded its effort in focusing on quality human capital for its crucial role in the Bank's continuous growth and success.

Main achievements of The Academy for 2014

The Training Academy planned, organized and facilitated the delivery of 22,775 hours of classroom trainings to both branch and Head Office staff.
This high record of activity is an important achievement given the new trend adopted by the Bank to shift to e-Learning, to reap a higher return on investment in the field of training & development.

Along with quantity of trainings, quality was equally emphasized. Agreements were signed with regional and multinational training providers to enhance both the Technical and Soft skills of Bank of Beirut employees.

The following courses were outsourced to external trainers and brought in-house by The Academy:
- Financial Analysis of Financial Institutions
- Supervisory Skills
- Advanced Sales Skills
- Sales Referral Skills
- Business English courses

Training Methodology

We, at The Academy, stayed true to our belief in training that is blended between classroom learning and e-Learning as a strategy to reach out to all employees thereby allowing staff development with flexibility, time saving, and lower training costs.

Capitalizing on our "2013 e-Learning startup of the year Award by IQUAD", more than 20 Learning modules including a wide range of e-learning courses with interactive videos were assigned to both Branch and Head Office employees. Some of which are listed below:

- Sales interview best practices 2014 - Transaction Banking & Middle Market staff
- Leadership Courses - Branch Managers and Department Heads
- Communication skills - Retail Back Office staff
- Credit Analysis - Retail Credit staff
- Team Building - Call Center Team Mentors
- Conflict resolution - BoB Finance (Western Union) staff
- Presentation Skills - Sales & Service Quality Department
- Time Management skills - PBRs (Personal Banking Representatives)

Upon the suggestion of increasing our return on investment, the mandatory Anti Money Laundering Course, together with tests, on its e-learning portal was assigned to our staff members.

Target Audience

The target audience for our 2014 trainings was not limited to Bank of Beirut employees only as the academy extended trainings further to include bank employees working for some of our correspondent banks in the MENA region. Organized under the umbrella of "International Week" and following a 5-days program, those trainings were delivered by heads of departments and included topics such as:
*Compliance, Correspondent Banking, Global Markets, Trade Finance, Risk Management, Foreign Exchange and e-Banking

Once again, our Bank proved to be a pioneer in the Lebanese banking industry when introducing the Bank of Beirut "Hands-on Banking" course offered to senior year university students majoring in Business Administration, as part of its outreach to Lebanese youth. The course, which is delivered by department heads in our Retail Banking Division, is unique in its kind as it covers main topics in retail banking in a purely applied way and within a virtual lab setting. In 2014, university students majoring in Business Administration and Banking & Finance were certified by Bank of Beirut after attending this course that has given them a Head Start in Banking and priority in recruitment when applying for a job at Bank of Beirut or any other bank.
The first milestone in that direction was the setting-up of our first in-branch training room in Sadat easily accessible to neighboring universities.

Other Successful Initiatives in 2014

*The e-learning portal already utilized to assess training needs and evaluate benefits of e-Learning via online surveys became also a reference and reliable source for classroom trainings.

Feedback after training can now be administered online for all classroom trainings. As for employee assessments, 2014 saw the introduction of customized online testing for all classroom training topics, thereby rendering the grading process more efficient and accurate for the academy.

Thanks to this new development, a large number of our staff members were able to sit for the test on our CRM 360 degrees within only a one month period.

*Last but not least among The Academy's achievements in 2014 is paving the way for curriculums related to the roles of "Teller" or "PBR" including clearly set training paths to be further developed in 2015. So far, the following 3 courses have been set as "fundamentals" to be built on:

- Orientation for New Recruits: 3-days program
- Induction in branch operations: 5-days program
- Induction in branch sales & services: 11-days program

Retail and Branch Division

At Bank of Beirut, we anticipate market changes and pride ourselves with our imaginative, innovative and customer-centric approach to developing new retail programs that meet the needs of all our customers. Our efforts towards providing high-end products and unique customer experience have flourished in 2014 and the year has witnessed further recognitions for our product suite: **Best Premium Banking Service, Best Customer Loyalty Program and Best SME Card in the Levant** were awarded to Bank of Beirut by Banker Middle East Magazine.

Best Premium Banking Service: Bank of Beirut launched the Premium Club, a service line developed for the Bank's most distinguished clients, offering them preferential treatment through a vast range of offers, superior wealth management solutions and lifestyle-enhancing features. Premium Club members have access to a private lounge, benefiting from free access to VIP airport lounges worldwide, enjoying complimentary "Infinite" credit cards, specialized travel and life insurance and best-in-class premium term deposits. Premium Club members also benefit from the assistance of a dedicated relationship manager. This combination made of this offer the best VIP banking package in the Levant.

Best Customer Loyalty Program: In 2014, our Bank's well-deserved loyalty program was awarded as the Best in the Levant. This absolutely new program on the market is unique in a number of ways. It rewards customers for all their banking transactions and offers them an array of systematically redeemable reward options according to their needs and preferences: Cash, Talk time and Megabytes. Not only are our Reward Redemptions automated, but every customer is offered access to a 'Loyalty Calculator' prior to evaluating a transaction decision

Extending our Business Support

2014 witnessed another achievement for Bank of Beirut which received the Banker Middle East Award for the **"Best SME Card in the Levant"** in recognition of its efficient, simple and easy to use cash management solution, **the Bank of Beirut Business Credit and Debit Cards**. This solution aims to assisting the local businesses to develop and grow by offering them an efficient and convenient payment solution to better manage their expenditures, coupled with rendering their employees the possibility of conducting business-related purchases.

Bank of Beirut has also developed the SME Segment to respond effectively to the market needs. Bank of Beirut aims at playing a major role in leveraging the capabilities of small to medium enterprises across industries through launching a Special SME package that targets small to medium size companies and industries. Our main objective is to penetrate a niche market and enhance business, leverage the capabilities of the SME segment, gain competitive advantage and increase the Bank's relationship ratio. This SME package consists of **three main products:** A Lending facility up to USD 100,000, a checking account – Winner Account with overdraft facility, and Business Debit and Credit Cards.

Extending our Footprint

In 2014, Bank of Beirut optimized its branch footprint, further expanding its presence across Lebanon. After opening branches in key cities in Lebanon, the year 2014 witnessed the opening of Sadat branch serving the LAU community, Jbeil Voie 13 and Feytroun.

Extending our Digital Channels

- A Growing Network of B-Smart Branches

In its pursuit to creating a new interaction model that is more aligned with its customers' lifestyle and time constraints, Bank of Beirut has added to its "B-Smart" network a new branch in Kfardebian. Fully equipped to welcome customers 24/7 and carefully designed to offer a special interactive, self-service and on-the-go banking experience, Bank of Beirut Smart Branch offers a fully-digitized space enabling customers to perform all their banking transactions and connect with Bank of Beirut Contact Center via video call and simulation to obtain the needed support.

Through our trailblazing "B-Smart" branch, clients enjoy also the facility of opening an account, transferring funds, paying bills, receiving on the spot deposit cards and obtaining expert assistance on a real time basis via video chat.

- Online Banking & I-mobile

In response to the efforts exerted by the Bank to communicate with customers wherever they are, the usage of the online banking and the mobile banking services increased immensely in year 2014, demonstrating strategy viability in responding to customers' needs. For the comfort and convenience of its customers, Bank of Beirut will at all times keep abreast new innovations and developments in digital banking to ensure continuous customer satisfaction.

- Smart ATM's with Cash and Cheque Deposit Modules and Card-less Services

In line with its digitization strategy, aiming at simplicity, convenience and providing complete e-services, in 2014 Bank of Beirut extended further its Smart ATM network reaching more strategic locations and servicing its clientele in a wider geographical area by promptly adopting any emerging technology in field.

Embracing Segmentation

In 2014, Bank of Beirut continued to develop its segmentation strategy to attract the utmost number of customer categories, due mainly to its profound understanding of its customers' needs. A range of competitive packages was developed targeting different segments of the society among which:

- **The "U for Youth":** Offers young university students aged between 18 and 25 a special package, including flexible university and post-graduate loans tailored to their needs and capabilities, a University Account with its Debit Card, an Affinity Credit Card, in addition to a multitude of discounts and free tailored trainings provided by Bank of Beirut in collaboration with AMIDEAST.

- **The "Gold Club":** Offers individuals wishing to upgrade their lifestyle the opportunity to benefit from preferential rates on lending, discounted rates on transfers, free for life Gold Club debit and credit cards, assistance from a dedicated Gold relationship representative, in addition to unlimited free utility bill domiciliation, draws to win cash prizes, free statements of accounts, a loyalty program and free cheque books.

- **The "Premium Club":** This was recognized by Banker Middle East as Best Premium Banking Service in the Levant. Bank of Beirut believes that Premium Clients deserve Premium Services and Priority Treatment. Every endeavor to perform beyond our clients' expectations was made to have them enjoy a whole new world of banking privileges and a host of lifestyle-enhancing features. Hence, we launched the Premium Club. This new service line was developed for high-net worth clients having an Average Total Relationship Balance (TRB) of at least USD 200,000.- The "Premium Club" offers a preferential treatment and customized services, including, but not limited to, Free for life "Winner Account", the current account with credit interest rate, Free statement of account and Free Premium branded cheque book. In addition to many other benefits, Free for Life Premium Club Visa Signature Debit Card, the only card in the Levant and the first in Lebanon, Free for life Premium Club Visa Infinite Credit card with unlimited benefits, such as, a multitude of discount privileges, airport lounge access, concierge service, travel insurance, purchase protection, etc. round-the-clock assistance, through a dedicated call center line.

Corporate Social Responsibility

Strengthening our Commitment to Education…

In 2014, we reaffirmed our commitment to Bank of Beirut inherent CSR principles, offering further support to the community wherever we are. Consistent with our pledge to support education, we have extended our focus to the youth of Lebanon.

The significance of the youth and the value they add to society are Bank of Beirut's ultimate goal and behind all its initiatives. We recognize education as Lebanon's opportunity for a better future and Bank of Beirut seeks to play an effective role in the promotion of our youth and to sustain a better life for the Lebanese community.

As pioneer and the only local Bank to partner with six major universities in the country, we continued our support to university students in their pursuit of education through various initiatives:

- **Partnership with Amideast**, by offering university students access to mentoring and coaching, and by granting them the opportunity to be well prepared for the job market. To date, 225 students benefited from the free tailored career boot camps.

- **Scholarships** to Lebanese students to pursue their higher education were granted, thus, proving a genuine commitment to our youth.

- **Support to university graduates**, granting them the possibility to join our team whenever the opportunity avails itself. Bank of Beirut participates in all job fairs and banking events as an employer of choice. A key pillar of our CSR strategy focused on education is to accompany youth academically, but also socially and culturally. With this in mind, we actively supported a spectrum of cultural events with our partner universities: musical shows, sports tournaments, christmas fiestas, international film festivals, rally papers are among the many activities sponsored throughout the year.

2014 has seen Bank of Beirut evolve further into social media portals. Being the first Bank to create a buzz around digital platforms, we continued to build our social media presence across the leading social media sites, including Facebook, Twitter, LinkedIn, YouTube, and Bank of Beirut blog. These have evolved into a real-time interactive community for customers, offering 24/7 support.

Growing Our Connections

Extended Channels

The unwavering focus on the social dimension of banking as a key component of Bank of Beirut strategy, has prompted us in 2014 to launch social media channels for our Sultanate of Oman branches as well as for "BOB Finance".

Digital Walls

2014 witnessed the passion for innovative digital signage in prime locations and key branches of Bank of Beirut. Offering a powerful platform for increasing our customers' awareness about new offers. These high-tech digital displays are installed to create a dynamic and modern in-branch environment, to enhance interaction with customers, to maximize the impact of our marketing communication, and to add value to our image.

Tutorials

2014 witnessed also the launch of a series of animated tutorials and videos created to simplify the process of utilizing Bank of Beirut services. Displayed on all Bank of Beirut in-branch digital screens, these guides are anticipated to facilitate the understanding of the Bank's innovative products and services.

Blog

Following the launch of Bank of Beirut blog to personally bond with our customers, we are investing further in this platform to enhance awareness of the Bank's product suite by attracting customers. # bobtips and #BoBHelp have been created with the intention of simplifying banking issues to people who are not very familiar with banking.

BoB Finance

BoB Finance

Upon intiating our operations in 2009 we had one focus in mind, to become a retail Bank for non-bank account holders. Over the years we became closer to our objective through adding new products and services. We strive to introduce at least one new product each quarter in order to offer our customers reliable, convenient and fast services.

2014 witnessed a number of achievements:

1- I-transfer: money transfers inside Lebanon using BoB Finance network and technology.
2- Global Top-up: Top-up mobiles for more than 80 countries through more than 300 operators.
3- C2B2C: Customer to business and business to customer. This service consists of placing our 750 counters at the disposal of corporate customers, hence enabling us to collect and to disburse on behalf of these companies. More than 50 companies have enrolled to date. Additionally, Insurance companies are collecting premiums over our counters and contracting companies are paying wages over our counters.
4- ISP vouchers: Most Internet service providers are currently selling internet plans through our offices.

Risk Management, Compliance, Information Security and Business Continuity Functions

Bank of Beirut s.a.l. manages its business activities within risk management guidelines as set by the Group's Risk Management framework approved by its Board of Directors. The Bank recognizes the role of the Board of Directors and Executive Management in the risk management process as set out in Banking Control Commission circulars (242 and 262) and Banque du Liban basic circulars (104, 118 and 119) and their related intermediary circulars and amendments.

In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board of Directors as does the setting up of the Bank's risk appetite and tolerance levels. The Board of Directors delegates, through its Risk & Compliance Committee, the day-to-day responsibility for establishment and monitoring of risk management processes across the bank's group to the Chief Risk Officer.

The Board's Risk & Compliance Committee has the mission to periodically (1) review and assess the Risk Management & Compliance functions of the Group, (2) review the adequacy of the Bank's capital and its allocation within the Group, (3) review risk limits and reports and make recommendations to the Board and (4) oversee the Group's Anti-Money Laundering & Counter Financing of Terrorism policies and procedures, as well as their implementation across the Group.

The Bank has an independent Group Risk Management function with sufficient authority, stature, independence and resources and access at the board level through the Board Risk & Compliance Committee. The Group Risk Management function aids Executive Management in controlling and actively managing the Group's overall risk. The department mainly ensures that:

- Risk policies and methodologies are consistent with the Group's risk appetite;
- Limits and risks across banking activities are monitored throughout the Group;
- A proper framework for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures is functioning at the Group level. This encompasses all risks to the Bank, on and off-balance sheet and at a group-wide, portfolio and business-line levels.

The Bank has ensured through its planning and budgeting processes that the risk management function has adequate resources necessary to assess risk, including personnel, access to information technology systems, system development resources, and support and access to internal information.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Group's Risk Management Framework and its related risk management policies as well as the Internal Capital Adequacy Assessment Process (ICAAP). Any discrepancies, breaches or deviations are escalated to Executive Senior Management in a timely manner for appropriate action.

In addition to the Group's Risk Management in Beirut, Chief Risk Officers/Risk Managers assigned within the Group's foreign subsidiaries or branches continuously coordinate with and report to Group - Head Office and Executive Senior Management in a timely manner, thus ensuring:

- Standardization of risk management functions and systems developed across the Group.
- Global/consolidated consistency of conducted business in line with the Board's approved risk appetite and tolerance as identified in its yearly ICAAP.

Risk Management Department

The overall responsibility of the monitoring and the analytical measurement/management of the bank-wide risks lies with the Group's Risk Management Department, which comprises a team of professionals spread between the Department's main functions of portfolio credit risk (borrowers/banks), market/liquidity risk, middle office and operational risk.

- Credit Risk Management

In relation to portfolio credit risk, the Risk Management Department is responsible for monitoring the risk profile of the Bank's loan portfolio, producing senior management reports highlighting any exposure of concern in corporate, commercial and consumer lending, as well as examining the level of concentration whether by credit quality, client groupings or economic sector, collateral coverage, past due loans and provisioning needs. The Bank acquired in 2011, through a group-wide license, the Moody's KMV Risk Analyst, a state-of-the-art credit analysis and rating system for corporate and SME borrowers, and is currently internally rating its commercial borrowers, for the 2nd consecutive year, in a plan to aid the Bank in moving at a later stage to internal rating-based measurements under Basel 3 credit risk directives. The credit risk team has an oversight responsibility on the implementation and administration of the Moody's Risk Analyst system to ensure proper internal ratings while working on the required model calibrations for the estimation of probabilities of default for its commercial borrowers. In addition, and in relation to Retail Credit Risk, the Credit Risk Unit is also supervising the implementation of a newly acquired (2014) retail application scoring model (by renowned firm FICO) to be then incorporated into the retail granting decision policies & procedures. Furthermore, the Banks & Countries' Unit monitors consolidated banks and countries exposures versus set limits and the level of concentration risk by credit quality, banks' grouping and their proper coverage.

- Market Risk/Liquidity Risk Management

In terms of market/liquidity risks, the department is responsible for generating internal reports quantifying the Bank's liquidity risk, earnings-at-risk and equity-at-risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank's trading and investment portfolio of fixed income securities to changes in market prices and/or market parameters. Interest rate sensitivity and liquidity gaps are periodically reported to Management and to the regulatory bodies. The Market Risk Management Unit is responsible for monitoring compliance with all limits set within the Market Risk, Liquidity and Investment policies of the Bank targeting permissible investments, stop loss limits, earning at risk limits, equity at risk limits and liquidity gap limits. The Risk Management team along with the Treasury and Finance Departments are monitoring on-and-off balance sheet risks through daily and monthly processing of its state-of-the-art Asset & Liability Management system, allowing full asset/liability management, along with daily measurement and analysis from a static perspective with a plan to move into dynamic ALM planning with stress testing and extensive scenario analysis.

- Operational Risk Management

As for operational risk, the department conducted a series of operational risk assessments on head office departments and functions, resulting in a set of amendments on operational procedures and system processes. In addition, an automated state-of-the art loss Operational Risk system has been implemented since 2009 allowing incidents reporting and loss collections across the Bank's operating activities throughout the Group, risk and control assessments and scoring as well as key risk indicators' identification and monitoring. The Operational Risk Management team has build-up since 2009 the Bank's operational loss/near miss database in line with BDL, BCC and Basel 3 directives. The Loss/Near Miss Data Collection project is supported by periodic training and education provided for employees involved in the process, to encourage them to report correctly, consistently and coherently all operational risk losses and risk events derived from their respective business areas. These losses/near misses are stored in a database with the purpose of regularly analyzing loss and events information, determining which loss events have the highest impacts across the Bank and which business line is most vulnerable to operational risk with the ultimate goal of controlling and eliminating such risks through enhancing controls, procedures and other mitigation factors while optimizing banking processes.

Compliance Department

Bank of Beirut s.a.l. believes that Compliance is most effective in a corporate culture that emphasizes standards of honesty and integrity and in which the board of directors and senior management lead by example. Compliance concerns everyone within the bank and is viewed as an integral part of the bank's business activities.

- Compliance Risk Definition

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the bank may suffer as a result of its failure to comply with laws, regulations, rules, internal standards, and codes of conduct applicable to its banking activities.

- Compliance Mission

The mission of the Compliance Function at Bank of Beirut is to ensure that the Bank is compliant with laws, regulations, rules, internal policies and procedures, and the code of conduct applicable to its banking activities. This typically includes specific areas such as the prevention of money laundering and terrorist financing.

Through a systematic and disciplined approach, the Compliance Function helps the Bank accomplish its objectives and mitigate the compliance risk which may result in legal and regulatory sanctions, material financial loss, or loss from reputation.

In addition, the objectives of the Compliance Function include advising senior management on compliance with laws, rules and standards, as well as recommending improvements and corrective measures to address breaches and deficiencies.

- Structure of the Compliance Department

- Independence of the Compliance Department.
- The compliance function has a formal status within the Bank to give it the appropriate standing, authority and independence. A Group Compliance Officer or Head of Compliance is appointed with the overall responsibility for coordinating the management of the Bank's compliance risk. Compliance function is not placed in a position where there is a possible conflict of interest between its compliance responsibilities and any other responsibilities it may have. In addition, Compliance function's staffs have unrestricted access to the information, personnel and records necessary to carry out their responsibilities.
- The concept of independence does not mean that the compliance function cannot work closely with management and staff in the various business units. Indeed, a cooperative working relationship between compliance function and business units should help to identify and manage compliance risks at an early stage.
- Compliance Resources: The Compliance Function is staffed with qualified professionals whom collectively possess diversified qualifications and expertise, in order to properly fulfill their duties and responsibilities.

- Compliance main Duties

- **AML/CFT Compliance:**

  Bank of Beirut has established and continues to maintain a global Anti-Money Laundering Policy, designed to ensure that Bank of Beirut and all of its overseas branches and affiliates are in compliance with applicable laws, rules and regulations related to anti-money laundering and counter financing of terrorism.

  Therefore, Bank of Beirut maintains Anti-Money Laundering Compliance Program which mainly provides for (1) Anti-Money Laundering Procedures designed to implement the bank's Customer Identification Program, (2) The designation of an Anti-Money Laundering Compliance Officer responsible for coordinating and monitoring day-to-day compliance with the Anti-Money Laundering Policy and applicable laws, rules and regulations, (3) Recordkeeping and reporting practices in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations, (4) Appropriate methods of monitoring transactions and account relationships to identify potential suspicious activity, (5) Reporting of suspicious activity to competent authorities in accordance with the Anti-Money Laundering Policy and applicable laws, rules and regulations, (6) On-going training of appropriate personnel with regard to anti-money laundering and counter financing of terrorism issues and their responsibilities for compliance; and (7) Independent testing to ensure that the Anti-Money Laundering Compliance Program has been implemented and continues to be appropriately maintained.

- **Legal/Regulatory Compliance:**

  The role of Legal/Regulatory Compliance is to ensure that the Bank is compliant with regulatory requirements applicable to the Group. Responsibilities include the monitoring of new and changed regulations and alerting senior management of the same, interpreting regulations and their applicability to the Group, determining impacts of the law and lead the implementation of such regulatory requirements to ensure compliance.

- **FATCA Compliance:**

  The main role of this function is to ensure that Bank of Beirut Group is compliant with the Foreign Account Tax Compliance Act (FATCA) – the US law enacted in 2010 for combating tax evasion – and its related policy and procedures. This includes the implementation of FATCA across the Group in coordination with all stakeholders, provide the necessary assistance in this respect, design, develop, and deliver training sessions to increase the overall awareness of FATCA across the Bank; and communicate any new FATCA requirements to all stakeholders;

- On-Going Compliance Review

As part of its mission, Compliance undertake on-site reviews at Branches/Head Office to identify any potential compliance risk and put in place adequate controls to manage and reduce the impact of these risks, monitor the controls and improve their efficiency. Results of the reviews performed are communicated to concerned senior management to take the appropriate actions necessary to mitigate any identified compliance risk.

Group Information Security and Business Continuity Department (ISBC)

- ISBC Governance

Bank of Beirut Board identifies that information security is a business enabler that must be aligned with the business strategy and available to serve the business by keeping it running securely and without interruption. That is why and in accordance with international corporate governance practices and BDL circulars the Board of Directors and Top Management have established an Information Security Committee responsible for the oversight and implementation of information security programs and initiatives across Bank of Beirut's Group. The information security function within Bank of Beirut is an independent function that reports to Group Risk & Compliance Division and the ISBC committee.

- ISBC Mission Statement

To protect Bank of Beirut's Group against external and internal cyber threats and support the Bank's business lines by providing proactive security & business continuity services, developing robust security architectures and promoting security awareness into the bank's culture.

- ISBC Vision Statement

To become a business enabler providing Bank of Beirut's Group with growth opportunities, through increasing customers' and counterparties' confidence in the Bank's financial & banking Services.

- ISBC 2014 Achievements

Bank of Beirut is continuously working towards providing greater access to information and electronic banking services to customers. As these capabilities increase, information security becomes more of a premium, and that is why many security initiatives where undertaken and great investments made to implement the necessary safeguards by utilizing best of bread in security technologies to protect customers against ID theft, electronic fraud, information disclosure and other common threats encountered by today's banking customers.

The Information Security & Business Continuity Department continued improving its processes, policies, procedures and systems to ensure that all areas relating to technology risk and information assurance are adequately covered. Based on well documented security assessments several technical security solutions were either newly adopted or updated, most of those relate to the protection of electronic banking services, data encryption technologies, data leak prevention processes, intrusion prevention systems, authentication services for mobile banking, corporate and consumer online banking users, network security systems, end point control systems with anti-malware capabilities, and security event management solutions for complete monitoring, metric creation and early detection of attacks. Bank of Beirut has also contracted with major international companies for the protection of the Group's Brands against phishing attacks, mobile attacks, rogue applications and Trojan attacks.

In addition to the work on the technical side identified by implementing IT Security controls, ISBC believes that the human factor is usually the weakest link when it comes to information security, for this reason and through a well-established awareness program, InfoSec provided Bank of Beirut's operational and customer facing staff with tailored workshops to address most common security attacks and threats that they might be faced during their day-to-day business tasks.

The ISBC department also updated all its incident handling and business continuity processes in accordance with ISO 22301, the newly adopted international standard, and in coordination with all involved business units was able to update all Business Continuity Plans and Business Impact Assessments for Bank of Beirut's Group and its offshore entities. In addition to formulating all necessary business continuity plans and in coordination with all business units and IT, ISBC was able to plan and execute successful Disaster Recovery and Business continuity tests for Bank of Beirut's Group in Lebanon and offshore entities, through utilizing the deployed alternative processing sites.

Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with the Central Bank of Lebanon Basic Circular No.119 and its related Banking Control Commission of Lebanon (BCCL) memorandum 7/2013 dated 3 June 2013, Bank of Beirut s.a.l. submitted to its Board of Directors and the regulator its consolidated Internal Capital Adequacy Assessment Process (ICAAP) for the third time 2014, following a first reporting back in 2011 at the start of a regulatory assessment parallel run initiated by the BCCL. The ICAAP report was challenged by the Bank's Executive Management Committee and the Board Risk Committee before being approved by the full Board of Directors.

The Bank views the ICAAP as an important internal assessment rather than just a regulatory requirement. This is being reflected by the ICAAP becoming an integral part of the Bank's strategic decision-making process and an essential tool used by Executive Management and the Board for capital planning. It also acts as an important exercise that drives the Bank towards developing and improving its internal risk models and techniques.

Building on the approaches used in its previous ICAAPs, the Bank further developed and refined various risk methodologies and included more sensitive risk measures able to capture risk more adequately. The recent assessment was based on a comprehensive (qualitative and quantitative) analysis of risks which took place in order to identify and assess all risks the Bank's Group is exposed.

The 2014 ICAAP covered the entire 2013 year financials and was based on consolidated Group's figures covering Bank of Beirut s.a.l. and its local and foreign subsidiaries and branches. Individual ICAAPs for material related foreign entities were also prepared to ensure that stand alone allocated capital is respectively appropriate. The assessment of Internal Capital per risk type was conducted on the basis of the Bank's Consolidated Audited Financial Statements for the same period ending 31 December 2013. The Capital Planning figures and the effects of Stress Test Scenarios were estimated on the basis of the Bank's 5 year business plan for the period 2014-2018. The results of the ICAAP showed that, when taking all relevant and material risks (pillar 1 and pillar 2 risk) to the Bank, including various stress testing scenarios, Bank of Beirut's capital adequacy ratio for ICAAP remained safely above the minimum requirement.

Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Bank of Beirut S.A.L.
Beirut, Lebanon

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, within the framework of local banking laws. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bank of Beirut S.A.L. and its Subsidiaries as of December 31, 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 8, 2015

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

Consolidated statement of financial position

ASSETS

As at December 31st - LBP'000	Notes	2014	2013	(Restated) 2012
Cash and deposits at central banks	5	4,272,791,353	4,088,481,847	3,405,046,629
Deposits with banks and financial institutions	6	1,701,180,082	1,875,967,997	1,267,179,018
Trading assets at fair value through profit or loss	7	1,128,250,634	810,040,567	980,013,039
Loans to banks	8	597,267,154	532,621,123	460,523,121
Loans and advances to customers	9	6,187,406,519	5,593,500,602	5,093,927,188
Loans and advances to related parties	10	104,732,990	128,732,858	123,175,116
Investment securities	11	7,755,743,263	6,787,356,388	5,349,061,121
Customers' liability under acceptances	12	382,283,868	368,260,084	410,635,482
Investment in an associate	13	37,679,064	34,038,008	31,297,419
Assets acquired in satisfaction of loans	14	23,335,113	20,396,848	21,355,189
Property and equipment	15	151,247,422	141,587,371	135,844,668
Goodwill	16	88,794,353	88,900,170	88,856,890
Other assets	17	53,757,133	57,546,288	56,606,427
Total Assets		22,484,468,948	20,527,430,151	17,423,521,307

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

As at December 31st - LBP'000	Notes	2014	2013	2012
Letters of guarantee and standby letters of credit	43	1,005,209,284	1,034,643,207	1,196,268,977
Documentary and commercial letters of credit	43	1,147,799,569	948,283,522	893,501,068
Notional amount of interest rate swap	43	31,031,531	59,867,120	83,131,905
Forward exchange contracts	43	956,556,238	893,551,431	1,442,454,369
Notional amount of options	43	-	234,027,500	-
Fiduciary accounts	44	196,218,018	188,414,171	166,107,533

LIABILITIES

As at December 31st - LBP'000	Notes	2014	2013	2012
Deposits from banks and financial institutions	18	1,794,428,207	1,680,842,935	1,043,392,577
Customers' and related parties' deposits at amortized cost	19	16,803,988,529	15,545,481,360	13,470,757,103
Liabilities under acceptance	12	382,283,868	368,260,084	410,635,482
Other borrowings	20	483,609,712	298,335,163	52,309,733
Certificates of deposit	21	682,016	30,296,399	46,793,527
Other liabilities	22	249,095,941	274,029,297	223,875,818
Provisions	23	35,005,073	32,674,145	42,074,867
Total liabilities		19,749,093,346	18,229,919,383	15,289,839,107

SHAREHOLDERS´ EQUITY

As at December 31st - LBP'000	Notes	2014	2013	2012
Common share capital	24	71,159,034	68,130,990	68,130,990
Common priority shares	24	150,753,015	-	-
Shareholders' cash contribution to capital	26	20,978,370	20,978,370	20,978,370
Non-cumulative preferred shares	25	783,824,625	783,824,625	783,824,625
Retained earnings		226,887,752	198,131,106	196,622,102
Reserves	27	553,152,868	501,886,141	448,574,109
Owned buildings' revaluation surplus		1,668,934	1,668,934	1,668,934
Cumulative change in fair value of financial instruments designated as hedging instruments	43	-	(8,968,778)	-
Cumulative change in fair value of fixed currency positions designated as hedging instruments	24	(30,606,477)	(18,517,020)	3,044,934
Cumulative change in fair value of investment securities at fair value through other comprehensive income		2,272,355	350,574	348,406
Regulatory reserve for assets acquired in satisfaction of loans	14	7,484,143	6,371,166	5,244,293
Treasury shares	28	(47,830,066)	(45,503,033)	(44,613,749)
Profit for the year		220,432,187	189,027,908	170,241,353
Currency translation adjustment		15,343,247	11,216,683	(1,653,147)
Equity attributable to the equity holders of the Group		1,975,519,987	1,708,597,666	1,652,411,220
Non-controlling interests	29	759,855,615	588,913,102	481,270,980
Total equity		2,735,375,602	2,297,510,768	2,133,682,200
Total Liabilities and Equity		22,484,468,948	20,527,430,151	17,423,521,307

The accompanying notes 1 to 53 form an integral part of the consolidated financial statements

Consolidated statement profit or loss

As at December 31st - LBP'000	Notes	2014	2013
Interest income	31	997,234,987	877,737,282
Interest expense	32	(656,868,924)	(578,546,486)
Net interest income		340,366,063	299,190,796
Fee and commission income	33	139,301,233	117,449,191
Fee and commission expense	34	(25,373,796)	(19,770,422)
Net fee and commission income		113,927,437	97,678,769
Net interest and other gains on trading assets at fair value through profit or loss	35	74,381,611	60,891,287
Gain from derecognition of financial assets measured at amortized cost	11	74,716,652	64,071,146
Other operating income (net)	36	17,832,855	12,700,718
Net financial revenues		621,224,618	534,532,716
Provision for credit losses (net)	37	(33,373,371)	(17,955,459)
Other provisions (net)	38	(878,422)	(3,243,868)
Write-back of allowance for impairment for a brokerage account (net)		-	114,461
Write-off of a bank account		(504,595)	-
Net financial revenues after impairment allowances		586,468,230	513,447,850
Staff costs	39	(144,180,523)	(133,156,087)
General and administrative expenses	40	(107,613,490)	(103,344,929)
Depreciation and amortization	41	(18,513,160)	(16,483,506)
Write-back of provision for impairment of assets acquired in satisfaction of loans	14	-	102,479
Profit before income tax		316,161,057	260,565,807
Income tax expense		(48,862,438)	(39,442,493)
Profit for the year before withholding tax on profits from subsidiaries		267,298,619	221,123,314
Deferred tax on undistributed profit	22	(2,213,522)	(1,878,282)
Profit for the year		265,085,097	219,245,032
Attributable to:			
Non-controlling interests	29	44,652,910	30,217,124
Equity holders of the Group		220,432,187	189,027,908
Basic earnings per share in LBP	42	LBP 3,151	LBP 2,653
Basic earnings per priority share in LBP	42	LBP 4,418	-
Diluted earnings per share in LBP	42	LBP 3,151	LBP 2,653

The accompanying notes 1 to 53 form an integral part of the consolidated financial statements

Consolidated statement profit or loss and other comprehensive income

As at December 31st - LBP'000	2014	2013
Profit for the year	265,085,097	219,245,032
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of investment securities at fair value through other comprehensive income	1,927,783	2,168
	1,927,783	2,168
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment related to foreign operations	4,126,564	12,869,831
Change in fair value of cash flow hedge	14,340	(552,632)
Change in fair value of derivatives designated		
to hedge an investment in a foreign entity – Note 22	8,968,778	(8,968,778)
Revaluation of fixed and special currency positions		
to hedge investments in foreign entities – Note 24	(12,089,457)	(21,561,955)
	1,020,225	(18,213,534)
Net other comprehensive (loss)/income for the year	2,948,008	(18,211,366)
Total comprehensive income for the year	268,033,105	201,033,666
Attributable to:		
Equity holders of the Bank	223,380,195	170,816,542
Non-controlling interests	44,652,910	30,217,124
	268,033,105	201,033,666

The accompanying notes 1 to 53 form an integral part of the consolidated financial statements

Consolidated statement of changes in equity

LBP'000	Common Stock	Priority Shares	Shareholders' Cash Contribution to Capital	Non-Cumulative Preferred Shares	Reserves and Retained Earnings	Owned Building Revaluation Surplus	Cumulative Change in Fair value of Investment Securities at Fair Value through Other Comprehensive Income	Reserve for Assets Acquired in in Satisfaction of Loans	Cumulative Change in Fair value of Financial Instruments Designated as Hedging Instruments	Cumulative Change in Fair value of Fixed Currency Positions Designated as Hedging Instruments	Treasure Shares	Currency Translation Adjustment	Profit for the year	Equity Attributable to the Equity Holders of the Group	Non-Controling Interest	Total
Balance Jan 1,2013	68,130,990	-	20,978,370	783,824,625	645,196,211	1,668,934	348,406	5,244,293	-	3,044,934	(44,613,749)	(1,653,147)	170,241,353	1,652,411,220	481,270,980	2,133,682,200
Allocation of 2012 profit	-	-	-	-	168,727,100	-	-	1,514,253	-	-	-	-	(170,241,353)	-	-	-
Dividends paid on preferred shares (Note 30)	-	-	-	-	(56,808,818)	-	-	-	-	-	-	-	-	(56,808,818)	-	(56,808,818)
Dividends paid on common shares (Note 30)	-	-	-	-	(36,134,658)	-	-	-	-	-	-	-	-	(36,134,658)	-	(36,134,658)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(39,038,152)	(39,038,152)
Dividends on treasury shares	-	-	-	-	206,926	-	-	-	-	-	-	-	-	206,926	-	206,926
Redemption of treasury shares (Beirut Preferred fund)	-	-	-	-	-	-	-	-	-	-	2,919,078	-	-	2,919,078	-	2,919,078
Liquidation of Beirut Preferred Fund	-	-	-	-	(991,087)	-	-	-	-	-	-	-	-	(991,087)	(30,855,701)	(31,846,788)
Liquidation of Excess Return Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(21,124,334)	(21,124,334)
Liquidation of International Mix Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(49,364,981)	(49,364,981)
Establishment of Beirut Preferred Fund II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	144,785,271	144,785,271
Purchase of non-controlling interest (Note 29)	-	-	-	-	(12,343,859)	-	-	-	-	-	-	-	-	(12,343,859)	(24,612,129)	(36,955,988)
Reclassification from free reserves (Note 14)	-	-	-	-	387,380	-	-	(387,380)	-	-	-	-	-	-	-	-
Share in profit of Beirut Preferred Fund II	-	-	-	-	(179,339)	-	-	-	-	-	-	-	-	(179,339)	-	(179,339)
Write off loans special reserves	-	-	-	-	(3,335)	-	-	-	-	-	-	-	-	(3,335)	-	(3,335)
Effect of exchange difference	-	-	-	-	(6,390,623)	-	-	-	-	-	-	-	-	(6,390,623)	-	(6,390,623)
Disposal of assets acquired in satisfaction of loans (Note 14)	-	-	-	-	734	-	-	-	-	-	-	-	-	734	-	734
Change in treasury shares	-	-	-	-	-	-	-	-	-	-	(3,808,362)	-	-	(3,808,362)	-	(3,808,362)
Change in net asset value of funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	92,517,480	92,517,480
Effect of transactions with Funds	-	-	-	-	(1,096,753)	-	-	-	-	-	-	-	-	(1,096,753)	5,117,544	4,020,791
Total comprehensive income for the year	-	-	-	-	(552,632)	-	2,168	-	(8,968,778)	(21,561,954)	-	12,869,830	189,027,908	170,816,542	30,217,124	201,033,666
Balance December 31,2013	68,130,990	-	20,978,370	783,824,625	700,017,247	1,668,934	350,574	6,371,166	(8,968,778)	(18,517,020)	(45,503,033)	11,216,683	189,027,908	1,708,597,666	588,913,102	2,297,510,768
Allocation of 2013 profit	-	-	-	-	187,582,277	-	-	1,445,631	-	-	-	-	(189,027,908)	-	-	-
Dividends paid on preferred shares (Note 30)	-	-	-	-	(55,960,850)	-	-	-	-	-	-	-	-	(55,960,850)	-	(55,960,850)
Dividends paid on common shares (Note 30)	-	-	-	-	(43,351,497)	-	-	-	-	-	-	-	-	(43,351,497)	-	(43,351,497)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(52,991,729)	(52,991,729)
Dividends on treasury shares	-	-	-	-	291,667	-	-	-	-	-	-	-	-	291,667	-	291,667
Issuance of priority shares (Note 24)	-	150,753,015	-	-	-	-	-	-	-	-	-	-	-	150,753,015	-	150,753,015
Issuance of series "J" preferred shares (Note 25)	-	-	-	113,062,500	-	-	-	-	-	-	-	-	-	113,062,500	-	113,062,500
Redemption of series "F" preferred shares (Issue premium)	-	-	-	(109,012,500)	-	-	-	-	-	-	-	-	-	(109,012,500)	-	(109,012,500)
Redemption of series "F" preferred shares (Par Value)	-	-	-	(4,050,000)	-	-	-	-	-	-	-	-	-	(4,050,000)	-	(4,050,000)
Increase and reconstitution of capital	3,028,044	-	-	-	(3,028,044)	-	-	-	-	-	-	-	-	-	-	-
Write off loans special reserves	-	-	-	-	(2,014)	-	-	-	-	-	-	-	-	(2,014)	-	(2,014)
Liquidation of Beirut Lira fund II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(52,342,900)	(52,342,900)
Liquidation of Beirut Opportunities Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(28,781,661)	(28,781,661)
Liquidation of Beirut Golden Income II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(67,846,066)	(67,846,066)
Reclassification to free reserves (Note 14)	-	-	-	-	332,654	-	-	(332,654)	-	-	-	-	-	-	-	-
Effect of exchange difference	-	-	-	-	(5,329,420)	-	(6,002)	-	-	-	-	-	-	(5,335,422)	-	(5,335,422)
Change in treasury shares	-	-	-	-	-	-	-	-	-	-	(2,327,033)	-	-	(2,327,033)	-	(2,327,033)
Change in net asset value of funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	325,575,330	325,575,330
Effect of transactions with funds	-	-	-	-	(525,740)	-	-	-	-	-	-	-	-	(525,740)	2,676,629	2,150,889
Total comprehensive income for the period	-	-	-	-	14,340	-	1,927,783	-	(8,968,778)	(12,089,457)	-	4,126,564	220,432,187	223,380,195	44,652,910	268,033,105
Balance December 31,2014	71,159,034	150,753,015	20,978,370	783,824,625	780,040,620	1,668,934	2,272,355	7,484,143	-	(30,606,477)	(47,830,066)	15,343,247	220,432,187	1,975,519,987	759,855,615	2,735,375,602

The accompanying notes 1 to 53 form an integral part of the consolidated financial statements

Consolidated statement of cash flows

As at December 31st - LBP'000	Notes	2014	2013
Cash flows from operating activities:			
Profit for the year		265,085,097	219,245,032
Adjustments for:			
Write-back of provision for impairment of assets acquired in satisfaction of loans (net)	14	-	(102,479)
Write-back of provision for impairment for a brokerage account		-	(114,461)
Depreciation and amortization	41	18,513,160	16,483,506
Provision for credit losses (net of write back)	37	33,373,371	17,955,459
Write-off of a bank account		504,595	-
Deferred tax on profits for distribution	22	2,213,522	1,878,282
Unrealized loss on trading assets at fair value through profit or loss	35	1,964,742	8,728,090
Gain on sale of assets acquired in satisfaction of loans	36	(474,628)	(797,733)
Gain on sale on property and equipment	36	(38,561)	(509,992)
Share in profits of an associate	36	(4,161,700)	(3,297,287)
Provision for end of service indemnity for employees	23	4,591,573	3,215,309
Other adjustments and effect of difference on exchange		(538,467)	7,397,910
		321,032,704	270,081,636
Net (increase)/decrease in trading assets at fair value through profit or loss		(320,174,809)	161,244,382
Net increase in loans to banks		(64,646,031)	(72,098,002)
Net increase in loans and advances to customers	46	(629,744,576)	(517,569,356)
Net decrease/(increase) in loans and advances to related parties		23,999,868	(5,557,742)
Net increase in cash and deposits at central banks		(898,823,488)	(220,833,314)
Net decrease/(increase) in deposits with banks and financial institutions		207,738,140	(106,975,913)
Increase in investment securities		(966,465,094)	(1,438,293,093)
Net decrease/(increase) in other assets	46	4,115,088	(1,478,003)
Net increase in deposits from banks		128,811,142	30,377,606
Net (decrease)/increase in other liabilities	46	(18,178,100)	2,350,431
Net increase in provision for contingencies		822,170	3,309,527
Net increase in customers' and related parties' accounts at amortized cost		1,258,507,169	2,074,724,257
Change in fair value of cash flow hedge		14,340	(552,632)
Change in fair value of fixed currency positions designated as hedging instruments	24	(12,089,457)	(21,561,954)
Settlement of end-of-service indemnity		3,082,815)	(15,925,558)
Net cash provided by operating activities		(968,163,749)	140,242,272
Cash flows from investing activities:			
Property and equipment		(30,929,449)	(23,234,385)
Proceeds from sale of assets acquired in satisfaction of loans		1,309,954	1,896,435
Proceeds from sale of property and equipment		95,382	914,982
Dividends from investment in an associate	13	520,644	556,698
Net cash used in investing activities		(29,003,469)	(19,866,270)
Cash flows from financing activities:			
Dividends paid		(152,012,409)	(131,774,702)
Issuance of priority shares		150,753,015	-
Issuance of Series "J" preferred shares		113,062,500	-
Redemption of series "F" preferred shares		(113,062,500)	-
Increase in other borrowings		185,274,549	246,025,430
Decrease in certificates of deposit		(29,614,383)	(16,497,128)
Non controlling interest		178,755,592	138,987,439
Change in treasury shares		(2,327,033)	(889,284)
Net cash provided / (used in) by financing activities		330,829,331	235,851,755
Net increase/(decrease) in cash and cash equivalents		(666,337,887)	357,227,757
Cash and cash equivalents - Beginning of year	46	1,963,554,587	1,606,326,830
Cash and cash equivalents - End of year	46	1,297,216,700	1,963,554,587

The accompanying notes 1 to 53 form an integral part of the consolidated financial statements

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Bank of Beirut S.A.L. (the "Bank") is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 75 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 62 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 3 branches in the Sultanate of Oman and representative offices in Dubai in the United Arab Emirates, Iraq, Nigeria and Libya. The Bank has a subsidiary bank in the UK acquired in 2002 and this subsidiary opened a branch in Frankfurt during 2010. The Bank established during 2007 a new investment subsidiary bank under the name of Bank of Beirut Invest S.A.L. The Bank acquired a subsidiary bank in Sydney – Australia named "Laiki Bank" and changed its name to Beirut Hellenic Bank and in 2013 changed the name to Bank of Sydney Ltd. Further information on the Group's structure is provided in Note 3(A). Information on other related party transactions of the Group is provided in Note 46.

The headquarters of Bank of Beirut S.A.L. are located in Fosh Street, Down Town Beirut, Lebanon.

2. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 Application of New and Revised International Financial Reporting Standards (IFRSs)

In the current year, the Group has applied the following new and revised Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective with a date of initial application of January 1, 2014 and that are applicable to the Group:

Amendments to IFRS 10, IFRS 12, and IAS 27 Investment Entities;

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. The amendments require retrospective application.

Amendments to IAS32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right to set-off" and "simultaneous realization and settlement". The amendments require retrospective application.

Amendments to IAS36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with definite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. The amendments require retrospective application.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments require retrospective application.

Notes to the consolidated financial statements

IFRIC 21 Levies
IFRIC 21 addresses the issue as to when to recognize a liability to pay a levy imposed by a government. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation.

The application of the above new and revised Standards did not have a material impact on the disclosures and amounts reported for the current and prior years, but may affect the accounting for future transactions or arrangements.

2.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but not yet effective:

• Annual Improvements to IFRSs 2010-2012 Cycle that include amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24. July 1, 2014.

• Annual Improvements to IFRSs 2011-2013 Cycle that include amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40. July 1, 2014.

• Amendments to IAS 19 Employee Benefits clarify the requirements that relate to how contributions from employees of third parties that are linked to service should be attributed to periods of service. In addition, the amendments permit a practical expedient if the amount of he contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered. July 1, 2014.

• IFRS 15 Revenue from Contracts with Customers- establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. January 1, 2017.

• Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined under IFRS 3 Business Combinations. January 1, 2016.

• Amendments to IAS 16 and IAS 38 Classification of Acceptable Methods of Depreciation and Amortization – Amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. January 1, 2016.

• Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method of accounting in separate financial statements. January 1, 2016.

• Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture to (i) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations), (ii) require the partial recognition of gains and losses where the assets do not constitute a business; i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture. These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by a direct sale of the assets themselves.

• Amendments to IAS 1 Presentation of Financial Statements address perceived impediments to prepares of financial statements exercising their judgment in presenting the financial reports. January 1, 2016.

• Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) clarify certain aspects of applying the consolidation exception for investment entities.

• Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants- define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance to IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. January 1, 2016.

Notes to the consolidated financial statements

• Annual Improvements to IFRSs 2012-2014 Cycle that include amendments to IFRS 5, IFRS 7, IAS 19, and IAS34. January 1, 2016.

• IFRS 9 Financial Instruments (2013) was revised in November 2013 to incorporate a hedge accounting chapter and permit early application for presenting in other comprehensive income the own credit gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of IFRS 9. The main amendments to hedge accounting are the summarized by (i) The 80 – 125% rule for testing of hedge effectiveness is no longer required, (ii) hedge effectiveness is measured prospectively with no more consideration for retrospective testing, (iii) funding of foreign investments in foreign currency can be considered as a hedge and related foreign currency adjustment is deferred under equity, (iv) hedging instrument can be re-designated and periodically revisited to eliminate mismatch, and (v) cash flow hedge for fixed income securities classified at amortized cost has become eligible.
This version of the standard remains available for application if the relevant date of initial application is before 1 February 2015.
The final version of IFRS 9 Financial Instruments (2014) was issued in July 2014 to replace IAS 39: Financial Instruments: Recognition and Measurement. IFRS 9 (2014) incorporates requirements for classification and measurement, impairment, general hedge accounting and derecognition. The final version of IFRS 9 introduces a) new classification for debt instruments that are held to collect contractual cash flows with ability to sell, and related measurement requirement consists of "fair value through other comprehensive income (FVTOCI), and b) impairment of financial assets applying expected loss model through 3 phases, starting by 12 month expected impairment loss to be initiated on initial recognition of the credit exposure, and life time impairment loss to be recognized upon significant increase in credit risk prior to the date the credit exposure is being impaired, and phase 3 when the loan is effectively impaired. On phase 1 and 2 income from time value is recognized on the gross amount of the credit exposure and in phase 3 income is recognized on the net exposure.

Except for IFRS 9, the Directors of the Group do not anticipate that the application of these amendments will have a significant effect on the Group's consolidated financial statements. January 1, 2018

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:

- Land and building acquired prior to 1993 are measured at their revalued amounts based at market prices prevailing in 1996, to compensate for the effect of the Upper – inflationary economy prevailing in the earlier years.
- Financial assets and liabilities held for trading.
- Financial instruments designated at fair value through profit or loss ("FVTPL").
- Investments in equity securities designated at fair value through other comprehensive income ("OCI").
- Derivative financial instruments measured at fair value.

Assets and liabilities are prepared according to their nature and are presented in an approximate order that reflects their relative liquidity.

Certain 2013 figures were reclassified to conform with current year's presentation.

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries.
Control is achieved when the Bank:
• has power over the investee;
• is exposed, or has rights, to variable returns from its involvement with the investee; and
• has the ability to use its power to affect its returns.

Notes to the consolidated financial statements

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned directly or indirectly by the Bank. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The Consolidated Subsidiaries consist of the following:

	Country of Incorporation	Year of Acquisition or Incorporation	Percentage of Ownership 2014	2013	Date of Liquidation	Business Activity
Bank of Beirut UK LTD	United Kingdom	2002	100	100	-	Banking
Bank of Beirut Invest S.A.L.	Lebanon	2007	100	100	-	Investment Banking
Beirut Broker Company S.A.R.L.	Lebanon	1999	100	100	-	Insurance brokerage
BOB Finance S.A.L.	Lebanon	2006	100	100	-	Financial Institution
Cofida Holding S.A.L.	Lebanon	2008	100	100	-	Holding
Beirut Life S.A.L.	Lebanon	2010	90	90	-	Insurance (Life)
Bank of Sydney Ltd						
(Formerly Beirut Hellenic Bank)	Australia	2011	100	100	-	Banking
International Mix Fund	Lebanon	2005	-	-	Aug-13	Mutual Fund
Beirut Preferred Fund	Lebanon	2006	-	-	May-13	Mutual Fund
Beirut Lira Fund II	Lebanon	2009	-	-	Feb-14	Mutual Fund
Beirut Golden Income II	Lebanon	2009	-	-	Aug-14	Mutual Fund
Beirut Opportunities Fund	Lebanon	2009	-	-	Oct-14	Mutual Fund
Excess Return Fund	Lebanon	2010	-	-	Aug-13	Mutual Fund
Optimal Investment Fund	Lebanon	2010	-	-	-	Mutual Fund
Beirut Preferred Fund II	Cayman Island	2013	1.81	3.03	-	Mutual Fund

Notes to the consolidated financial statements

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries and associates are identified separately from the Group's equity therein.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

Notes to the consolidated financial statements

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP"), which is the Group's reporting currency. However, the primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant for over 10 years.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

E. Financial Assets and Liabilities:

Recognition and Derecognition of Financial Assets and Liabilities:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Group derecognizes a financial asset (or a part of a financial asset, or a part of a group of similar financial assets), when the contractual rights to the cash flows from the asset expire.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Upon derecognition of a financial asset that is classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Offsetting:

Financial assets and liabilities are set-off and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair Value Measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of Financial Assets:

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- significant or prolonged decline in fair value beyond one business cycle that occurred after the initial recognition of the financial asset or group of financial assets which impacted the estimated future cash flows of the investment.

For certain categories of financial asset, such as loans and advances, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information, as well as observable changes in national or local economic conditions that correlate with default on loans and advances.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Collateral Valuation:

The Group seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting

agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Group's policies and type of collateral.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

F. Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

Debt Instruments:

Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL"). In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL.

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Equity Instruments:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Reclassification:

Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Group's business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date.

Reclassification is not allowed where:
• the 'other comprehensive income' option has been exercised for a financial asset, or
• the fair value option has been exercised in any circumstance for a financial instrument.

Designation at Fair Value through Profit and Loss:

The Group designates financial assets and liabilities at fair value through profit or loss when either:
• The assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
• The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
• The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Bank's own equity instruments.

Financial Liabilities:

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

• it has been acquired principally for the purpose of repurchasing it in the near term; or

• on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

• it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

• the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

• it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities

are recognised in profit or loss. Such gains or losses that are recognised in profit or loss incorporate any interest paid on the financial liabilities and are included in the "Net interest and other gains on trading securities" in the consolidated income statement.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss.

Financial Liabilities Subsequently Measured at Amortised Cost:

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method.

Financial Guarantee Contract Liabilities:

Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, and credit-insurance contracts).

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:
• the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
• the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

H. Derivative Financial Instruments:

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, (both written and purchased) are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each statement of financial position date. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. The resulting gain or loss is recognized in the income statement immediately unless the derivative is designated and effective as a hedge instrument in which event the timing of the recognition in the statement of profit or loss depends on the hedge relationship. The Group designates certain derivatives as either hedges of the fair value recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models as appropriate as indicated under Note 3E.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:
• is not measured at fair value with changes in fair value recognized in profit or loss.
• is not an asset within the scope of IFRS 9.

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated statement of profit or loss in “Net results on financial instruments at fair value through profit or loss”. For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of profit or loss.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Hedges of net investments in foreign operations:

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal of the foreign operation.

I. Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading. Loans and advances are measured at amortized cost net of unearned interest and provision for credit losses where applicable. Non-performing debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/ or interest.applicable. Non-performing debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

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J. Investments in Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The results and assets and liabilities of associates, except where the Group has control over the associates’ financial and operating policies, are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group’s share of the profit or loss and other comprehensive income of the associate. When the Group’s share of losses of an associate exceeds the Group’s interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group’s consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The financial statements of the associates are prepared for the same reporting period of the Group.

K. Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1993 are stated at their revalued amounts based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under “Equity”.

Depreciation is recognized so as to write off the cost or valuation of property and equipment (other than advance payments on capital expenditures) less their residual values, if any, over their useful lives, using the straight-line method as follows:

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	Rate	Years
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10
Installation and improvement	25%	4

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

L. Intangible Assets Other than Goodwill:

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates all other expenditure is expressed when incurred.

M. Assets acquired in satisfaction of loans:

Policy applicable to Lebanese Group entities: Real estate properties acquired through the enforcement of collateral over loans and advances are stated at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities which require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated statement of profit or loss under “Other operating income” or “Other operating expenses”. Gains resulting from the sale of repossessed assets are transferred to “Reserves for assets acquired in satisfaction of loans” in the following financial year.

N. Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.

- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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The recoverable amount of the Group’s owned properties and of properties acquired in satisfaction of loans, is the estimated market value as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment for an illiquidity factor and market constraints.

The impairment loss is charged to the consolidated statement of profit or loss.

O. Provision for Employees’ End-of-Service Indemnity / Staff Retirement Benefits:

Employees’ End-of-service Indemnities:

(Under the Lebanese Jurisdiction):

The provision for employees’ termination indemnities is based on the liability that would arise if the employment of all the employees’ were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months’ remunerations and less contributions paid to the Lebanese Social Security National Fund.

Defined benefit plans:

(Under other Jurisdictions):

The Group contributes to a defined contribution scheme which is open to all members of staff over the age of 18. Contributions are charged to the statement of profit or loss when they become in accordance with the scheme.

P. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Q. Revenue and Expense Recognition:

Interest income and expense are recognized on an accrual basis, taking into account the amount of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include discount and premium amortization.

Interest income and expense presented in the income statement include:
- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income on financial assets measured at fair value through profit or loss and interest income on the trading portfolio are presented separately in the income statement.

Net trading income presented in the income statement includes:

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- Interest income and expense on the trading portfolio.
- Dividend income on the trading equities.
- Realized and unrealized gains and losses on the trading portfolio.

Other net income from financial assets measured at fair value through profit or loss, other than those held for trading, includes:

- Dividend income.
- Realized and unrealized fair value changes.
- Foreign exchange differences.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

R. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of the items that are never taxable or deductible. Income tax expense for the insurance subsidiary is based on deemed profits which are set up by the Ministry of Finance of Lebanon as 5% of revenues. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Part of debt securities invested in by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

S. Fiduciary Accounts:

Fiduciary assets held or invested on behalf of individuals and others are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

T. Operating lease agreements:

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated income statement on a straight line basis over the lease term.

U. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Bank and deposits with banks and financial institutions.

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V. Earnings per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

W. Dividends on ordinary shares

Dividends paid on common, priority and preferred shares are recognized as a liability and deducted from equity when they are approved by the General Assembly of the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

X. Insurance Contracts:

The Group issues contracts that transfer insurance risk.

Recognition and measurement:
Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect on the ability of their dependents to maintain their current level of income. Long-term life insurance contracts issued by the Group insure human life events (for example death or survival). Premiums are shown before deduction of commission and are recognized as revenue when they become payable by the contract holder. Benefits are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is based on assumptions as to mortality, persistency and maintenance expenses that are established at the time the contract is issued.

Mathematical reserves for life insurance contracts:
Provisions for term life products are calculated as the difference between the actuarial present value of the Group's future liabilities and the actuarial present value of the policyholders' future premiums based on the tables of mortality and the actuarial interest rates as per the original tariffs. In case losses arise from liability adequacy tests, an additional provision is raised.
At each reporting date, an actuarial valuation of the life portfolio is carried out by a professional independent actuary and a technical assessment is performed in respect of mathematical reserves. Prevailing laws require that such actuarial valuation be carried out annually.

Outstanding claims reserves:
The outstanding claims reserves are made for all claims reported to the Group and still unpaid at the reporting date including an estimate for the cost of claims incurred but not reported (IBNR). Claims are recognized in the income statement when incurred based on estimated benefits.

Liability Adequacy Test:
Liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss by establishing a provision for losses arising from liability adequacy tests.

Deferred Acquisition Cost:
Commissions that are related to securing new contracts and renewing existing contracts are capitalized as Deferred Acquisition Cost ("DAC"). All other costs are recognized as expenses when incurred. Deferred acquisition costs are subsequently amortized over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the income statement.

Y. Insurance Receivables and Payables:

(a) Reinsurance contracts held
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

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The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within reinsurance receivables), as well as longer-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.
Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.
Reinsurers' share of premiums and claims is computed on the basis of effective outwards. The reinsurers' portion towards the above outstanding claims reserves, claims incurred but not reported reserves and mathematical reserves are classified as reinsurance assets in the statement of financial position.
The Group assesses its reinsurance assets for impairment on a yearly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the income statement.
The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets

(b) Receivables and payables related to insurance contracts
Receivables and payables are recognized when due. These receivables are measured at amortized cost subsequent to initial recognition, less impairment. These include amounts due to and from agents and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the income statement.

The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Critical accounting judgments in applying the Group's accounting policies:

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

Going Concern:

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

Classification of Financial Assets:

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group that would be consistent with amortized cost measurement include:
- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:
- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

Qualifying Hedge Relationships:

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group based their assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Allowances for Credit Losses:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios, etc…), concentrations of risks, economic data and the performance of different individual groups.

Impairment of Goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3E. For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of market participants. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

5. CASH AND DEPOSITS AT CENTRAL BANKS

As at December 31st - LBP'000	2014	2013
Cash on hand	42,031,328	39,986,936
Non-interest earning accounts:		
- Compulsory reserves with the Central Bank of Lebanon	272,112,376	182,046,463
Interest earning accounts:		
- Current accounts with the Central Bank of Lebanon	47,426,020	10,647,389
- Current accounts with other central banks	744,157,942	757,268,452
- Term placements with the Central Bank of Lebanon	3,131,601,354	3,063,909,187
- Term placements with other central banks	1,140,625	3,021,495
Accrued interest receivable	34,321,708	31,601,925
	4,272,791,353	4,088,481,847

The non-interest earning cash compulsory reserves with the Central Bank of Lebanon ("BDL") represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with local banking regulations.

Compulsory deposits with BDL are not available for use in the Group's day-to-day operations.

Term placements with the Central Bank of Lebanon include as of December 31, 2014 and 2013, the equivalent in foreign currencies of LBP1,316billion and LBP1,264billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

Term placements with other central banks also include the equivalent in Euro of LBP1.04billion as at December 31, 2014 (LBP1billion as at December 31, 2013) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (1% as at December 31, 2013) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

At December 31, 2014, current accounts with other central banks also include the equivalent in Omani Riyal (OMR) of LBP1.96billion (LBP1.96billion as at December 31, 2013) as minimum reserve requirements at Central Bank of Oman.

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6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

As at December 31st - LBP'000	2014	(Restated) 2013
Checks in course of collection	79,585,980	53,366,475
Current accounts	462,660,340	591,564,389
Current accounts with an associate	-	1,627,885
Term placements	1,114,602,752	1,124,561,799
Pledged deposits	43,647,375	104,303,864
Accrued interest receivable	683,635	543,585
	1,701,180,082	1,875,967,997

The Group has deposits pledged against facilities obtained. Refer to Note 48.

The Group has as of December 31, 2014 and 2013, term placements with banks amounting to LBP7.5billion and LBP31.7billion, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of letters of credit and acceptances in the amount of LBP11.5billion and LBP2.8billion respectively as at December 31, 2014 (LBP20.2billion and LBP1.2billion respectively as at December 31, 2013).

Term placements as at December 31, 2014 include balances with local banks in the aggregate amount of LBP422billion (LBP195billion in LBP and C/V of LBP227billion in foreign currencies) against short term deposits from the same banks in the aggregate amount of LBP426billion (LBP195billion in LBP and C/V LBP231billion in foreign currencies) with similar terms and conditions recorded under "Deposits from banks and financial institutions" (Note 18).

Notes to the consolidated financial statements

7. TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at December 31st, 2014 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	8,384,390	8,384,390
Unquoted equity securities	-	50,137,567	50,137,567
Lebanese treasury bills	408,465,195	-	408,465,195
Lebanese Government bonds	7,000,000	178,955,503	185,955,503
Foreign government treasury bills	-	60,885,500	60,885,500
Certificates of deposit issued by the Central Bank of Lebanon	242,912,780	153,526,556	396,439,336
Accrued interest receivable	12,980,981	5,002,162	17,983,143
	671,358,956	456,891,678	1,128,250,634

As at December 31st, 2013 - LBP'000 (Restated)	LBP	C/V of F/Cy	Total
Quoted equity securities	-	11,446,373	11,446,373
Unquoted equity securities	-	44,531,252	44,531,252
Lebanese treasury bills	323,713,967	-	323,713,967
Lebanese Government bonds	7,000,000	99,413,949	106,413,949
Foreign government treasury bills	-	32,124,914	32,124,914
Certificates of deposit issued by the Central Bank of Lebanon	167,118,535	108,915,542	276,034,077
Certificates of deposit issued by financial private sector	-	1,558,376	1,558,376
Accrued interest receivable	11,040,738	3,176,921	14,217,659
	508,873,240	301,167,327	810,040,567

Net interest income, gains and losses on trading assets' portfolio are detailed under Note 35

8. LOANS TO BANKS

As at December 31st, 2014 - LBP'000	2014	2013
Loans to a resident housing bank	26,276,400	31,200,800
Discounted acceptances	361,214,386	375,439,258
Discounted acceptances – associate bank	67,152,652	59,934,326
Short term loans	109,825,990	60,503,626
Short term loans – associate bank	38,807,974	8,486,825
Accrued interest receivable	1,018,565	591,078
Less: Unearned interest	(7,028,813)	(3,534,790)
	597,267,154	532,621,123

Loans to a resident housing bank represent 12 year LBP loans granted to this bank. Interest is paid semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from the withdrawal date in 10 annual equal installments. As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers.

Discounted acceptances represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern and African banks. These balances are denominated in foreign currencies.

Short term loans represent as of December 31, 2014 and 2013 short term financing provided by the Group to an associate and other banks mainly against trade finance operations.

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9. LOANS AND ADVANCES TO CUSTOMERS

	2014				2013			
As at December 31st - LBP'000	Balance net of unearned interest	Unrealized Interest	Impairment Allowance	Carrying Amount	Balance net of unearned interest	Unrealized Interest	Impairment Allowance	Carrying Amount
Performing Retail Loans:								
Retail loans	2,331,726,710	-	-	2,331,726,710	2,010,315,457	-	-	2,010,315,457
Unearned interest	(64,201,231)	-	-	(64,201,231)	(63,024,931)	-	-	(63,024,931)
Performing Corporate Customers' Loans:								
Rescheduled loans	437,175	-	-	437,175	655,763	-	-	655,763
Corporate loans	3,908,450,353	-	-	3,908,450,353	3,649,099,324	-	-	3,649,099,324
Unearned interest	(1,660,079)	-	-	(1,660,079)	(1,340,249)	-	-	(1,340,249)
Non-Performing Retail Loans:								
Rescheduled substandard loans	554,016	(114,846)	-	439,170	316,999	(98,954)	-	218,045
Substandard loans	10,583,228	(1,186,041)	(305,415)	9,091,772	8,825,034	(1,222,675)	(50,902)	7,551,457
Rescheduled doubtful and bad loans	73,277	(8,205)	(41,177)	23,895	36,906	(17,380)	(19,526)	-
Doubtful and bad loans	10,910,331	(3,369,668)	(5,329,131)	2,211,532	5,779,262	(1,857,257)	(2,137,887)	1,784,118
Non-Performing Corporate Customers' Loans:								
Rescheduled substandard loans	779,145	(695,109)	-	84,036	5,595,026	(3,202,188)	-	2,392,838
Substandard loans	8,584,557	(1,857,841)	-	6,726,716	7,041,857	(1,496,399)	-	5,545,458
Rescheduled doubtful and bad loans	5,292,846	(1,221,826)	(2,428,654)	1,642,366	1,473,545	(535,791)	(199,035)	738,719
Doubtful and bad loans	125,796,482	(41,954,837)	(39,080,312)	44,761,333	86,716,166	(40,648,619)	(35,278,117)	10,789,430
Allowance for impairment of collectively assessed loans	-	-	(60,057,864)	(60,057,864)	-	-	(39,285,311)	(39,285,311)
Accrued interest receivable	7,730,635	-	-	7,730,635	8,060,484	-	-	8,060,484
	6,345,057,445	(50,408,373)	(107,242,553)	6,187,406,519	5,719,550,643	(49,079,263)	(76,970,778)	5,593,500,602

Performing loans and advances to customers as at December 31, 2014, include loan balances in US Dollar aggregating to LBP164billion granted to customers against credit balances in Lebanese Pounds aggregating LBP94billion and margins in US Dollar aggregating LBP95billion reflected under "Customers' and related parties' deposits" in the statement of financial position as at December 31, 2014, (loans balances in US Dollar aggregating LBP173billion granted to customers against credit balances in Lebanese Pounds aggregating LBP101billion and margins in US Dollar aggregating LBP98billion reflected under "Customers and related parties' deposits" as at December 31, 2013). Furthermore, performing loans and advances to customers as at December 31, 2013, include loan balances in US Dollar aggregating to LBP178billion granted against matching credit balances in US Dollar reflected under "Customers' and related parties' deposits" in the statement of financial position (Note 19).

Loans and advances to customers include creditors accidentally debtors balances aggregating to LBP12.1billion as at December 31, 2014 (LBP10.34billion in 2013).
Loans and advances to customers also include as at December 31, 2014 and 2013 multicurrency trading exposures amounting to LBP289million and LBP983million respectively, net of corresponding credit balances in the amount of LBP13.2billion and LBP30billion respectively.

Rescheduled loans represent loans with renegotiated terms.

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The movement of unrealized interest and allowance for impairment on substandard loans during 2014 and 2013 is summarized as follows:

	2014	
LBP'000	Unrealized Interest	Impairment Allowance
Balance, January 1	(6,020,216)	(50,902)
Additions	(1,400,963)	-
Additions to allowance for impairment (Note 37)	-	(254,513)
Write-back to profit or loss	1,200,063	-
Write-off	1,998,240	-
Transfer from/to other classifications (net)	353,652	-
Effect of exchange rates changes	15,387	-
Balance, December 31	(3,853,837)	(305,415)

	2013	
LBP'000	Unrealized Interest	Impairment Allowance
Balance, January 1	(4,549,338)	(82,227)
Settlements	27,257	-
Additions	(2,542,425)	-
Write-back to profit or loss	1,241,312	-
Write-off	30,035	-
Transfer from/to other classifications (net)	(230,751)	31,325
Effect of exchange rates changes	3,694	-
Balance, December 31	(6,020,216)	(50,902)

Notes to the consolidated financial statements

The movement of unrealized interest and allowance for impairment on doubtful loans during 2014 and 2013 is summarized as follows:

	2014	
LBP'000	Unrealized Interest	Allowance for Impairment
Balance, January 1	(43,059,047)	(37,634,565)
Settlements	66,565	-
Additions	(7,485,441)	-
Additional provision (Note 37)	-	(15,411,454)
Write back of provision (Note 37)	-	3,519,927
Write back of unrealized interest to statement of profit or loss	88,888	-
Write-off	4,560,410	4,286,639
Transfer to/from unclassified loans	(415,051)	-
Transfer to collective provision (Net)	-	(2,252,527)
Transfer to sundry creditors (Note 22)	-	609,535
Effect of exchange rates changes	(310,860)	3,171
Balance December 31	(46,554,536)	(46,879,274)

	2013	
LBP'000	Unrealized Interest	Allowance for Impairment
Balance, January 1	(49,979,129)	(38,642,334)
Settlements	172,217	-
Additions	(6,973,317)	-
Additional provision (Note 37)	-	(4,657,054)
Write back of provision (Note 37)	-	2,260,949
Write back of unrealized interest to profit or loss	648,612	-
Write-off	12,699,950	2,759,498
Transfer to/from substandard loans	151,155	49,978
Transfer to/from off-balance sheet	-	(174,785)
Transfer to collective provision	-	755,143
Transfer to sundry creditors	60,411	-
Effect of exchange rates changes	161,054	14,040
Balance, December 31	(43,059,047)	(37,634,565)

The movement of the allowance for impairment of collectively assessed loans during 2014 and 2013 is as follows:

LBP'000	2014	2013
Balance, January 1	39,285,311	23,135,627
Additions (Note 37)	21,191,110	15,482,501
Write-back (Note 37)	-	(51,994)
Transfer from sundry creditors	11,786	-
Transfer to/from specific provision (Net)	(2,252,527)	755,143
Transfer from other liabilities	1,839,540	-
Difference on exchange	(17,356)	(35,966)
Balance, December 31	60,057,864	39,285,311

Notes to the consolidated financial statements

10. LOANS AND ADVANCES TO RELATED PARTIES

As at December 31st, 2014 - LBP'000	2014	2013
Performing Retail Accounts:		
Mortgage loans	10,070,083	8,518,791
Personal loans	1,022,527	1,207,224
Car loans	354,226	284,262
Credit cards	466,157	408,781
Other	14,130	18,996
Performing Corporate Accounts:		
Small and medium enterprises	92,756,882	118,222,374
Accrued interest receivable	48,985	72,430
	104,732,990	128,732,858

Loans and advances to related parties are partially covered by collaterals. Refer to Note 45.
Performing corporate accounts include as at December 31, 2014 and 2013 multicurrency trading exposures amounting to LBP20.2million and LBP20million respectively, net of corresponding credit balances in the amount of LBP2billion and LBP4.7billion, respectively.

11. INVESTMENT SECURITIES

	Fair Value through Other Comprehensive Income			Amortized Cost			
As at December 31st, 2014 - LBP'000	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	Grand Total
Unquoted equity securities	5,319,359	163,398	5,482,757	-	-	-	5,482,757
Lebanese treasury bills	-	-	-	2,368,353,363	-	2,368,353,363	2,368,353,363
Lebanese government bonds	-	-	-	-	3,198,261,780	3,198,261,780	3,198,261,780
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	1,222,610,054	215,761,348	1,438,371,402	1,438,371,402
Certificates of deposit issued by financial private sector	-	-	-	-	35,850,103	35,850,103	35,850,103
Bonds issued by financial private sector	-	-	-	-	603,924,357	603,924,357	603,924,357
	5,319,359	163,398	5,482,757	3,590,963,417	4,053,797,588	7,644,761,005	7,650,243,762
Accrued interest receivable	-	-	-	61,854,876	43,644,625	105,499,501	105,499,501
	5,319,359	163,398	5,482,757	3,652,818,293	4,097,442,213	7,750,260,506	7,755,743,263

	Fair Value through Other Comprehensive Income			Amortized Cost			
As at December 31st, 2013 - LBP'000	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	Grand Total
Unquoted equity securities	3,391,575	184,862	3,576,437	-	-	-	3,576,437
Lebanese treasury bills	-	-	-	2,268,245,200	-	2,268,245,200	2,268,245,200
Lebanese government bonds	-	-	-	-	2,487,208,396	2,487,208,396	2,487,208,396
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	1,077,342,142	31,159,965	1,108,502,107	1,108,502,107
Certificates of deposit issued by financial private sector	-	-	-	-	42,511,538	42,511,538	42,511,538
Bonds issued by financial private sector	-	-	-	-	769,835,597	769,835,597	769,835,597
	3,391,575	184,862	3,576,437	3,345,587,342	3,330,715,496	6,676,302,838	6,679,879,275
Accrued interest receivable	-	-	-	67,208,974	40,268,139	107,477,113	107,477,113
	3,391,575	184,862	3,576,437	3,412,796,316	3,370,983,635	6,783,779,951	6,787,356,388

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Financial Assets at amortized cost:

	LBP			F/Cy		
As at December 31st, 2014 - LBP'000	Amortized Cost	Accrued Interest Receivable	Fair Value	Amortized Cost	Accrued Interest Receivable	Fair Value
Lebanese treasury bills	2,368,353,363	41,127,792	2,389,909,379	-	-	-
Lebanese Government bonds	-	-	-	3,198,261,780	34,099,619	3,210,093,847
Certificates of deposit issued by the Central Bank of Lebanon	1,222,610,054	20,727,084	1,234,697,173	215,761,348	5,346,733	216,421,007
Certificates of deposit issued by financial private sector	-	-	-	35,850,103	68,537	35,405,153
Bonds issued by financial private sector	-	-	-	603,924,357	4,129,736	608,917,722
	3,590,963,417	61,854,876	3,624,606,552	4,053,797,588	43,644,625	4,070,837,729

	LBP			F/Cy		
As at December 31st, 2013 - LBP'000	Amortized Cost	Accrued Interest Receivable	Fair Value	Amortized Cost	Accrued Interest Receivable	Fair Value
Lebanese treasury bills	2,268,245,200	41,060,851	2,279,389,564	-	-	-
Lebanese Government bonds	-	-	-	2,487,208,396	33,890,475	2,456,104,544
Certificates of deposit issued by the Central Bank of Lebanon	1,077,342,142	26,148,123	1,087,289,011	31,159,965	522,678	31,334,228
Certificates of deposit issued by financial private sector	-	-	-	42,511,538	5,010,810	42,369,978
Bonds issued by financial private sector	-	-	-	769,835,597	844,176	789,976,294
	3,345,587,342	67,208,974	3,366,678,575	3,330,715,496	40,268,139	3,319,785,044

During 2014, the Group entered into several sales transactions of investment securities at amortized cost in Lebanese Pounds and foreign currencies with an aggregate nominal value of LBP946billion and LBP1,201billion, respectively.

Furthermore, during 2014, the Group entered into 2 exchange transactions of certificates of deposit issued by the Central Bank of Lebanon and measured at amortized cost with an aggregate carrying value of LBP159.6billion against treasury bills issued by the Lebanese government.

During 2013, the Group sold investment securities at amortized cost in Lebanese Pounds and foreign currencies with an aggregate nominal value of LBP107billion and LBP397billion, respectively.

Moreover, during 2013 the Group exchanged certificates of deposits in Lebanese Pounds and foreign currencies with an aggregate carrying value of LBP837billion and LBP32billion, respectively against Lebanese treasury bills with an aggregate carrying value LBP590billion and Lebanese government bonds with an aggregate carrying value of LBP36billion and certificates of deposit issued by the Central Bank of Lebanon with an aggregate carrying value of LBP520billion. The Group also exchanged Lebanese government bonds with an aggregate carrying value of LBP70.3billion against Lebanese government bonds of longer maturities with an aggregate carrying value of LBP71billion.

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Gain from derecognition of financial assets at amortized cost resulted from the following:

As at December 31st, 2014 - LBP'000	2014	2013
Lebanese Government bonds	38,773,682	27,530,335
Lebanese treasury bills	7,463,804	670,832
Certificates of deposit issued by Central Banks	28,218,131	34,602,267
Bonds issued by financial private sector	261,035	1,267,712
	74,716,652	64,071,146

The Group entered into the above transactions in 2014 for the purpose of liquidity and maturity gap and yield management.

Certain investment securities at amortized cost are pledged against facilities (Refer to Note 48).

12. CUSTOMERS´ LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Group has committed to settle on behalf of its customers against commitments by those customers (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

13. INVESTMENT IN AN ASSOCIATE

The following tables illustrate summarized financial information of the Group's investment in an African bank:

As at December 31st, 2014 - LBP'000	Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership %	Group's share of net Assets	Group's share of net Profit
	745,444,040	529,856,060	215,587,980	20,808,502	20	43,117,596	4,161,700

As at December 31st, 2013 - LBP'000	Total Assets	Total Liabilities	Net Assets	Net Profit	Share in Ownership %	Group's share of net Assets	Group's share of net Profit
	658,058,180	497,566,910	160,491,270	16,486,435	20	32,098,254	3,297,287

The movement of the investment balance during 2014 and 2013 is as follows:

	2014		2013	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Balance January 1,	26,037,802	39,251,988	24,219,833	36,511,399
Share in net profit (Note 36)	2,760,663	4,161,700	2,187,255	3,297,287
Distribution of dividends	(345,369)	(520,644)	(369,286)	(556,698)
Balance December 31,	28,453,096	42,893,044	26,037,802	39,251,988
Less: Allowance for impairment	(3,458,693)	(5,213,980)	(3,458,693)	(5,213,980)
Balance December 31,	24,994,403	37,679,064	22,579,109	34,038,008

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14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

The movement of assets acquired in satisfaction of loans was as follows:

LBP'000	Real Estate
Gross Amount:	
Balance January 1, 2013	22,513,599
Additions	37,148
Disposals	(1,098,702)
Balance December 31, 2013	21,452,045
Additions	2,463,274
Transfer from advances on fixed assets (Note 15)	1,310,317
Disposals	(835,326)
Balance December 31, 2014	24,390,310
Allowance for impairment:	
Balance January 1, 2013	(1,158,410)
Disposals	-
Write-back to statement of profit or loss	102,479
Write-back to reserves	734
Balance December 31, 2013	(1,055,197)
Balance December 31, 2014	(1,055,197)
Carrying Amount:	
December 31, 2014	23,335,113
December 31, 2013	20,396,848

During 2014, the Group sold assets acquired in satisfaction of loans with an aggregate cost of LBP835million (LBP1.1billion during 2013). The sales resulted in a gain in the amount of LBP475million during 2014 (LBP798million during 2013) recorded in the consolidated statement of profit or loss under "Other operating income (net)" (Note 36).

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% annually when certain conditions linked to the restructuring of non-performing loans are met. In this connection, an amount of LBP1.4billion was appropriated in 2014 (LBP1.5billion in 2013). An amount of LBP333million was transferred during 2014 to retained earnings upon the sale of the related foreclosed assets (LBP387million in 2013).

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15. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2014 and 2013 was as follows:

2014 - LBP'000	Buildings and Real Estate	Furniture	Equipment	Vehicles	Key Money	Installations and Improvement	Advances on Capital Expenditure	Total
Gross Amount:								
Balance January 1, 2014	109,492,832	26,979,858	41,830,795	444,575	1,658,953	55,650,865	12,158,488	248,216,366
Additions	160,144	3,543,432	4,630,457	185,468	-	1,969,673	21,938,725	32,427,899
Disposals	-	(181,719)	(1,318,904)	-	-	(643,445)	-	(2,144,068)
Transfers between categories	5,244,636	1,024,429	1,250,674	-	-	6,842,148	(14,361,887)	-
Transfers to intangible assets	-	-	-	-	-	-	(3,984,730)	(3,984,730)
Transfers to Prepayments	-	-	-	-	-	-	(1,200)	(1,200)
Write off to general and administrative expenses	-	-	-	(57,982)	-	-	(1,440,468)	(1,498,450)
Exchange difference	-	(112,653)	(635,049)	-	-	(857,734)	(7,085)	(1,612,521)
Transfers to assets acquired in satisfaction of loans (Note 14)	-	-	-	-	-	-	(1,310,317)	(1,310,317)
Balance December 31, 2014	114,897,612	31,253,347	45,757,973	572,061	1,658,953	62,961,507	12,991,526	270,092,979
Accumulated Depreciation:								
Balance January 1, 2014	(19,780,187)	(16,256,033)	(32,200,893)	(341,563)	(441)	(37,749,878)	-	(106,328,995)
Additions (Note 41)	(2,201,531)	(1,814,757)	(3,531,514)	(54,589)	(165)	(7,755,202)	-	(15,357,758)
Disposal	-	164,219	1,281,084	-	-	641,944	-	2,087,247
Exchange Difference	-	81,483	414,377	-	-	558,089	-	1,053,949
Balance December 31, 2014	(21,981,718)	(17,825,088)	(34,036,946)	(396,152)	(606)	(44,305,047)	-	(118,545,557)
Impairment allowance								
Balance December 31, 2013	(300,000)	-	-	-	-	-	-	(300,000)
Carrying Amount:								
December 31, 2014	92,615,894	13,428,259	11,721,027	175,909	1,658,347	18,656,460	12,991,526	151,247,422

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2013 - LBP'000	Buildings and Real Estate	Furniture	Equipment	Vehicles	Key Money	Installations and Improvement	Advances on Capital Expenditure	Total
Gross Amount:								
Balance January 1, 2013	102,135,515	23,730,098	40,843,128	633,026	3,712,425	49,506,370	13,601,479	234,162,041
Additions	1,828,174	2,312,513	2,365,667	-	-	1,921,706	15,003,384	23,431,444
Disposals	-	(214,063)	(307,730)	(161,082)	(2,053,472)	(1,989,639)	-	(4,725,986)
Transfers between categories	5,529,143	1,216,891	(80,487)	(24)	-	7,595,204	(14,260,727)	-
Transfer to intangible assets	-	-	-	-	-	-	(1,988,589)	(1,988,589)
Write off to general and administrative expenses	-	-	-	-	-	-	(197,059)	(197,059)
Exchange difference	-	(65,581)	(989,783)	(27,345)	-	(1,382,776)	-	(2,465,485)
Balance December 31, 2013	109,492,832	26,979,858	41,830,795	444,575	1,658,953	55,650,865	12,158,488	248,216,366
Accumulated Depreciation:								
Balance January 1, 2013	(17,732,427)	(14,891,916)	(29,878,575)	(347,122)	(2,053,747)	(33,113,586)	-	(98,017,373)
Additions – Note 41	(2,047,560)	(1,569,297)	(3,283,338)	(86,922)	(166)	(6,969,498)	-	(13,956,781)
Disposals	-	208,067	314,005	86,990	2,053,472	1,658,462	-	4,320,996
Transfers between categories	(200)	(37,203)	19,934	10	-	17,459	-	-
Exchange difference	-	34,316	627,081	5,481	-	657,285	-	1,324,163
Balance December 31, 2013	(19,780,187)	(16,256,033)	(32,200,893)	(341,563)	(441)	(37,749,878)	-	(106,328,995)
Impairment allowance								
Balance December 31, 2013	(300,000)	-	-	-	-	-	-	(300,000)
Carrying Amount:								
December 31, 2013	89,412,645	10,723,825	9,629,902	103,012	1,658,512	17,900,987	12,158,488	141,587,371

16. GOODWILL

As at December 31st - LBP'000	2014 LBP	2014 C/V of F/Cy	2014 Total	2013 LBP	2013 C/V of F/Cy	2013 Total
Beirut Life S.A.L.	452,265	-	452,265	452,265	-	452,265
Bank of Sydney Ltd	-	86,582,170	86,582,170	-	86,582,170	86,582,170
Bank of Beirut (UK) Ltd	-	1,759,918	1,759,918	-	1,865,735	1,865,735
	452,265	88,342,088	88,794,353	452,265	88,447,905	88,900,170

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that each subsidiary constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations or market comparability approach, as applicable. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to net interest margin during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the subsidiary and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

The market average multiple of equity for acquisitions of similar sized cash generating units is used to determine the recoverable amount of the cash generating unit when using the market comparability approach.

17. OTHER ASSETS

As at December 31st - LBP'000	2014	(Restated) 2013
Medical costs receivable from		
National Social Security Fund (a)	5,626,524	6,272,817
Intangible assets (b)	13,264,296	11,374,899
Fair value of derivative assets (c)	1,337,649	7,273,434
Deferred tax asset (d)	1,950,605	2,008,339
Prepayments	13,743,076	14,489,445
Regulatory blocked deposit (e)	4,500,000	4,500,000
Sundry accounts receivable	11,764,874	10,434,433
Premium on forward deals	285,497	-
Other	1,284,612	1,192,921
	53,757,133	57,546,288

(a) Medical costs receivable from the National Social Security Fund represent medical expenses settled by the Group to employees and expected to be recovered within three years from the date they were incurred because of substantial settlement delays by the National Social Security Fund.

(b) Intangible assets represent the cost of software and include advance payments on the acquisition and implementation of the new core banking software in the amount of LBP2.13billion as at December 31, 2014 (LBP4.47billion in 2013). Amortization of intangible assets amounted to LBP3.2billion for the year 2014 (LBP2.5billion in 2013) and is recorded under "Depreciation and amortization" in statement of profit or loss (Note 41).

(c) The fair value of derivative assets consists of the following:

As at December 31st - LBP'000	2014	2013
Interest rate swap	3,416	11,577
Forward contracts	1,334,233	7,261,857
	1,337,649	7,273,434

(d) Deferred tax asset consists of deferred tax on the following:

As at December 31st - LBP'000	2014	2013
Depreciation of property and equipment	356,930	341,242
Provisions	1,120,325	1,207,280
Other	473,350	459,817
	1,950,605	2,008,339

(e) The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of investment banks in accordance with Article 132 of the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

As at December 31st - LBP'000	2014	2013
Current accounts from banks and financial institutions	252,003,718	252,319,975
Current accounts – associate bank	2,470,368	260,357
Short term deposits	1,530,808,653	1,417,619,340
Pledged deposits	773,887	753,750
Pledged deposits – associate bank	5,744,378	6,262,596
Accrued interest payable	2,627,203	3,626,917
	1,794,428,207	1,680,842,935

Short term deposits include withdrawals from the Arab Trade Finance Program facility. The balance amounted to USD6,952,925 as of December 31, 2014 (USD9,268,810 in 2013). This facility was granted to the Group to finance imports and exports among Arab countries.

Short term deposits also include deposits in the amount of LBP90billion (LBP157billion in 2013) secured by pledged securities amounting to LBP165billion as at December 31, 2014 (LBP167billion in 2013) (Note 48).

Short term deposits as at December 31, 2014 also include deposits in the amount of LBP426billion with local banks against placements with the same banks for the amount of LBP422billion and with approximately matching terms (Note 6).

Pledged deposits from associate bank represent collateral received by the Group against short term loans granted (Note 8).

Notes to the consolidated financial statements

19. CUSTOMERS´ AND RELATED PARTIES´ DEPOSITS AT AMORTIZED COST

As at December 31st, 2014 - LBP'000	LBP	F/Cy	Total
Deposits from customers:			
Current and demand deposits	315,184,495	1,729,242,235	2,044,426,730
Term deposits - Note 9	4,582,179,454	8,727,712,737	13,309,892,191
Credit accounts against loans and advances - Note 9	328,864,144	567,096,172	895,960,316
Margins for irrevocable import letters of credit	-	31,807,435	31,807,435
Margins on letters of guarantee	11,514,132	88,415,982	99,930,114
Other Margins	6,677,809	35,418,718	42,096,527
Accrued interest payable	44,514,328	51,837,348	96,351,676
Total third party customers' deposits	5,288,934,362	11,231,530,627	16,520,464,989
Deposits from related parties:			
Current and demand deposits	1,057,453	9,810,028	10,867,481
Term deposits	35,068,664	158,210,106	193,278,770
Credit accounts against loans and advances	396,557	74,579,120	74,975,677
Margins for irrevocable import letters of credit	3,003,923	209,312	3,213,235
Other Margins	-	621,769	621,769
Accrued interest payable	119,342	447,266	566,608
Total related parties' deposits	39,645,939	243,877,601	283,523,540
Total Deposits	5,328,580,301	11,475,408,228	16,803,988,529

As at December 31st, 2013 - LBP'000	LBP	F/Cy	Total
Deposits from customers:			
Current and demand deposits	219,632,486	1,478,402,038	1,698,034,524
Term deposits – Note 9	4,361,723,151	8,122,968,070	12,484,691,221
Credit accounts against loans and advances – Note 9	294,330,840	610,975,347	905,306,187
Margins for irrevocable import letters of credit	36,615,993	24,434,805	61,050,798
Margins on letters of guarantee	10,643,718	42,106,363	52,750,081
Other margins	6,106,253	40,777,954	46,884,207
Accrued interest payable	42,519,436	46,563,663	89,083,099
Total third party customers' deposits	4,971,571,877	10,366,228,240	15,337,800,117
Deposits from related parties:			
Current and demand deposits	616,927	27,193,722	27,810,649
Term deposits	31,524,125	139,661,670	171,185,795
Credit accounts against loans and advances	370,372	838,540	1,208,912
Margins for irrevocable import letters of credit	6,157,662	727,207	6,884,869
Other margins	-	129,298	129,298
Accrued interest payable	62,235	399,485	461,720
Total related parties' deposits	38,731,321	168,949,922	207,681,243
Total deposits	5,010,303,198	10,535,178,162	15,545,481,360

Notes to the consolidated financial statements

Customers' and related parties' deposits at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

	LBP	F/Cy		
As at December 31st, 2014 - LBP'000	Total Deposits	Total Deposits	% of Customers	% of Deposits
Deposits from customers:				
Less than LBP500million	2,477,641,295	2,902,643,732	97	32.75
From LBP500million to LBP1.5billion	890,902,949	1,626,313,647	1	15.33
From LBP1.5billion to LBP5billion	669,997,739	1,813,670,916	1	15.12
Over LBP5billion	1,205,878,051	4,837,064,984	1	36.80
	5,244,420,034	11,179,693,279	100	100.00
Deposits from related parties:				
Less than LBP500 million	4,602,438	3,335,246	83	2.81
From LBP500 million to LBP1.5 billion	3,101,569	6,708,898	5	3.47
From LBP1.5 billion to LBP5billion	14,044,770	18,913,069	8	11.64
Over LBP5billion	17,777,820	214,473,122	4	82.08
	39,526,597	243,430,335	100	100.00
	5,283,946,631	11,423,123,614		

	LBP	F/Cy		
As at December 31st, 2013 - LBP'000	Total Deposits	Total Deposits	% of Customers	% of Deposits
Deposits from customers:				
Less than LBP500 million	2,180,656,520	2,506,513,734	97	24.29
From LBP500 million to LBP1.5billion	838,518,898	1,573,174,061	1	15.24
From LBP1.5 billion to LBP5billion	629,564,332	1,558,189,339	1	15.10
Over LBP5billion	1,280,312,691	4,681,787,443	1	45.37
	4,929,052,441	10,319,664,577	100	100.00
Deposits from related parties:				
Less than LBP500million	2,232,997	3,722,875	83	2.87
From LBP500million to LBP1.5billion	1,294,827	4,644,143	5	2.87
From LBP1.5billion to LBP5billion	11,210,113	14,221,596	8	12.27
Over LBP5billion	23,931,149	145,961,823	4	81.99
	38,669,086	168,550,437	100.00	100.00
	4,967,721,527	10,488,215,014		

Deposits from customers include at December 31, 2014 coded deposit accounts in the aggregate of LBP152billion (LBP147billion as at December 31, 2013). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include as at December 31, 2014 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP147billion and LBP532billion respectively (LBP125billion and LBP397billion in 2013).

Notes to the consolidated financial statements

The average balance of customers' deposits and related cost of funds over the last 3 years are as follows:

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
	LBP'000	LBP %	F/Cy %	LBP'000	%
Year 2014	14,809,691,136	34	66	617,540,546	4.17
Year 2013	13,161,806,337	36	64	544,475,386	4.15
Year 2012	11,329,342,493	36	64	475,751,575	4.21

The average balance of related parties' deposits and related cost of funds over the last 3 years are as follows:

Year	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
	LBP'000	LBP %	F/Cy %	LBP'000	%
Year 2014	248,029,061	23	77	10,460,188	4.22
Year 2013	180,144,054	20	80	8,798,363	4.88
Year 2012	203,835,473	21	79	8,771,862	4.30

20. OTHER BORROWINGS

As at December 31st - LBP'000	2014	2013
Borrowings from Central Bank of Lebanon	259,262,389	86,747,336
Borrowings from other central banks (Note 48)	183,327,522	165,179,054
Borrowings from the European Investment Bank	39,367,200	46,038,565
Accrued interest payable	1,652,601	370,208
	483,609,712	298,335,163

Borrowings from Central Bank of Lebanon as of December 31, 2014 and 2013 represent facilities in accordance with Central Bank of Lebanon Basic Decision No.6116 of March 7, 1996 and its amendments by which the Group benefited from credit facilities granted against loans that the Group granted at its own risk to customers pursuant to certain conditions, rules and mechanism.

Borrowings from European Investment Bank are summarized as follows:

December 31, 2014	December 31, 2013	Final Maturity Year	Average interest Rate
C/V LBP'000	C/V LBP'000		%
-	29,581,136	2014	4.07
27,240,218	440,607	2015	4.18
2,877,955	4,316,932	2016	4.73
2,977,786	4,163,546	2017	4.16
2,352,216	2,942,586	2018	4.13
1,423,482	1,712,032	2019	3.34
2,495,543	2,881,726	2020	4.93
39,367,200	46,038,565		

Notes to the consolidated financial statements

Borowings from the European Investment Bank were obtained to finance loans granted to customers in the manufacturing sector.

The Group did not have any defaults of principal, interest or other breaches with respect to its borrowings during 2014 and 2013.

21. CERTIFICATES OF DEPOSIT

As at December 31st - LBP'000	2014 C/V of F/Cy	2014 Average Interest Rate %	2013 C/V of F/Cy	2013 Average Interest Rate %
Certificates of deposit	678,586	2.25	29,949,012	4.17
Accrued interest payable	3,430		347,387	
	682,016		30,296,399	

The Group did not have any defaults of principal, interest or other breaches with respect to its certificates of deposit during 2014 and 2013.

22. OTHER LIABILITIES

As at December 31st - LBP'000	2014	2013
Checks and incoming payment orders in course of settlement	43,180,738	25,926,757
Fair value of derivative financial liabilities (a)	6,190,418	10,168,290
Payable on acquisition of non-controlling interest in a subsidiary (Note 29)	1,383,210	36,855,988
Dividends payable	4,588,995	3,092,101
Suspense account	2,759,550	335,434
Deferred tax liability (b)	3,820,943	2,857,421
Accrued expenses	21,347,552	26,354,454
Accruals for regulatory fines (c)	4,917,675	-
Deferred income	13,359,090	8,315,522
Discount on forward deals	-	122,513
Income tax payable (d)	27,333,976	21,533,263
Withheld taxes	10,568,791	9,556,393
Fair value of financial guarantees	1,567,243	1,709,722
Margins on letters of credit - banks	56,573,641	70,214,323
Margins on letters of credit - associate bank (Note 45)	24,484,347	31,322,722
Sundry accounts payable	26,843,939	25,488,561
Unfavorable exchange difference on fixed currency position (Note 24)	175,833	175,833
	249,095,941	274,029,297

Notes to the consolidated financial statements

(a) Fair value of derivative financial liabilities consists of the following:

As at December 31st - LBP'000	2014	2013
Fair value of interest rate swap (Note 43)	630,864	685,331
Fair value of forward contracts	5,559,554	514,181
Fair value of currency options (Note 43)	-	8,968,778
	6,190,418	10,168,290

The Group uses interest rate swaps, forward contracts and currency options for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

(b) The movement of deferred tax liability which relates to undistributed profits from subsidiaries during 2013 and 2012 was as follows:

As at December 31st - LBP'000	2014	2013
Opening balance	2,857,421	2,249,139
Additions	2,213,522	1,878,282
Settlements	(1,250,000)	(1,270,000)
Ending balance	3,820,943	2,857,421

During 2014, two of the Group's subsidiaries paid cash dividends in the amount of LBP12.5billion (LBP12.75billion during 2013). The related distribution tax amount of LBP1.25billion (LBP1.27billion during 2013) was settled from the deferred tax liability in 2014.

At December 31, 2014, a deferred tax liability for temporary differences of related to the undistributed profits of subsidiaries was not recognized on the grounds that management has committed to retain the profits in two of its foreign subsidiaries for purpose of permanent capitalization of profits.

(c) The Group's subsidiary was fined by the Financial Conduct Authority (FCA) in the United Kingdom to the amount of LBP4.9billion (GBP2.1million) on March 5, 2015 and this fine was accrued for during 2014 under "General and administrative expenses". The short comings were historical issues that existed prior to 2013 all of which have been remediated.

(d) The regrouping of reconciliations between average effective tax rate and enacted tax rates is summarized as follows:

As at December 31st - LBP'000	2014	2013
Profit before tax	316,161,057	260,565,807
Less: Non-taxable revenues	(13,858,718)	(11,732,954)
Add: Non-deductible expenses/losses	38,490,510	28,732,747
Less: Income from an associate bank	(3,641,056)	(2,740,589)
Less: Income from managed funds	(44,372,693)	(30,215,972)
Less: Income of foreign branches and of subsidiaries	(48,527,685)	(46,956,615)
Bank's net taxable profit	244,251,415	197,652,424
Tax at the domestic income tax rate of 15%	36,637,711	29,647,864
Add: Income tax provision - foreign branches and subsidiaries	12,224,727	9,794,629
Tax expense for the year	48,862,438	39,442,493
Less: Tax paid during the year in the form of withholding tax	(14,257,859)	(11,096,883)
Less: Subsidiaries income tax paid	(7,270,603)	(6,812,347)
Income tax payable as at December 31,	27,333,976	21,533,263

Notes to the consolidated financial statements

During 2013, Bank of Beirut S.A.L. and two of its Lebanese subsidiaries were subject to tax examination for the fiscal years 2008 until 2011 (inclusive). The result of this assessment was received in 2014 where an amount of LBP4.8billion was paid and which was fully provided for at December 31, 2013.

The tax returns of Bank of Beirut S.A.L. and most of its Lebanese subsidiaries for the years 2012 to 2014 remain subject to examination and final tax assessment by the tax authorities. Any additional liability depends on the result of these reviews.

Oman branch's tax assessment for the years 2009 to 2013 have not yet been finalized with the Secretariat General for Taxations. The management believes that additional taxes, if any, in respect of open tax assessments would not be material to the Group's results and financial position as of the reporting date.

23. PROVISIONS

As at December 31st - LBP'000	2014	2013
Provision for staff, and executive management termination indemnity (a)	22,679,660	21,170,902
Provision for loss on foreign currency position	194,000	194,000
Provision for contingencies (b)	6,541,784	6,541,784
Provision for insurance contracts liabilities – Note 38	5,462,921	4,632,987
Other	126,708	134,472
	35,005,073	32,674,145

The movement of provision for staff, and executive management termination indemnity is as follows:

As at December 31st - LBP'000	2014	2013
Balance January 1	21,170,902	33,881,151
Additions – Note 39	4,591,573	3,215,309
Settlements	(3,082,815)	(15,925,558)
Balance December 31	22,679,660	21,170,902

The movement of provision for contingencies during 2014 and 2013 was as follows:

As at December 31st - LBP'000	2014	2013
Balance January 1	6,541,784	5,260,409
Additions – Note 38	-	1,281,375
Transfer from accrued expenses	-	-
Balance December 31	6,541,784	6,541,784

24. SHARE CAPITAL

At December 31, 2014, the authorized ordinary share capital of the Bank was LBP71.16billion consisting of 50,467,400 fully paid shares of LBP1,410 par value each (LBP68.13 consisting of 50,467,400 fully paid shares of LBP1,350 par value each as at December 31, 2013). The increase in the nominal value of the share in the amount of LBP60 per share during 2014 resulted from a transfer from reserves restricted for capital increase following a decision by the general assembly on December 26, 2014 to reconstitute the capital which decreased by an amount of LBP2.74billion as a result of the redemption of all Series "F" preferred shares and partly for rounding the nominal value of the share by an amount of LBP288million.

The approval of the Central Council for the redemption of the Series "F" shares was obtained on October 29, 2014. The approval of the Central Council on the reconstitution of the capital of the Bank was obtained on February 4, 2015.

Notes to the consolidated financial statements

During 2014, the Group issued 4,762,000 Series 2014 priority shares (common shares) in the amount of USD100,002,000 with an issue price of USD21 and a par value of LBP1,350. The par value of these shares was increased to LBP1,410 per share as a result of the rounding of the par value discussed above. These priority shares earn non-cumulative annual dividends of 4% of the issue price. Any dividends remaining after the payment of priority dividends following the payment of preferred shares dividends, shall be shared on a prorata basis exclusively among the holders of the priority and common shares of the Bank.

Subject to the absence of the Extension Period set below, the earning by the Series 2014 Priority Shares of the Priority Dividend will, automatically and without the need to the approval of, or consultation with, the holders of the Priority Shares, finally cease immediately following the Ordinary General Meeting of the Bank's shareholders that will examine the Bank's audited financial statements for the financial year 2019; without prejudice, however, to the right of the holders of such Priority Shares to receive the distribution of the Priority Dividend, if any, resolved by the Bank's Ordinary General Meeting of shareholders for the financial year 2019. As a result, the Series 2014 Priority Shares will cease to be identified as a special class within the Common Shares of the Bank and become mere Common Shares subject to the rights and obligations devolving on all the Bank's Common Shares.

The Bank shall have the right, but not the obligation, to resolve, prior to the holding of the above mentioned General Meeting, the extension of the Priority Period for two consecutive years (the "Extension Period").

As of December 31, 2014 and 2013, the Bank's capital was partly hedged by maintaining a fixed foreign currency position to the extent of USD47.17million. The revaluation of this position resulted in unfavorable exchange difference in the amount of LBP176million recorded under "other liabilities" (Note 22).

As of December 31, 2014 and 2013, the Group had a fixed foreign currency position for an amount of GBP13.6million to partially hedge its investment in a foreign subsidiary in the United Kingdom. The revaluation of this position as of December 31, 2014 resulted in unfavorable variance of LBP474million (favorable of LBP1.18million in 2013) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

Moreover, as of December 31, 2014 and 2013, the Group had a fixed spot position for an amount of AUD98million to partially hedge its investment in a foreign Australian subsidiary bank. The revaluation of this position as of December 31, 2014 resulted in an unfavorable variance of LBP30.13billion (unfavorable variance of LBP19.69billion in 2013) recorded in "cumulative change in fair value of fixed currency position designated as hedging instruments" under equity.

25. NON-CUMULATIVE PREFERRED SHARES

On November 13, 2008, the Group offered non-cumulative perpetual redeemable Series "E" preferred shares, with an aggregate amount of USD60,000,000, distributed over 2,400,000 preferred shares, at an issue price of USD25 per preferred share each. These preferred shares earn an annual dividend equal to 8% per year of the issue price. These preferred shares are listed on the Beirut Stock Exchange.

On July 8, 2009, the Group issued 3,000,000 non-cumulative perpetual redeemable Series "F" preferred shares with an aggregate amount of USD75,000,000 distributed over 3,000,000 preferred shares at an issue price of USD25. These preferred shares earn an annual dividend equal to 8% per year of the issue price. On December 26, 2014, the extraordinary General Assembly of shareholders redeemed these shares allowed holders of Series "F" preferred shares to subscribe to Series "J" preferred shares.

On September 29, 2010, the Extraordinary General Assembly of shareholders approved the issuance of 3,570,000 non cumulative convertible redeemable Series "G" preferred shares at an issue price of USD35 with an aggregate amount of USD124,950,000. These preferred shares earn an annual dividend of 6.75% of the issue price.

On June 30, 2011, the Group issued 5,400,000 of series "H" non cumulative perpetual redeemable preferred shares, at an issue price of USD25 with an aggregate amount of USD135,000,000. The preferred shares earn annual dividends of 7% of the issue price. These preferred shares are listed on the Beirut Stock Exchange.

On November 19, 2012, the Group issued 5,000,000 non cumulative perpetual redeemable Series "I" preferred shares with an aggregate amount of USD125,000,000 at an issue price of USD25. These preferred shares earn an annual dividend of 6.75% of the issue price. These preferred shares will be listed on the Beirut Stock Exchange.

Notes to the consolidated financial statements

On December 26, 2014, the Group issued 3,000,000 non-cumulative perpetual redeemable Series "J" preferred shares with an aggregate amount of USD75,000,000 distributed over 3,000,000 preferred shares at an issue price of USD25. These preferred shares earn an annual dividend of 6.5% of the issue price. The approval of the Central Council was obtained on December 3, 2014.

The Group has the right, at its sole discretion, to redeem on each redemption date all or part of the Series "E", "G", "H", "I" and "J" preferred shares (but not less than 25%). Redemption date means for the first time the financial year during which falls the 5th anniversary of the Extraordinary General Meeting of the Group's shareholders which ascertains the validity and payment of the capital increase by virtue of which the Preferred Shares are issued; and every consecutive 2 years thereafter.

In the event of liquidation of the Bank, holders of preferred shares Series "E", "G", "H", "I" and "J" rank senior to the holders of common and priority shares.

26. SHAREHOLDERS´ CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP20.98billion (USD13,916,000) as at December 31, 2014 and 2013 and it is non-interest bearing.

This sort of instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation. According to local banking regulations, cash contribution to capital is considered as Tier I capital

27. RESERVES

As at December 31st - LBP'000	2014	2013
Legal reserves	112,248,239	94,603,406
Reserve for general banking risks	172,732,012	135,134,766
Special reserves setup from net release of provision for credit losses	4,301,666	5,248,974
Reserves restricted for capital increase	31,762,557	34,790,601
Issue premiums on common shares	232,108,394	232,108,394
	553,152,868	501,886,141

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit for Lebanese entities. This reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Lebanese bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

During 2013, the Group appropriated an amount of LBP11.8billion representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase.

28. TREASURY SHARES

The Group is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

	2014		2013	
	No. of Shares	Value in USD	No. of Shares	Value in USD
Common shares:	409,031	7,619,032	386,441	7,152,153
Counter value in LBP'000		11,485,690		10,781,870

	2014		2013	
	No. of Shares	Value in USD	No. of Shares	Value in USD
Prefered shares:				
Series "E"	128,550	3,296,822	120,350	3,082,550
Series "F"	-	-	91,060	2,350,117
Series "G"	444,839	15,984,911	412,888	14,834,133
Series "H"	109,564	2,817,919	80,622	2,066,600
Series "I"	78,376	2,009,387	27,500	698,880
		36,344,376		34,721,163
Counter value in LBP'000		11,485,690		10,781,870
Total		47,830,066		45,503,033

The preferred shares classified as treasury shares are held by the non-controlling interests related to the consolidated funds.

29. NON-CONTROLLING INTERESTS

As at December 31st, 2014 - LBP'000	Beirut Life SAL	Managed Funds	Total
Share in capital	225,000	758,052,263	758,277,263
Retained earnings	800,839	(43,875,397)	(43,074,558)
Profit for the year	493,363	44,159,547	44,652,910
	1,519,202	758,336,413	759,855,615

As at December 31st, 2013 - LBP'000	Beirut Life SAL	Managed Funds	Total
Share in capital	225,000	578,823,610	579,048,610
Retained earnings	487,794	(20,840,426)	(20,352,632)
Profit for the year	313,045	29,904,079	30,217,124
	1,025,839	587,887,263	588,913,102

During the first half of 2013, and in accordance with the option agreement related to the share purchase agreement dated January 26, 2011, Marfin Popular Bank Public Co. Limited, former owner of Bank of Sydney (formerly Laiki Bank Australia), exercised its put option to sell the remaining share of 7.5% of the subsidiary bank's equity stake at a strike price of AUD27.56million (LBP36.85billion) recorded under "Payables on acquisition of non-controlling interest in a subsidiary" under "Other liabilities" (Note 22) as at December 31, 2013 paid during 2014 except for an amount of LBP1.38billion (AUD1.27million) held in escrow account to be paid during a period of 2 years based on agreement between the two parties. As a result, the Bank's equity share in the subsidiary bank increased to 100%.

30. DIVIDENDS PAID

The following dividends were declared and paid in 2014 and 2013 by the Group in respect to 2013 and 2012 respectively:

As at December 31st - LBP'000	2014	(Restated) 2013
LBP859 (LBP716 for 2013) per ordinary share	43,351,497	36,134,658
LBP Nil (LBP3,391.88 for 2013) per preferred share Series "D"	-	13,567,500
LBP3,015 (LBP3,015 for 2013) per preferred share Series "E"	7,236,000	7,236,000
LBP3,015 (LBP3,015 for 2013) per preferred share Series "F"	9,045,000	9,045,000
LBP3,561.47 (LBP3,561.47 for 2013 per preferred share Series "G"	12,714,443	12,714,443
LBP2,638.13 (LBP2,638.13 for 2013) per preferred share Series "H"	14,245,875	14,245,875
LBP2,543.91 per preferred share Series "I"	12,719,532	-
	99,312,347	92,943,476

Subsequent to the date of the consolidated statement of financial position, the following dividends were proposed by the board of directors in respect of 2014. These dividends have not been provided for in the consolidated financial statements for the year ended December 31, 2014.

LBP'000	
LBP900 per ordinary share (common and priority)	49,706,460
LBP395.5 priority shares Series 2014 (Note 24)	1,883,380
LBP3,015 per preferred share Series "E"	7,236,000
LBP3,015 per preferred share Series "F"	9,045,000
LBP3,561.47 per preferred share Series "G"	12,714,443
LBP2,638.13 per preferred share Series "H"	14,245,875
LBP2,543.91 per preferred share Series "I"	12,719,532
	107,550,690

31. INTEREST INCOME

LBP'000	2014	2013
Interest income from:		
Deposits with central banks	121,396,666	93,054,571
Deposits with banks and financial institutions	22,293,059	22,608,124
Loans to banks	25,636,873	16,861,984
Financial assets at amortized cost	444,855,147	386,256,775
Loans and advances to customers	375,958,380	350,488,361
Loans and advances to related parties	5,466,842	6,021,607
Interest recognized on non-performing loans and advances to customers	1,628,020	2,445,860
	997,234,987	877,737,282

Interest income realized on non-performing loans and advances to customers represent recoveries of interest.

Interest income on trading assets at fair value through profit or loss is included under "Net interest and other gains on trading securities" (Note 35).

Notes to the consolidated financial statements

32. INTEREST EXPENSE

LBP'000	2014	2013
Interest expense on:		
Other borrowings	8,068,842	5,855,344
Deposits from banks and financial institutions	20,534,476	17,949,653
Customers' accounts at amortized cost	617,540,546	544,475,386
Related parties' accounts at amortized cost	10,460,188	8,798,363
Certificates of deposit issued by the Group	264,872	1,467,740
	656,868,924	578,546,486

33. FEE AND COMMISSION INCOME

LBP'000	2014	2013
Commissions on documentary credits	52,585,274	42,689,217
Commissions on letters of guarantee	9,667,707	8,355,572
Commissions on money transfers' transactions	7,219,512	5,247,084
Insurance brokerage and service fees	21,761,847	19,668,931
Commissions on fiduciary accounts	1,969,650	2,114,618
Commissions on banking services	27,510,837	23,012,498
Commissions on credit cards	10,992,766	8,947,625
Commissions on capital market transactions	1,518,500	1,734,217
Other	6,075,140	5,679,429
	139,301,233	117,449,191

34. FEE AND COMMISSION EXPENSE

LBP'000	2013	2012
Commissions on transactions with banks and financial institutions	1,214,100	879,719
Commissions on credit card	4,455,881	4,210,180
Commissions on fiduciary deposits	2,052,454	2,240,553
Commissions on loans	5,773,281	4,430,532
Commissions on money transfers' transactions	1,881,347	1,552,493
Commissions on insurance transactions	5,075,520	3,811,071
Other	4,921,213	2,645,874
	25,373,796	19,770,422

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35. NET INTEREST AND OTHER GAINS ON TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

LBP'000	2014	2013
Interest income	62,012,987	54,510,389
Change in fair value (net)	(1,964,742)	(8,728,090)
Gain on sale	10,487,125	10,913,445
Dividends received	3,846,241	4,195,543
	74,381,611	60,891,287

36. OTHER OPERATING INCOME (NET)

LBP'000	2014	2013
Share in profits of an associate (Note 13)	4,161,700	3,297,287
Foreign exchange gain	16,233,538	14,535,367
Loss on forward contracts	(3,677,963)	(4,034,526)
Other operating income/(loss) (net)	377,378	(2,405,135)
Gain on sale of assets acquired in satisfaction of loans (Note 14)	474,628	797,733
Gain on sale of property and equipment	38,561	509,992
Dividends on other investments	225,013	-
	12,700,718	18,366,181

37. PROVISION FOR CREDIT LOSSES

This caption consists of the following:

LBP'000	2014	2013
Provision charged during the year – Note 9	36,857,077	20,139,555
Write-back of provision during the year – Note 9	(3,519,927)	(2,312,943)
Direct write-off of loans	36,221	128,847
	33,373,371	17,955,459

38. OTHER PROVISION (NET)

This caption consists of the following:

LBP'000	2014	2013
Provision for contingencies – Note 23	-	1,281,375
Provision for insurance liabilities – Note 23	829,934	2,025,349
Provision/(write-back) of miscellaneous provision	48,488	(62,856)
	878,422	3,243,868

Notes to the consolidated financial statements

39. STAFF COSTS

This caption consists of the following:

LBP'000	2014	2013
Salaries	89,666,263	86,588,518
Social Security contributions	10,547,932	9,822,616
Executive board members remunerations	16,672,759	14,409,655
Catch up provision for end-of-service indemnities staff (Lebanese jurisdiction) – Note 23	2,890,630	1,542,526
Catch up provision for end-of-service indemnities lawyers and executive management (Lebanese jurisdiction) – Note 23	88,445	85,283
Pension costs – Note 23	1,612,498	1,587,500
Other staff benefits	22,701,996	19,119,989
	144,180,523	133,156,087

40. GENERAL AND ADMINISTRATIVE EXPENSES

This caption is composed of the following:

LBP'000	2014	2013
Rent expense under operating leases	11,060,348	9,631,108
Cleaning	1,394,087	1,520,788
Electricity, water and fuel	3,600,097	3,121,662
Telephone, mail and other communication expenses	7,179,935	7,256,659
Maintenance and repair fees	11,442,453	9,691,450
Subscription fees	2,652,041	1,659,462
Office supplies	3,787,087	3,802,202
Advertising and marketing expenses	9,976,365	13,597,790
Reception and entertainment	2,342,273	1,664,636
Travel and related expenses	2,658,866	2,922,332
Professional and regulatory fees	10,576,247	9,435,788
Regulatory penalties (Note 22)	4,917,675	-
Taxes and fiscal charges	6,059,680	6,526,325
Insurance expenses	3,454,930	3,870,558
Donation and gifts	1,607,812	4,872,770
Centrale des risques	644,740	675,076
Management fees	12,785,015	12,044,925
Training, research and development expenses	1,111,184	1,344,489
Miscellaneous expenses	10,362,655	9,706,909
	107,613,490	103,344,929

Notes to the consolidated financial statements

41. DEPRECIATION AND AMORTIZATION

This caption is composed of the following:

LBP'000	2014	2013
Depreciation property and equipment – Note 15	15,357,758	13,956,781
Amortization of deferred software charges – Note 17	3,155,402	2,526,725
	18,513,160	16,483,506

42. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non-recurring income and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

As at December 31st - LBP'000	2014	2013
Earnings:		
Earnings for the purpose of basic earnings per share (net income for the year)	220,432,187	189,027,908
Less: Dividends proposed to non-cumulative preferred shares	(55,960,850)	(55,960,850)
Net income after distribution to non-cumulative preferred shares	164,471,337	133,067,058
Less: Dividends proposed to non-cumulative priority shares	(1,883,380)	-
Net earnings for the purpose of basic earnings per shares	162,587,957	133,067,058
Add: Dividends proposed to convertible preferred shares of series "G"	-	-
Earnings for the purpose of diluted earnings per share	162,587,957	133,067,058
Number of Shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	50,103,496	50,151,838
Weighted average number of priority shares for the purpose of basic earnings per share	1,487,310	-
Weighted average number of shares for priority and ordinary shares	51,590,806	50,151,838
Effect of dilutive potential ordinary shares, preferred shares	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	51,590,806	50,151,838
Basic Earnings per common share	LBP 3,151	LBP 2,653
Basic Earnings per priority common share	LBP 4,417	LBP -
Diluted Earnings per share	LBP 3,151	LBP 2,653

The conversion effect of Series "G" preferred shares and series 2014 priority shares was excluded from the calculation of diluted earnings per share for 2014 and 2013 since they have anti-dilutive effect.

43. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2014 and 2013 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

As of December 31, 2013, the Group had European Knock-in currency options outstanding detailed as follows:

	Notional Amount AUD	Knock-in Price	Strike Price	Fair Value (USD)	C/V LBP
	100,000,000	0.7950	1.0525	(3,580,212)	(5,397,170)
	75,000,000	0.7975	1.0465	(2,369,226)	(3,571,608)
	175,000,000			(5,949,438)	(8,958,778)
C/V LBP	234,027,500				

The above options mature on June 30, 2014.

As of December 31, 2014 and 2013, the Group had an interest rate swap outstanding to hedge cash flows detailed as follows:

	2014		2013	
	Original Currency AUD	C/V LBP'000	Original Currency AUD	C/V LBP'000
Principal amount	25,214,128	31,031,531	44,767,457	59,867,120
Fair value (Note 22)	512,597	630,864	512,473	685,331

44. FIDUCIARY ACCOUNTS

Fiduciary accounts are invested as follows:

As at December 31st - LBP'000	2014	2013
Back-to-back lending	53,227,710	52,971,235
Equity securities (long position)	106,098,110	102,960,551
Derivatives	(4,213,309)	(10,068,148)
Debt leverage	41,105,507	42,550,533
	196,218,018	188,414,171

45. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties consist of the following:

As at December 31st - LBP'000	2014	2013
Shareholders, directors and other key management personnel and close family members and their related companies:		
Direct facilities and credit balances:		
Secured loans and advances	87,664,548	92,585,650
Unsecured loans and advances	17,019,457	36,074,778
Deposits	(282,956,932)	(207,219,523)
Accrued interest receivable	48,985	72,430
Accrued interest payable	(566,608)	(461,720)
Other credit balances	(1,274)	(3,490)
Indirect facilities:		
Letters of guarantees	4,135,070	2,593,509
Performance bonds	73,460	83,446
Associates		
Direct facilities and credit balances:		
Financial loans and discounted acceptances – Note 8	105,960,626	68,421,151
Current accounts – Note 6	-	1,627,885
Deposits from associate – Note 18	(8,214,746)	(6,522,953)
Acceptances	4,667,521	4,209,685
Margins on letters of credit – Note 22	(24,484,347)	(31,322,722)
Indirect facilities:		
Letters of credit	43,744,542	8,294,517

Interest rates applied on related parties' balances outstanding are the same rates that would be charged in an arm's length transaction.

Secured loans and advances are covered as of December 31, 2014 by real estate mortgages to the extent of LBP15.8billion (LBP14.9billion as of December 31, 2013), pledged deposits of the respective borrowers to the extent of LBP10.1billion (LBP14.2billion as of December 31, 2013), pledged securities to the extent of LBP1.8billion (LBP1.9billion as of December 31, 2013) and car mortgages to the extent of LBP585million (LBP469million as of December 31, 2013).

The remuneration of executive management amounted to LBP1.39billion during 2014 (LBP1.39million during 2013) in addition to incentives linked to performance representing 6% of profit before tax.

General and administrative expenses for the years ended December 31, 2014 and 2013 included rent expenses to related parties for USD150,000 and AED102,240 and management expenses to related parties for USD900,000.

46. CASH AND CASH EQUIVALENTS

A. Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flows statement consist of the following:

As at December 31st - LBP'000	2014	2013
Cash	42,031,328	39,986,936
Current accounts with central banks	789,626,172	765,958,051
Time deposits with central banks	445,245,000	1,185,471,495
Checks for collection	79,585,980	53,366,475
Demand deposits with banks and financial institutions	462,660,340	593,192,274
Time deposits with banks and financial institutions	905,412,146	768,149,492
Demand deposits from banks	(254,474,086)	(252,580,332)
Time deposits from banks	(1,172,870,180)	(1,189,989,804)
	1,297,216,700	1,963,554,587

Time deposits with and from central banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

B. Non-cash transactions

The statement of cash flow is prepared after excluding the effect of the following material non-cash transactions:

As at December 31st - LBP'000	2014	2013
Operating Activities:		
Loans and advances for the effect of assets acquired in satisfaction of loans and transfer from provisions for contingencies	2,463,274	37,148
Other assets	3,985,930	1,988,589
Other liabilities	8,968,778	45,924,766
Investing Activities:		
Effect of assets acquired in satisfaction of loans	3,773,591	37,148
Financing Activities:		
Property and equipment	5,296,247	1,988,589
Non-controlling interest	-	36,955,988
Cumulative change in fair value of financial instruments designated as hedging instruments	8,968,778	8,968,778

47. CONTINGENCIES

As of the date of the statement of financial position, there are lawsuits and litigations, whereby the Group is either plaintiff or defendant, pending before the competent courts and the outcome of which cannot be determined at present. One of these litigations might be sensitive with risk relatively low and not based on valid grounds according to the Group's legal advisor.

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48. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

As at December 31st, 2014 - LBP'000	Pledged Amount	Corresponding Facilities: Nature of Facility	Amount of Facility	Nature of Facility	Amount of Facility
Pledged deposits with banks	3,685,632	Risk participation	1,563,169	-	-
Pledged deposits with banks	564,790	Trade Finance	1,686,251	Performance bonds	7,514,163
Pledged deposits with banks	37,227,315	Foreign currency (Bought)	616,719,936	Foreign currency (sold)	617,563,771
Pledged deposits with banks	1,413,087	Acquisition of non controlling interest	1,387,021	-	-
Pledged deposits with banks	756,551	National amount of interest swap	31,031,531	-	-
Lebanese government bonds and bonds issued by financial private sector	165,012,981	Short term deposits	90,450,000	-	-
Securities sold under repurchase agreement	197,899,776	Borrowings from other central banks	183,327,522	-	-

As at December 31st, 2013 - LBP'000	Pledged Amount	Corresponding Facilities: Nature of Facility	Amount of Facility	Nature of Facility	Amount of Facility
Pledged deposits with banks	41,450,443	Risk participation	28,758,939	-	-
Pledged deposits with banks	611,950	Trade Finance	2,657,081	Performance bonds	7,586,107
Pledged deposits with banks	61,571,401	Foreign currency (Bought)	421,069,214	Foreign currency (Sold)	415,411,583
Pledged deposits with banks	670,070	Notional amount of interest rate swap	59,867,120	-	-
Lebanese government bonds at amortized cost	914,566	Letter of guarantee	1,200,000	-	-
Lebanese government bonds	70,000,000	Short term deposits	60,000,000	-	-
Bonds issued by financial private sector	97,221,710	Short term deposits	97,233,750	-	-
Securities sold under repurchase agreement	178,930,740	Borrowings from other central banks	165,179,054	-	-

As at December 31, 2014, the Group had deposit in guarantee in the amount of LBP540million (LBP522million as at December 31, 2013) and Lebanese government bonds in the amount of LBP840million (LBP840million as at December 31, 2013) blocked in favor of the Ministry of Economy and Trade in guarantee of the Group's insurance activities in Lebanon.

49. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator, and retain an economic capital enough to meet the Group's medium term expansion plan.

Furthermore, the Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad in addition to the minimum regulatory capital required by the host country.

Pursuant to Central Bank of Lebanon decisions adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
	%	%	%	%
Common Equity Tier 1 ratio	5.00	6.00	7.00	8.00
Tier 1 ratio	8.00	8.50	9.50	10.00
Total Capital ratio	10.00	10.50	11.50	12.00

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The Group's capital is split as follows:

Tier I capital: Comprises share capital (after deduction of treasury shares), shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings (inclusive of current year's net profit after deduction of proposed dividends). Goodwill and cumulative unfavorable change in fair value of securities at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities, 50% of cumulative favorable change in fair value of securities at fair value through other comprehensive income and revaluation surplus of owned properties.

Investments in associates are deducted from Tier I and Tier II capital.

The Group has complied with the regulatory capital requirement throughout the period.

The Group's capital adequacy ratio according to Basle II as of December 31, 2014 and 2013, is as follows:

As at December 31st - LBP'000	2014	2013
Common equity (net)	1,028,036,334	774,868,000
Additional Tier 1 capital (net)	783,824,625	786,106,000
	1,811,860,959	1,560,974,000
Net Tier 2 capital	10,257,801	6,933,000
Total regulatory capital (including remaining net profit after distribution of dividends)	1,822,118,760	1,567,907,000
Credit risk	11,615,432,490	10,808,772,000
Market risk	154,375,614	129,207,000
Operational risk	841,200,374	787,090,000
Risk weighted assets and risk weighted off-balance sheet items	12,611,008,478	11,725,069,000
Common equity Tier I ratio	8.15%	6.61%
Tier I ratio	14.37%	13.31%
Risk based capital ratio – Tier I and Tier II capital	14.45%	13.37%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Basle III.
- Ensure a high return on equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's strategy is to maintain a satisfactory economic capital beyond the regulatory threshold.

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50. SEGMENT INFORMATION

The Group classifies its operating segments by geographical location and by activity.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital and assesses performance.

The Group's operating segment information by geographical location is as follows:

	2014				2013			
As at December 31st - LBP'000	Lebanon & Middle East	Europe	Australia	Inter-segment	Lebanon & Middle East	Europe	Australia	Inter-segment
Total Assets	20,820,922,735	1,067,024,250	1,876,304,554	(1,279,782,591)	18,959,432,504	1,078,177,321	1,893,537,888	(1,403,717,562)
Total Liabilities	17,933,212,548	883,088,876	1,630,716,831	(697,924,909)	16,509,631,328	887,490,528	1,637,038,992	(804,241,465)
Total Equity	2,882,791,215	188,854,347	245,587,723	(581,857,683)	2,447,060,587	190,686,793	256,498,896	(596,735,508)
Profit for the year	256,546,734	12,486,414	10,472,063	(59,073,024)	214,156,299	15,028,547	5,899,144	(46,056,082)
ASSETS								
Trading assets at fair value through profit or loss	1,108,194,046	60,935,466	-	(40,878,878)	819,202,250	31,528,711	-	(40,690,394)
Loans and advances to customers	4,856,853,510	262,984,100	1,067,568,909	-	4,369,350,272	227,687,986	996,462,344	-
Loans and advances to related parties	255,498,811	-	7,955,409	(158,721,230)	222,979,046	-	9,585,527	(103,831,715)
Investment securities	7,220,525,980	6,120,231	529,097,052	-	6,095,343,166	6,115,781	685,897,441	-
LIABILITIES								
Customers' deposits at amortized cost	14,848,079,559	265,478,821	1,406,906,610	-	13,770,844,200	268,139,791	1,298,816,126	-
Related parties' deposits at amortized cost	362,148,058	-	2,004,841	(80,629,360)	299,878,740	-	3,886,326	(96,083,823)

As at December 31st - LBP'000	2014 Lebanon & Middle East	2014 Europe	2014 Australia	2014 Inter-segment	2013 Lebanon & Middle East	2013 Europe	2013 Australia	2013 Inter-segment
Interest income	904,943,777	26,199,046	92,486,775	(26,394,611)	780,313,701	23,526,848	98,894,200	(24,997,467)
Interest expense	(620,050,907)	(10,354,632)	(52,857,996)	26,394,611	(530,939,916)	(9,814,178)	(62,789,859)	24,997,467
Net interest income	284,892,870	15,844,414	39,628,779	-	249,373,785	13,712,670	36,104,341	-
Fee and commission income	119,068,070	22,860,587	6,189,408	(8,816,832)	96,227,785	21,045,891	5,701,611	(5,526,096)
Fee and commission expense	(24,857,314)	(400,980)	(115,502)	-	(19,048,525)	(617,357)	(104,540)	-
Net fee and commission income	94,210,756	22,459,607	6,073,906	(8,816,832)	77,179,260	20,428,534	5,597,071	(5,526,096)
Net interest and other gains on trading assets at fair value through profit or loss	73,535,452	524,477	2,735,159	(2,413,477)	61,189,561	324,951	2,828,780	(3,452,005)
Gain from derecognition of financial assets measured at amortized cost	74,716,652	-	-	-	64,071,146	-	-	-
Other operating income (net)	26,914,653	952,255	2,465,947	(12,500,000)	21,763,994	1,067,182	2,569,542	(12,700,000)
Net financial revenues	554,270,383	39,780,753	50,903,791	(23,730,309)	473,577,746	35,533,337	47,099,734	(21,678,101)
Provision for credit losses (net)	(32,840,462)	(353,060)	(179,849)	-	(17,810,826)	-	(144,633)	-
Other provisions (net)	(878,422)	-	-	-	(3,243,868)	-	-	-
Write-back allowance for impairment for a brokerage account (net)	-	-	-	-	114,461	-	-	-
Write-off of a bank account	(504,595)	-	-	-	-	-	-	-
Net financial revenues after impairment	520,046,904	39,427,693	50,723,942	(23,730,309)	452,637,513	35,533,337	46,955,101	(21,678,101)
Staff costs	(112,545,345)	(10,870,009)	(20,765,169)	-	(100,557,048)	(10,369,413)	(22,229,626)	-
General and administrative expenses	(92,871,908)	(11,221,904)	(12,336,510)	8,816,832	(91,281,327)	(5,435,585)	(13,424,113)	6,796,096
Depreciation and amortization	(15,520,804)	(378,388)	(2,613,968)	-	(13,267,980)	(402,024)	(2,813,502)	-
Write back of provision for impairment of assets acquired in satisfaction of loans	-	-	-	-	102,479	-	-	-
Profit before income tax	299,108,847	16,957,392	15,008,295	(14,913,477)	247,633,637	19,326,315	8,487,860	(14,882,005)
Income tax expense	(39,855,229)	(4,470,978)	(4,536,231)	-	(32,556,010)	(4,297,767)	(2,588,716)	-
Profit for the year before withholding tax on profits from subsidiaries	259,253,618	12,486,414	10,472,064	(14,913,477)	215,077,627	15,028,548	5,899,144	(14,882,005)
Deferred tax on undistributed profit	(2,213,522)	-	-	-	(1,878,282)	-	-	-
Profit for the year	257,040,096	12,486,414	10,472,064	(14,913,477)	213,199,345	15,028,548	5,899,144	(14,882,005)

The Group's operating segment information by activity during 2014 and 2013 was as follows:

As at December 31st, 2014 - LBP'000	Banking & Financial Institution	Insurance & Brokerage	Managed Funds	Inter-segment
Total Assets	22,782,087,145	42,886,319	939,278,075	(1,279,782,591)
Total Liabilities	20,253,152,765	17,184,803	176,680,687	(697,924,909)
Total Equity	2,528,934,380	25,701,516	762,597,388	(581,857,682)
Profit for the year	219,866,576	12,852,465	46,786,170	(59,073,024)
Non- controlling interest	-	493,363	44,159,547	-

As at December 31st, 2013 - LBP'000 (Restated)	Banking & Financial Institution	Insurance & Brokerage	Managed Funds	Inter-segment
Total Assets	21,188,776,546	40,930,306	701,440,861	(1,403,717,562)
Total Liabilities	18,903,552,378	21,574,617	109,033,853	(804,241,465)
Total Equity	2,282,483,579	19,355,689	592,407,008	(596,735,508)
Profit for the year	197,038,996	4,377,019	33,667,977	(46,056,084)
Non- controlling interest	-	313,045	29,904,079	-

51. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group holds and issues financial instruments for three main purposes:
- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The main risks arising from the Group's financial instruments are:

- Credit risk
- Liquidity risk
- Interest rate risk; and
- Foreign currency risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various Committees at Group and each entity's level to develop and monitor the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A – Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and other banks and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

1- Management of credit risk

Credit risk is the risk of loss resulting from the failure of an obligor or counterparty to meet its contractual obligations. It is a part of many of the Group's business activities and exists in the different banking products (for example loans, letters of credit, derivative contracts….) provided to customers of all sizes, from large corporate clients to individual consumers.

The risk is controlled through monitoring and enforcing compliance with the risk principles and with policies, limits and regulatory requirements, whereby the Group has developed policies and practices to preserve the independence and integrity of decision-making and ensure credit exposure beyond normal risk are identified promptly, assessed accurately, approved properly, reviewed in light of market and external developments, monitored regularly and managed actively.

The Group assesses the creditworthiness of new contracting parties before entering into any transaction giving rise to credit exposure

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and continuously monitors creditworthiness and exposures thereafter. It applies a well-defined system for assessing the creditworthiness of its clients on the basis of many criteria related to the borrower mainly the nature of activity, financial performance and structure, credit history, cash flows, projected financials and management quality (e.g. purpose, amount, tenor, collateral presented as a second way out).

The Group sets limits on the credit exposure to both individual and groups and applies limits in a variety of forms to portfolios or sectors where it considers appropriate to restrict credit concentrations or areas of high risk. In addition credit concentration is subject to regulatory authority constraints whereby the credit concentration to one individual or Group (a Group is defined as a group of clients that are linked to one another by any of a number of criteria established, including capital ownership, voting rights, effective control and other indications) does not exceed a maximum of 20% of regulatory equity.

In order to meet credit risk management objectives, the Group seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration.

Through the risk reporting, credit risk trends and limit exceptions are provided regularly and discussed with concerned committees. In this connection, the Group works continuously towards enhancing its credit risk management tools and adopting more advanced approaches.

2- Measurement of credit risk

a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools. The Group's rating scale reflects the range of default probabilities defined for each rating class as explained below:

• Watch List: Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.

• Past due but not impaired: Loans past due but not impaired are loans where contractual interest or principal are past due but management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.

• Rescheduled loans: Rescheduled loans are loans that have been restructured after they have been rated as substandard or doubtful and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in its original category.

• Substandard loans: Substandard loans are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Group will sustain some loss if the deficiencies are not corrected.

• Doubtful loans: Doubtful loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that existing facts, conditions, and values make collection or liquidation in full highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include merger, acquisition, liquidation procedures, capital injection, additional collateral, new financing sources, or additional guarantors.

• Loss: Loans classified as a loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value. Rather, the amount of loss is difficult to measure and its is not practical or desirable to defer writing off this basically worthless asset even if partial recovery may be obtained in the future. Loans are charged off in the period in which they are deemed uncollectible.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main component of its allowance is the specific loss component that relates to individually significant exposures, and a minor part of a collective loan loss allowance established for retail and Small and Medium Enterprises (SME's) where there is objective evidence that

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unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

The Group writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

3- Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

Other specific risk mitigation policies include:

Netting arrangements:

The Group further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

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a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of financial assets:

As at December 31st - LBP'000	2014 Gross Maximum Exposure	2013 Gross Maximum Exposure
Deposits at central banks	4,230,760,025	4,048,494,911
Deposits with banks and financial institutions	1,701,180,082	1,875,967,997
Trading assets at fair value through profit or loss	1,128,250,634	810,040,567
Loans to banks	597,267,154	532,621,123
Loans and advances to customers	6,187,406,519	5,593,500,602
Loans and advances to related parties	104,732,990	128,732,858
Financial assets measured at amortized cost	7,750,260,506	6,783,779,951
Financial assets at fair value through other comprehensive income	5,482,757	3,576,437
Customers' acceptances liabilities	382,283,868	368,260,084
Other assets	24,513,659	29,673,605
Total	22,112,138,194	20,174,648,135
Financial instruments with off-balance sheet risk	3,140,596,622	3,170,372,780
Fiduciary deposits and assets under management	196,218,018	188,414,171
Total	3,336,814,640	3,358,786,951
Total credit risk exposure	25,448,952,834	23,533,435,086

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b) Concentration of loans by industry or sector:

As at December 31st, 2014 - LBP'000	Agriculture	Manufacturing & Industry	Financial Services	Real Estate & Construction	Trade & Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	597,267,154	-	-	-	597,267,154
Loans and advances to customers	27,351,099	935,005,140	196,859,024	1,564,265,637	1,811,929,364	1,651,996,255	6,187,406,519
Loans and advances to related parties	-	1,662,179	3,469,795	12,489,978	65,371,163	21,739,875	104,732,990
Total	27,351,099	936,667,319	797,595,973	1,576,755,615	1,877,300,527	1,673,736,130	6,889,406,663

As at December 31st, 2013 - LBP'000	Agriculture	Manufacturing & Industry	Financial Services	Real Estate & Construction	Trade & Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	532,621,123	-	-	-	532,621,123
Loans and advances to customers	80,026,120	1,013,494,687	158,286,606	1,111,024,356	1,979,900,892	1,250,767,941	5,593,500,602
Loans and advances to related parties	-	3,217,504	7,950,680	15,439,506	82,839,744	19,285,424	128,732,858
Total	80,026,120	1,016,712,191	698,858,409	1,126,463,862	2,062,740,636	1,270,053,365	6,254,854,583

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Below are the details of the Group's exposure to Credit risk with respect to loans and advances to customers:

				Fair Value of Collateral Received						
As at December 31st, 2014 - LBP'000	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	First Degree Mortgage on Property	Dept Securities	Bank Guarantees	Vehicles	Other	Total
Performing loans	6,182,483,563	-	6,182,483,563	962,126,092	5,089,542,835	349,815,486	160,870,881	366,663,668	6,665,993,649	13,595,012,611
Substandard loans	16,647,109	(305,415)	16,341,694	3,368,889	16,632,516	-	-	6,679,909	886,410	27,567,724
Doubtful	95,518,400	(46,879,274)	48,639,126	16,757,887	28,556,359	-	-	351,597	2,230,625	47,896,468
Collective provision	-	(60,057,864)	(60,057,864)	-	-	-	-	-	-	-
Total	6,294,649,072	(107,242,553)	6,187,406,519	982,252,868	5,134,731,710	349,815,486	160,870,881	373,695,174	6,669,110,684	13,670,476,803

				Fair Value of Collateral Received						
As at December 31st, 2013 - LBP'000	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	First Degree Mortgage on Property	Dept Securities	Bank Guarantees	Vehicles	Other	Total
Performing loans	5,603,765,848	-	5,603,765,848	978,037,283	4,731,003,904	320,868,338	100,577,211	428,709,162	6,127,379,559	12,686,575,457
Substandard loans	15,758,700	(50,902)	15,707,798	1,361,285	14,566,620	-	-	4,495,599	886,410	21,309,914
Doubtful loans	50,946,832	(37,634,565)	13,312,267	15,722,330	33,814,983	50,075	-	606,901	2,230,625	52,424,914
Collective provision	-	(39,285,311)	(39,285,311)	-	-	-	-	-	-	-
Total	5,670,471,380	(76,970,778)	5,593,500,602	995,120,898	4,779,385,507	320,918,413	100,577,211	433,811,662	6,130,496,594	12,760,310,285

Estimates of fair value for properties held as collateral are based on the value of collateral assessed at the time of borrowing discounted for the effect of illiquidity in the range of 5% to 20% applied based on geographical distribution of mortgages held.

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c) Concentration of financial assets and liabilities by geographical location:

As at December 31st, 2014 - LBP'000	Lebanon	Middle East & Africa	Europe	North America	Australia	Others	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	3,519,973,178	705,507,596	11,498,197	-	35,812,382	-	4,272,791,353
Deposits with banks and financial institutions	646,303,513	105,488,658	381,640,803	462,159,632	94,419,893	11,167,583	1,701,180,082
Trading assets at fair value through profit or loss	1,062,257,507	535,162	65,457,965	-	-	-	1,128,250,634
Loans to Banks	72,507,108	457,506,829	43,715,903	-	-	23,537,314	597,267,154
Loans and advances to customers	4,050,189,853	930,737,582	121,914,810	2,444,652	1,066,220,204	15,899,418	6,187,406,519
Loans and advances to related parties	92,807,219	3,970,362	-	-	7,955,409	-	104,732,990
Investment securities	7,129,635,367	-	-	-	626,107,896	-	7,755,743,263
Customers' liability under acceptances	202,439,843	158,506,886	15,373,728	2,718,831	-	3,244,580	382,283,868
Other financial assets	19,563,880	398,457	962,275	-	3,589,047	-	24,513,659
	16,795,677,468	2,362,651,532	640,563,681	467,323,115	1,834,104,831	53,848,895	22,154,169,522
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,173,564,438	464,828,035	148,452,958	19,820	-	7,562,956	1,794,428,207
Customers' and related parties' deposits at amortized cost	11,410,217,545	2,483,937,352	1,246,653,931	149,180,175	1,337,918,877	176,080,649	16,803,988,529
Liabilities under acceptances	35,262,800	90,555,287	91,587,692	12,759,161	-	152,118,928	382,283,868
Other borrowings	267,648,776	-	32,633,414	-	183,327,522	-	483,609,712
Certificates of deposit	-	-	682,016	-	-	-	682,016
Other financial liabilities	68,432,910	84,902,531	2,422,368	-	7,487,479	-	163,245,288
	12,955,126,469	3,124,223,205	1,522,432,379	161,959,156	1,528,733,878	335,762,533	19,628,237,620
Net financial assets	3,840,550,999	(761,571,673)	(881,868,698)	305,363,959	305,370,953	(281,913,638)	2,525,931,902

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As at December 31st, 2013 - LBP'000	Lebanon	Middle East & Africa	Europe	North America	Australia	Others	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	3,358,713,271	714,040,409	1,014,263	-	14,713,904	-	4,088,481,847
Deposits with banks and financial institutions	681,730,446	134,289,724	289,638,552	638,398,340	46,387,617	85,523,318	1,875,967,997
Trading assets at fair value through profit or loss	807,916,130	2,124,437	-	-	-	-	810,040,567
Loans to Banks	68,144,070	382,359,081	1,508,993	-	-	80,608,979	532,621,123
Loans and advances to customers	3,693,434,335	776,613,785	111,592,182	76,239	994,622,012	17,162,049	5,593,500,602
Loans and advances to related parties	118,595,473	551,858	-	-	9,585,527	-	128,732,858
Investment securities	5,987,654,737	-	7,537,500	-	792,164,151	-	6,787,356,388
Customers' liability under acceptances	144,212,624	187,392,203	23,653,494	3,720,214	-	9,281,549	368,260,084
Other financial assets	23,101,501	4,033	1,214,308	-	5,353,763	-	29,673,605
	14,883,502,587	2,197,375,530	436,159,292	642,194,793	1,862,826,974	192,575,895	20,214,635,071
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	946,748,330	396,777,767	189,179,613	2,823,467	1,885,690	143,428,068	1,680,842,935
Customers' and related parties' deposits at amortized cost	10,692,952,868	2,364,788,594	928,121,641	158,034,367	1,228,654,197	172,929,693	15,545,481,360
Liabilities under acceptances	55,505,853	43,161,538	115,689,779	1,543,087	1,309,296	151,050,531	368,260,084
Other borrowings	65,420,164	-	37,735,340	-	165,179,054	30,000,605	298,335,163
Certificates of deposit	11,603,399	17,185,500	-	-	-	1,507,500	30,296,399
Other financial liabilities	198,008,928	1,577,506	555,204	-	3,933,693	335,434	204,410,765
	11,970,239,542	2,823,490,905	1,271,281,577	162,400,921	1,400,961,930	499,251,831	18,127,626,706
Net financial assets	2,913,263,045	(626,115,375)	(835,122,285)	479,793,872	461,865,044	(306,675,936)	2,087,008,365

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B – Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1- Management of liquidity risk

Liquidity is the “Group’s ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times.” In ‘business as usual’ circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

Liquidity risk is defined as the risk of the Group’s ability to meet its current and future payment obligations in full or on time.

Liquidity risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

Liquidity Measurement

Liquidity is measured on a “business as usual basis” using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing “the business as usual” assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank’s objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

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The Contingency Funding Plan

Liquidity problems will usually arise only when the Group encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank’s resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Group and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Group (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank’s obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis, the Treasury Department would immediately endeavour to sell the Group’s liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

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Residual Contractual maturities of Financial Assets and Liabilities

The tables below show the Group's Financial Assets and Liabilities in Lebanese Pounds and Foreign Currencies base accounts segregated by maturity:

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As at December 31st, 2014 - LBP'000	LBP Base Accounts							
	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
FINANCIAL ASSETS								
Cash and deposits at central banks	727,201,546	674,695,526	319,332,218	425,363,738	856,632,353	1,045,461,803	224,104,169	4,272,791,353
Deposits with banks and financial institutions	66,426,836	1,597,899,390	36,853,366	490	-	-	-	1,701,180,082
Trading assets at fair value through profit or loss	30,110,763	105,622,009	60,201,103	98,821,984	152,483,983	319,453,841	361,556,951	1,128,250,634
Loans to Banks	718,196	476,626,852	99,329,650	3,106,964	4,486,320	12,999,172	-	597,267,154
Loans and advances to customers	(1,034,429)	1,603,425,379	2,008,276,371	1,193,047,849	383,496,562	373,216,545	626,978,242	6,187,406,519
Loans and advances to related parties	(4,542,886)	(53,099,098)	129,915,919	27,571,081	3,792,909	624,574	470,491	104,732,990
Investment securities	101,412,488	165,500,708	509,804,871	1,421,789,310	1,580,899,298	2,759,879,799	1,216,456,789	7,755,743,263
Customers' liability under acceptances	39,493,404	305,811,292	33,929,450	3,049,722	-	-	-	382,283,868
Other financial assets	21,046,681	-	-	3,466,978	-	-	-	24,513,659
	980,832,599	4,876,482,058	3,197,642,948	3,176,218,116	2,981,791,425	4,511,635,734	2,429,566,642	22,154,169,522
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	3,722,967	1,502,415,247	160,671,074	127,618,919	-	-	-	1,794,428,207
Customers' and related parties' deposits at amortized cost	285,078,855	6,973,962,149	1,328,442,499	7,616,841,666	527,808,448	18,299,541	53,555,371	16,803,988,529
Liabilities under acceptance	39,493,404	325,223,819	14,516,923	3,049,722	-	-	-	382,283,868
Other borrowings	1,653,728	398,744,619	71,088,242	5,855,131	3,774,780	2,494,913	(1,701)	483,609,712
Certificates of deposit	-	-	682,016	-	-	-	-	682,016
Other financial liabilities	20,620,590	141,456,616	78,551	229,187	860,344	-	-	163,245,288
	350,569,544	9,341,802,450	1,575,479,305	7,753,594,625	532,443,572	20,794,454	53,553,670	19,628,237,620
Net Maturity gap	630,263,055	(4,465,320,392)	1,622,163,643	(4,577,376,509)	2,449,347,853	4,490,841,280	2,376,012,972	2,525,931,902

Consolidated Financial Statements
Year ended December 31, 2014

As at December 31st, 2013 - LBP'000	F/Cy Base Accounts							
	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
FINANCIAL ASSETS								
Cash and deposits at central banks	969,789,529	1,244,919,768	113,062,500	307,172,700	242,171,550	826,875,000	384,490,800	4,088,481,847
Deposits with banks and financial institutions	842,834,411	1,005,261,969	9,295,319	18,576,298	-	-	-	1,875,967,997
Trading assets at fair value through profit or loss	67,127,431	30,112,635	22,018,540	58,492,099	162,541,330	322,676,717	147,071,815	810,040,567
Loans to Banks	147,242	421,748,671	84,798,256	12,543,754	-	13,383,200	-	532,621,123
Loans and advances to customers	261,125,547	2,469,988,452	893,727,469	720,610,536	300,304,080	269,188,679	678,555,839	5,593,500,602
Loans and advances to related parties	534,340	89,085,436	28,417,092	2,642,099	459,430	1,600,348	5,994,113	128,732,858
Investment securities	230,447,905	138,870,878	301,059,210	1,233,533,527	1,932,777,602	2,370,293,313	580,373,953	6,787,356,388
Customers' liability under acceptances	-	360,198,258	5,663,678	2,398,148	-	-	-	368,260,084
Other financial assets	24,581,311	5,056,242	24,475	11,577	-	-	-	29,673,605
	2,396,587,716	5,765,242,309	1,458,066,539	2,355,980,738	2,638,253,992	3,804,017,257	1,796,486,520	20,214,635,071
FINANCIAL LIABILITIES								
Deposits from banks and financial institutions	158,290,880	1,288,529,927	184,370,748	49,651,380	-	-	-	1,680,842,935
Customers' and related parties' deposits at amortized cost	1,545,144,529	11,739,235,362	1,854,634,276	349,856,875	25,430,433	8,121,211	23,058,674	15,545,481,360
Liabilities under acceptance	-	360,198,258	5,663,678	2,398,148	-	-	-	368,260,084
Other borrowings	613,880	272,676,300	8,333,270	4,757,539	7,360,417	4,593,757	-	298,335,163
Certificates of deposit	343,874	29,245,500	707,025	-	-	-	-	30,296,399
Other financial liabilities	98,926,756	104,789,688	51,957	320,010	322,354	-	-	204,410,765
	1,803,319,919	13,794,675,035	2,053,760,954	406,983,952	33,113,204	12,714,968	23,058,674	18,127,626,706
Net Maturity gap	593,267,797	(8,029,432,726)	(595,694,415)	1,948,996,786	2,605,140,788	3,791,302,289	1,773,427,846	2,087,008,365

C – Market Risks

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

1. Management of market risks

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

Notes to the consolidated financial statements

Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings group of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimising the return on risk.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Group is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

INTEREST GAP ANALYSIS FOR ACCOUNTS AS AT DECEMBER 31, 2014:

Interest Rate Sensitivity Balance Sheet LBP'000	Non-Interest Generating	Floating: Up to 3 Months	Floating: 3 Months to 1 Year	Floating: 1 to 3 Years	Floating: 3 to 5 Years	Floating: Over 5 Year	Floating: Total
FINANCIAL ASSETS							
Cash and deposits at central banks	1,083,170,175	41,445,582	-	-	-	-	41,445,582
Deposits with banks and financial institutions	144,873,784	526,786,088	-	-	-	-	526,786,088
Trading assets at fair value through profit or loss	22,675,740	35,211,997	66,183,259	-	-	-	101,395,256
Loans to Banks	718,196	232,829,867	51,082,112	2,206,988	-	-	286,118,967
Loans and advances to customers	3,645,361	2,649,718,740	70,953,554	76,101,395	16,779,478	-	2,813,553,167
Loans and advances to related parties	46,076	22,572,049	-	3,064,828	-	-	25,636,877
Investment in securities	279,548,403	541,503,244	16,662,017	6,476,761	48,936,422	11,111,979	624,690,423
Customers' liability under acceptances	331,195,849	33,521,375	14,516,923	3,049,721	-	-	51,088,019
Other financial assets	24,513,659	-	-	-	-	-	-
	1,890,387,243	4,083,588,942	219,397,865	90,899,693	65,715,900	11,111,979	4,470,714,379
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	8,618,506	281,647,711	127,185,251	-	-	-	408,832,962
Customers and related parties ' deposits at amortized cost	345,841,415	1,173,374,483	390,418,395	20,149	991,469	-	1,564,804,496
Liabilities under acceptance	331,195,849	33,521,375	14,516,923	3,049,721	-	-	51,088,019
Other borrowings	-	119,131,570	64,195,952	-	-	-	183,327,522
Certificates of deposit	-	-	682,016	-	-	-	682,016
Other financial liabilities	82,187,300	-	-	-	-	-	-
	767,843,070	1,607,675,139	596,998,537	3,069,870	991,469	-	2,208,735,015
Interest Rate Swap	-	31,031,531	-	-	-	-	31,031,531
Interest Rate Gap	1,122,544,173	2,506,945,334	(377,600,672)	87,829,823	64,724,431	11,111,979	2,293,010,895

Interest Rate Sensitivity Balance Sheet LBP'000	Fixed: Up to 3 Months	Fixed: 3 Months to 1 Year	Fixed: Between 1 Year & 3 Years	Fixed: Between 3 Year & 5 Years	Fixed: Over 5 Years	Fixed: Total	Grand Total
FINANCIAL ASSETS							
Cash and deposits at central banks	581,537,753	15,075,000	425,363,738	856,632,353	1,269,566,752	3,148,175,596	4,272,791,353
Deposits with banks and financial institutions	1,012,493,160	17,027,050	-	-	-	1,029,520,210	1,701,180,082
Trading assets at fair value through profit or loss	859,565,164	23,128,065	1,735,133	4,719,983	115,031,293	1,004,179,638	1,128,250,634
Loans to Banks	243,796,983	48,247,538	899,978	4,486,320	12,999,172	310,429,991	597,267,154
Loans and advances to customers	1,282,904,582	917,721,297	522,406,476	267,826,147	379,349,489	3,370,207,991	6,187,406,519
Loans and advances to related parties	63,874,095	3,683,899	6,604,690	3,792,909	1,094,444	79,050,037	104,732,990
Investment in securities	145,895,454	382,075,875	1,171,650,491	1,359,312,439	3,792,570,178	6,851,504,437	7,755,743,263
Customers' liability under acceptances	-	-	-	-	-	-	382,283,868
Other financial assets	-	-	-	-	-	-	24,513,659
	4,190,067,191	1,406,958,724	2,128,660,506	2,496,770,151	5,570,611,328	15,793,067,900	22,154,169,522
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,215,511,203	33,846,617	127,618,919	-	-	1,376,976,739	1,794,428,207
Customers and related parties ' deposits at amortized cost	12,310,304,157	2,042,841,031	445,897,276	22,445,168	71,854,986	14,893,342,618	16,803,988,529
Liabilities under acceptance	-	-	-	-	-	-	382,283,868
Other borrowings	281,265,076	6,892,290	5,855,131	3,774,780	2,494,913	300,282,190	483,609,712
Certificates of deposit	-	-	-	-	-	-	682,016
Other financial liabilities	-	81,057,988	-	-	-	81,057,988	163,245,288
	13,807,080,436	2,164,637,927	579,371,326	26,219,948	74,349,899	16,651,659,535	19,628,237,620
Interest Rate Swap	-	-	(31,031,531)	-	-	(31,031,531)	-
Interest Rate Gap	(9,617,013,245)	(757,679,203)	1,518,257,649	2,470,550,203	5,496,261,429	(889,623,166)	2,525,931,902

Notes to the consolidated financial statements

Notes to the consolidated financial statements

INTEREST GAP ANALYSIS FOR ACCOUNTS AS AT DECEMBER 31, 2013:

Interest Rate Sensitivity Balance Sheet LBP'000	Non-Interest Generating	Floating						Fixed						Grand Total
		Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Year	Total	Up to 3 Months	3 Months to 1 Year	Between 1 Year & 3 Years	Between 3 Year & 5 Years	Over 5 Years	Total	
FINANCIAL ASSETS														
Cash and deposits at central banks	969,789,529	51,761,636	-	-	-	-	51,761,636	1,193,158,132	113,062,500	307,172,700	242,171,550	1,211,365,800	3,066,930,682	4,088,481,847
Deposits with banks and financial institutions	826,904,658	542,980,774	1,710,949	-	-	-	544,691,723	496,787,246	7,584,370	-	-	-	504,371,616	1,875,967,997
Trading assets at fair value through profit or loss	67,127,431	21,527,571	-	-	-	10,001,140	31,528,711	8,585,064	22,018,540	58,492,099	162,541,330	459,747,392	711,384,425	810,040,567
Loans to Banks	1,926,146)	224,600,067	77,798,256	1,726,154	-	-	304,124,477	199,221,992	7,000,000	10,817,600	-	13,383,200	230,422,792	532,621,123
Loans and advances to customers	261,125,551	2,148,802,808	90,122,463	111,780,510	8,404,655	648,630,608	3,007,741,044	1,497,250,888	36,273,207	55,047,330	171,760,346	564,302,236	2,324,634,007	5,593,500,602
Loans and advances to related parties	534,341	34,051,957	-	1,987,144	171,676	7,426,707	43,637,484	84,025,102	-	68,923	467,008	-	84,561,033	128,732,858
investment securities	230,447,905	120,410,788	176,897,270	242,002,892	222,825,854	34,635,628	796,772,432	69,058,650	178,322,590	957,648,325	1,639,074,848	2,916,031,638	5,760,136,051	6,787,356,388
Customers' liability under acceptances	343,578,866	16,619,392	5,663,678	2,398,148	-	-	24,681,218	-	-	-	-	-	-	368,260,084
Other Financial Assets (Derivatives+Sundry)	29,673,605	-	-	-	-	-	-	-	-	-	-	-	-	29,673,605
	2,727,255,740	3,160,754,993	352,192,616	359,894,848	231,402,185	700,694,083	4,804,938,725	3,548,087,074	364,261,207	1,389,246,977	2,216,015,082	5,164,830,266	12,682,440,606	20,214,635,071
FINANCIAL LIABILITIES														
Deposits from banks and financial institutions	144,185,170	367,712,657	76,168,105	-	-	-	443,880,762	934,922,980	108,202,643	49,651,380	-	-	1,092,777,003	1,680,842,935
Customers' deposits at amortized cost	1,545,144,527	1,281,326,622	238,874,356	137,623	980,778	-	1,521,319,379	10,572,008,248	1,512,344,673	339,034,993	24,449,655	31,179,885	12,479,017,454	15,545,481,360
Liabilities under acceptance	343,578,866	16,619,392	5,663,678	2,398,148	-	-	24,681,218	-	-	-	-	-	-	368,260,084
Other borrowings	613,880	216,333,248	-	-	-	-	216,333,248	86,747,336	8,333,270	4,757,539	23,043,867)	4,593,757	81,388,035	298,335,163
Certificates of deposit	343,874	-	707,025	-	-	-	707,025	29,245,500	-	-	-	-	29,245,500	30,296,399
Other Financial Liabilities (Derivatives+Sundry+Checks)	102,873,715	-	-	-	-	-	-	-	101,537,050	-	-	-	101,537,050	204,410,765
	2,136,740,032	1,881,991,919	321,413,164	2,535,771	980,778	-	2,206,921,632	11,622,924,064	1,730,417,636	393,443,912	1,405,788	35,773,642	13,783,965,042	18,127,626,706
Interest rate Swap	-	59,867,120	-	-	-	-	59,867,120	-	-	59,867,120)	-	-	59,867,120)	-
Interest rate Gap	590,515,708	1,338,630,194	30,779,452	357,359,077	230,421,407	700,694,083	2,657,884,213	(8,074,836,990)	1,366,156,429)	935,935,945	2,214,609,294	5,129,056,624	1,161,391,556)	2,087,008,365

Notes to the consolidated financial statements

Foreign Exchange Risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Group does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

Notes to the consolidated financial statements

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

At the outset the Group's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.

- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory rations set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

The table shown below gives details of the Group's exposure to currency risk:

As at December 31st, 2014 - LBP'000	LBP	USD	Euro	GBP	AUD	Other	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	943,539,901	2,442,614,438	158,190,610	839,547	34,871,458	692,735,399	4,272,791,353
Deposits with banks and financial institutions	246,682,848	1,011,675,692	151,535,701	137,704,578	102,203,396	51,377,867	1,701,180,082
Trading assets at fair value through profit or loss	801,070,813	264,796,407	1,447,949	60,935,465	-	-	1,128,250,634
Loans to banks	26,464,601	317,128,024	107,627,783	7,798,101	-	138,248,645	597,267,154
Loans and advances to customers	1,338,492,641	3,042,241,222	198,128,647	11,291,106	950,770,424	646,482,479	6,187,406,519
Loans and advances to related parties	2,401,683	71,738,428	7,255,370	102,970	7,955,409	15,279,130	104,732,990
Investment securities	3,658,137,651	3,477,205,422	163,398	-	620,236,792	-	7,755,743,263
Customers' liability under acceptances	-	284,038,209	46,927,846	557,712	-	50,760,101	382,283,868
Investments in an associate	-	37,679,064	-	-	-	-	37,679,064
Assets acquired in satisfaction of loans	966,632	22,368,481	-	-	-	-	23,335,113
Property and equipment	124,199,353	104,334	89,168	1,111,906	5,114,975	20,627,686	151,247,422
Goodwill	452,265	-	-	1,759,919	86,582,169	-	88,794,353
Other assets	27,445,065	23,447,605	(4,448,494)	(2,657,247)	8,841,198	977,877	53,606,00
	7,169,853,453	10,995,037,326	666,917,978	219,444,057	1,816,575,821	1,616,489,184	22,484,317,819
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	331,933,757	976,171,764	318,396,012	28,231,358	2,959,433	23,150,611	1,680,842,935
Customers' and related parties' deposits at amortized cost	5,010,303,198	7,398,042,928	646,934,746	173,527,428	1,273,279,696	1,043,393,364	15,545,481,360
Liabilities under acceptance	-	232,908,098	67,687,930	943,360	-	66,720,696	368,260,084
Other borrowings	87,017,003	211,318,160	-	-	-	-	298,335,163
Certificates of deposit	-	29,589,374	-	707,025	-	-	30,296,399
Other liabilities	61,871,768	80,752,808	58,288,289	2,850,050	37,606,251	32,660,131	274,029,297
Provisions	21,785,212	10,010,296	543,921	-	-	334,716	32,674,145
	5,512,910,938	8,938,793,428	1,091,850,898	206,259,221	1,313,845,380	1,166,259,518	18,229,919,383
Currencies to be delivered	-	(264,632,406)	(57,133,979)	(44,367,016)	(334,940,158)	(188,823,744)	(889,897,303)
Currencies to be received	-	620,281,972	38,947,582	7,199,395	181,593,369	45,529,113	893,551,431
	-	355,649,566	(18,186,397	(153,346,789)	(143,294,631)	3,654,128	3,654,128
Net exchange position	906,268,205	815,272,621	(45,857,443)	136,006,759	453,906,791	31,913,835	2,297,510,768

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Consolidated Financial Statements
Year ended December 31, 2014

Notes to the consolidated financial statements

As at December 31st, 2013 - LBP'000	LBP	USD	Euro	GBP	AUD	Other	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	1,152,745,720	2,026,394,069	237,394,541	483,104	13,643,258	657,821,155	4,088,481,847
Deposits with banks and financial institutions	75,177,365	1,198,432,996	253,357,088	226,300,612	50,381,178	72,318,758	1,875,967,997
Trading assets at fair value through profit or loss	509,338,443	259,077,876	10,075,906	31,528,711	-	19,631	810,040,567
Loans to banks	31,479,495	283,150,662	181,981,122	25,050,762	-	10,959,082	532,621,123
Loans and advances to customers	1,083,165,994	2,784,015,830	277,331,283	32,291,801	957,539,492	459,156,202	5,593,500,602
Loans and advances to related parties	13,801,695	83,836,069	8,559,127	174,130	9,585,527	12,776,310	128,732,858
Investment securities	3,416,187,890	2,531,449,779	54,512,630	-	785,206,089	-	6,787,356,388
Customers' acceptance liability	-	232,908,098	67,687,930	943,360	-	66,720,696	368,260,084
Investment in an associate	-	34,038,008	-	-	-	-	34,038,008
Assets acquired in satisfaction of loans	750,016	19,646,832	-	-	-	-	20,396,848
Property and equipment	112,260,249	1,708,140	122,726	844,126	6,606,225	20,045,905	141,587,371
Goodwill	452,265	-	-	1,865,736	86,582,169	-	88,900,170
Other assets	23,820,011	(56,241,876)	(26,842,501)	59,951,259	11,555,022	41,650,245	53,892,160
	6,419,179,143	9,398,416,483	1,064,179,852	379,433,601	1,921,098,960	1,341,467,984	20,523,776,023
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	331,933,757	976,171,764	318,396,012	28,231,358	2,959,433	23,150,611	1,680,842,935
Customers' and related parties' deposits at amortized cost	5,010,303,198	7,398,042,928	646,934,746	173,527,428	1,273,279,696	1,043,393,364	15,545,481,360
Liabilities under acceptance	-	232,908,098	67,687,930	943,360	-	66,720,696	368,260,084
Other borrowings	87,017,003	211,318,160	-	-	-	-	298,335,163
Certificates of deposit	-	29,589,374	-	707,025	-	-	30,296,399
Other liabilities	61,871,768	80,752,808	58,288,289	2,850,050	37,606,251	32,660,131	274,029,297
Provisions	21,785,212	10,010,296	543,921	-	-	334,716	32,674,145
	5,512,910,938	8,938,793,428	1,091,850,898	206,259,221	1,313,845,380	1,166,259,518	18,229,919,383
Currencies to be delivered	-	(264,632,406)	(57,133,979)	(44,367,016)	(334,940,158)	(188,823,744)	(889,897,303)
Currencies to be received	-	620,281,972	38,947,582	7,199,395	181,593,369	45,529,113	893,551,431
	-	355,649,566	(18,186,397)	(37,167,621)	(153,346,789)	(143,294,631)	3,654,128
Net exchange position	906,268,205	815,272,621	(45,857,443)	136,006,759	453,906,791	31,913,835	2,297,510,768

Notes to the consolidated financial statements

52. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The summary of the Group's classification of each class of financial assets and liabilities covered by IFRS 9 and their fair values are as follows:

As at December 31st, 2014 - LBP'000	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at:					
Fair value through profit or loss:					
Lebanese treasury bills	408,465,195	-	408,465,195	-	323,713,967
Lebanese Government bonds	185,955,503	-	185,955,503	-	106,413,949
Foreign Government treasury bills	60,885,500	-	60,885,500	-	32,124,914
Certificates of deposit issued by the Central Bank of Lebanon	396,439,336	-	396,439,336	-	276,034,077
Quoted equity securities	8,384,390	8,384,390	-	-	1,558,376
Unquoted equity securities	50,137,567	-	-	-	11,446,373
	1,110,267,491	8,384,390	1,051,745,534	44,531,252	44,531,252
Financial assets at fair value through other comprehensive income					
Unquoted equity securities	5,482,757	-	5,482,757	-	5,482,757
	5,482,757	-	5,482,757	-	5,482,757
Amortized cost:					
Cash and Deposits at central banks	4,272,791,353	-	4,266,551,389	-	4,266,551,389
Deposits with banks and financial institutions	1,701,180,082	-	1,701,935,998	-	1,701,935,998
Loans to banks	597,267,154	-	608,373,566	-	608,373,566
Loans and advances to customers	6,187,406,519	-	6,202,397,369	-	6,202,397,369
Loans and advances to related parties	104,732,990	-	111,815,514	-	111,815,514
Lebanese treasury bills	2,368,353,363	-	2,389,909,379	-	2,389,909,379
Lebanese Government bonds	3,198,261,780	-	3,210,093,847	-	3,210,093,847
Certificates of deposit issued by the Central Bank of Lebanon	1,438,371,402	-	1,451,118,180	-	1,451,118,180
Bonds issued by financial private sector	603,924,357	-	608,917,722	-	608,917,722
Customers' liabilities under acceptances	382,283,868	-	382,283,868	-	382,283,868
Certificates of deposit issued by private sector	35,850,103	-	35,405,153	-	35,405,153
Assets acquired in satisfaction of loans	23,335,113	-	44,597,880	-	44,597,880
Other financial assets	24,513,659	-	24,513,659	-	24,513,659
	20,938,271,743	-	21,037,913,524	-	21,037,913,524
Financial liabilities measured at:					
Amortized cost:					
Deposits from banks and financial institutions	1,794,428,207	-	1,840,653,794	-	1,840,653,794
Customers' and related parties' deposits at amortized cost	16,803,988,529	-	16,932,714,371	-	16,932,714,371
Liabilities under acceptance	382,283,868	-	382,283,868	-	382,283,868
Other borrowings	483,609,712	-	488,939,809	-	488,939,809
Certificates of deposit	682,016	-	682,016	-	682,016
Other liabilities	163,245,288	-	163,245,288	-	163,245,288
	19,628,237,620	-	19,808,519,146	-	19,808,519,146

Notes to the consolidated financial statements

As at December 31st, 2013 - LBP'000	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets measured at:					
Fair value through profit or loss:					
Lebanese treasury bills	323,713,967	-	323,713,967	-	323,713,967
Lebanese Government bonds	106,413,949	-	106,413,949	-	106,413,949
Foreign Government treasury bills	32,124,914	-	32,124,914	-	32,124,914
Certificates of deposit issued by the Central Bank of Lebanon	276,034,077	-	276,034,077	-	276,034,077
Certificates of deposit issued by financial private sector	1,558,376	-	1,558,376	-	1,558,376
Quoted equity securities	11,446,373	11,446,373	-	-	11,446,373
Unquoted equity securities	44,531,252	-	-	44,531,252	44,531,252
	795,822,908	11,446,373	739,845,283	44,531,252	795,822,908
Financial assets at fair value through other comprehensive income					
Unquoted equity securities	3,576,437	-	3,576,437	-	3,576,437
	3,576,437	-	3,576,437	-	3,576,437
Amortized cost:					
Cash and Deposits at central banks	4,088,481,847	-	4,071,186,399	-	4,071,186,399
Deposits with banks and financial institutions	1,875,967,997	-	1,880,435,388	-	1,880,435,388
Loans to banks	532,621,123	-	532,621,123	-	532,621,123
Loans and advances to customers	5,593,500,602	-	5,578,832,968	-	5,578,832,968
Loans and advances to related parties	128,732,858	-	134,374,113	-	134,374,113
Lebanese treasury bills	2,268,245,200	-	2,279,389,564	-	2,279,389,564
Lebanese Government bonds	2,487,208,396	-	2,456,104,544	-	2,456,104,544
Certificates of deposit issued by the Central Bank of Lebanon	1,108,502,107	-	1,118,623,239		1,118,623,239
Certificates of deposit issued by financial private sector	42,511,538	-	42,369,978		42,369,978
Bonds issued by financial private sector	769,835,597	-	789,976,294	-	789,976,294
Customers' liabilities under acceptances	368,260,084	-	368,260,084	-	368,260,084
Assets acquired in satisfaction of loans	20,396,848	-	39,956,740	-	39,956,740
Other assets	29,673,605	-	29,673,605	-	29,673,605
	19,313,937,802	-	19,321,804,039	-	19,321,804,039
Financial liabilities measured at:					
Amortized cost:					
Deposits from banks and financial institutions	1,680,842,935	-	1,688,085,080	-	1,688,085,080
Customers' and related parties' deposits at amortized cost	15,545,481,360		15,616,930,682		15,616,930,682
Liabilities under acceptance	368,260,084	-	368,260,084	-	368,260,084
Other borrowings	298,335,163	-	299,921,959	-	299,921,959
Certificates of deposit	30,296,399	-	31,016,763	-	31,016,763
Other liabilities	204,410,765	-	204,410,765	-	204,410,765
	18,127,626,706	-	18,208,625,333	-	18,208,625,333

Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

As at December 31st, 2014	Date of Valuation	Valuation Technique and key Inputs
FINANCIAL ASSETS		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2014	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2014	Average market price in inactive market
Foreign government treasury bills	December 31, 2014	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2014	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese government bonds	December 31, 2014	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2014	Average market price in inactive market
Unquoted equity securities	December 31, 2014	Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity.
At fair value through other comprehensive income:		
Unquoted equity securities	December 31, 2013	Not valued
At amortized cost:		
Deposits at central banks	December 31, 2014	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater that one year and Libor based interbank rates for maturities less than one year by currency
Deposits with banks and financial institutions	December 31, 2014	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans to banks	December 31, 2014	DCF at a discount rate determined based on banks yield curve by currency
Loans and advances to customers	December 31, 2014	DCF at a discount rate extrapolated acrossthe maturity spectrum and in line with Beirut reference rates
Loans and advances to related parties	December 31, 2014	DCF at a discount rate extrapolated acrossthe maturity spectrum and in line with Beirut reference rates
Lebanese treasury bills	December 31, 2014	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2014	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2014	Average market price in inactive market
Certificates of deposit issued by the private sector	December 31, 2014	Management estimate based on observable input in inactive market
Bonds issued by financial private sector	December 31, 2014	Management estimate based on observable input in inactive market
Assets acquired in satisfaction of loans	December 31, 2014	Valuation made by bank's internal experts and/or external experts
FINANCIAL LIABILITIES		
At amortized cost:		
Deposits from banks and financial institutions	December 31, 2014	DCF at a discount rate determined base on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Customers' and related parties' deposits at amortized cost	December 31, 2014	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon.
Other borrowings	December 31, 2014	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Certificates of deposit	December 31, 2014	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon

As at December 31st, 2013	Date of Valuation	Valuation Technique and key Inputs
FINANCIAL ASSETS		
At fair value through profit or loss:		
Lebanese treasury bills	December 31, 2013	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity
Lebanese Government bonds	December 31, 2013	Average market price in inactive market
Foreign government treasury bills	December 31, 2013	Average market price in inactive market
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2013	Average market price inactive market
Lebanese government bonds	December 31, 2013	Average market price inactive market
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2013	Average market price inactive market
Unquoted equity securities	December 31, 2013	Management estimate based on unobservable input related to market volatility and liquidity treasury bonds, adjusted for illiquidity.
At fair value through other comprehensive income:		
Unquoted equity securities	December 31, 2013	Not valued
At amortized cost:		
Deposits at central banks	December 31, 2013	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater that one year and Libor based interbank rates for maturities less than one year by currency
Deposits with banks and financial institutions	December 31, 2013	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Loans to banks	December 31, 2014	DCF at a discount rate determined based on banks yield curve by currency

Loans and advances to customers	December 31, 2013	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Loans and advances to related parties	December 31, 2013	DCF at a discount rate extrapolated across the maturity spectrum and in line with Beirut reference rates
Lebanese treasury bills	December 31, 2013	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds	December 31, 2013	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity.
Certificates of deposit issued by the Central Bank of Lebanon in foreign currency	December 31, 2013	Average market price in inactive market
Certificates of deposit issued by the private sector	December 31, 2013	Management estimate based on observable input in inactive market
Bonds issued by financial private sector	December 31, 2013	Management estimate based on observable input in inactive market
Assets acquired in satisfaction of loans	December 31, 2013	Valuation made by bank's internal experts and/or external experts
FINANCIAL LIABILITIES		
At amortized cost:		
Deposits from banks and financial institutions	December 31, 2013	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Customers' and related parties' deposits at amortized cost	December 31, 2013	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon.
Other borrowings	December 31, 2013	DCF at a discount rate determined based on the yield curve of Central Bank of Lebanon placements for maturities greater than one year and Libor based interbank rates for maturities less than one year by currency
Certificates of deposit	December 31, 2013	DCF based on market rates by currency and maturity bands extrapolated across the maturity spectrum and in line with sectorial rates published by Central Bank of Lebanon

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2014 were approved by the Board of Directors in its meeting held on April 8, 2015.

Directory

Local Directory

Headquarters

Foch Street - Beirut Central District
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958000
P.O. Box: 11-7354 Beirut - Lebanon
Reuters Dealing Code: BBDL
Reuters Page Code: BoB 01-05
Cable: BANBETMAL - Swift: BABELBBE

Head Offices

Gefinor
Hamra, Clemenceau Street, Gefinor Center,
Block A, 1st Floor
P.O.Box: 11-7354 Beirut - Lebanon
Tel: 961 1 958000

Jdeideh
Baouchrieh (Jdeideh), Serail Street,
Bank of Beirut s.a.l. Bldg.
P.O.Box: 11-7354 Beirut - Lebanon
Tel: 961 1 906000

Riyad El Solh
Beirut, Riyad El Solh Street,
Bank of Beirut Bldg.
P.O.Box: 11-7354 Beirut - Lebanon
Tel: 961 1 958000

Local Branches

Achrafieh, Saydeh
Achrafieh Saydeh - Facing Saydeh Church
Tel: 961 1 958864
Premium Lounge: 961 1 218126 | 7

Achrafieh, Sioufi
Ghazalieh Street, Samaha Bldg.
Tel: 961 1 958564

Achrafieh, Ataya
Achrafieh Street, Green Park Bldg.
Tel: 961 1 958504

Ain El-Remmaneh
Camille Chamoun Blvd.,
Ghannoum Street, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958664

Al- Nahr
Al-Nahr Street, Mar Mikhael Area,
Khatchadourian Bldg.
Tel: 961 1 906964

Aley
Aley Main Road, Mahmoud Bldg.
Tel: 961 1 906304

Amchit
President Sleiman Street,
Tony Michel Issa Bldg.
Tel: 961 1 906324

Antelias
Antelias Square, Antelias Main Road,
Tohme Bldg.
Tel: 961 1 906244

Baabda
Baabda-Al Saha, Henri Charles Saab Building
Baabda District, Mount Lebanon
Tel: 961 1 907064

Ballouneh
Ballouneh Main Internal Road, Adel Geryes El-Haddad Bldg.,
Kesrouan, Mount Lebanon
Tel: 961 1 906364

Baouchrieh
Electricité du Liban Street,
Yazbek & Madi Bldg.
Tel: 961 1 906404

Baouchrieh, Jdeideh
Serail Street, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 906204

Baskinta
Baskinta Main Road, Georges Hobeika Bldg.
Tel/Fax: 961 1 906384

Batroun
Old main road, Beirut-Tripoli, near cathedral Saint Etienne
Tel: 961 1 907044

Bayada – Cornet Chahwan
Bayada - Cornet ChahwanMain Road
Near Resurrection Church, North Metn, Mount Lebanon
Tel: 961 1 906424

Beit El Chaar - Aoukar
Champville Roundabout, Tony Khoury Bldg.
Tel: 961 1 906344

Bourj Hammoud
Dora Blvd., Tchaghlassian Bldg.
Tel: 961 1 906444

Broumana
Broumana Main Road, Lodge Bldg.
Tel: 961 1 906464

Chehabieh
Darb El Souk - Mtoll,
Chehabieh Main Road,
Khalil & Kassem Rkein Bldg.
Tel: 961 1 958984

Chiyah
Mar Mikhael Blvd., Tohme & Barrage Bldg.
Tel: 961 1 958604

Chtaura
Chtaura - Masnaa' Main Road
Tel: 961 1 906484

Corniche El Mazraa
Saeb Salam Avenue, Moumneh Bldg.
Tel: 961 1 958624

Deir El Zahrani
Deir El Zahrani Highway, Ashraf Ahmad Jamoul Bldg.
Nabatiyeh, South Lebanon
Tel: 961 1 958644

Dekwaneh
Slaf Street, Jean Mikhael Bldg.
Tel/ Fax: 961 1 906504

Dhour El Choueir
Dhour El Choueir Main Street,
Elie Kassir Bldg.
Tel: 961 1 906534

Dora
Dora Square, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 906264

Feytroun
Rayfoun, Faraya Highway, Kfardebian roundabout, Robert
Abi Rached Bldg.
Tel: 961 1 906754

Foch, Main Branch
Foch Street, Beirut Central District,
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958704

Ghazir
Ghazir Square, near Convent St Francis
Tel/Fax: 961 1 906594

Ghobeiry
Ghobeiry Main Road, Bdeir & Co. Bldg.
Tel: 961 1 958744

Hamra, Gefinor
Clemenceau Fonciere Building, Clemenceau area Street 231,
Facing Gefinor Center, GF
Tel: 961 1 958944

Hamra, Ras Beirut
Mme. Curie Street, Minkara Center, near Bristol Hotel
Tel: 961 1 958884

Hamra, Saroulla
Hamra Main Road, facing Saroulla
Tel: 961 1 958764

Hamra, Sidani
138 Sidani Street, near AUH entrance,
Nawfal Bldg., Ground Floor
Tel: 961 1 958924

Hazmieh
Hazmieh Main Road, Accaoui Center
Tel: 961 1 906554

Jal El-Dib
Jal El-Dib Main Road,
Abou Jaoude & Hachem Bldg.
Tel: 961 1 906614

Jal El-Dib Square
Jal El-Dib Main Road,
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 906634

Jbeil
Jbeil Main Road, Cordahi & Matta Center
Tel: 961 1 906694

Jbeil voie 13
Voie 13, Centre Joseph Sfeir
Tel: 961 1 906714

Jounieh
Jounieh Square, A. & F. Al-Adem Bldg.
Tel: 961 1 906654

Jounieh, Ghadir
Bkerkeh Main Road, Boueri Bldg.
Tel: 961 1 906674

Kaslik
Kaslik, University Saint Esprit Bldg., Ground Floor
Tel: 961 1 906284

Kfarsaroun
Koura, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 906774

Koraytem
Takieddine Solh Street,
Hicham Nour Eldine Itani Bldg.
Tel: 961 1 958784

Mansourieh
Mansourieh Main Road, Salamil Bldg.
Tel: 961 1 906794

Mar Elias
Mar Elias Street, Kanafani Bldg.
Tel: 961 1 958804

Mazraa, Saeb Salam Boulevard
Corniche El-Mazraa, Saeb Salam Blvd.,
Sharikat El-Maskan Bldg.
Tel: 961 1 958824

Mazraat Yachouh - Elyssar
Mazraat Yachouh, Bikfaya Main Road,
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 906574

Palais de Justice
Adlieh Cross Point,
Al-Ghazal Development Bldg.,
facing The House of Lawyers
Tel: 961 1 958844

Port of Beirut
Saifi Area, Compagnie de Gestion
et d'Exploitation du Port de Beyrouth Bldg.
Tel: 961 1 906734

Rabieh
Rabiya Center,
Chucri Chammas Street, Zone 1
Tel: 961 1 906814

Riyad El-Solh
Riyad El-Solh Street,
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958544

Sadat
Beirut, Hamra district, Sadat street,
Sadat tower building
Tel: 961 1 958904

Sidon
Riyad El-Solh Street,
Rizkallah Bldg., Ground Floor
Tel: 961 1 958684

Sin El-Fil, Horsh Tabet
Marc 1 Center, Emile Gerges Lahoud Square
Tel: 961 1 906854

Sin El-Fil, Saydeh
Saydeh Street, Joseph & Michel Kahaleh Bldg.
Tel: 961 1 906834

Tariq El-Jdideh
Mufti Khaled Street,
Jamal Al Hariri & Fouad Toufik El Khawli Bldg.,
Ground Floor, Mazraa
Tel: 961 1 958584

Tripoli, Banks' Street
Abdel Hamid Karameh Street,
Abdel Rahman Alameddine Bldg.
Tel: 961 1 906874

Tyre, Al-Ramel
Hay Al-Ramel, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958964

Tyre, Sour
Tyre Main Road, Jal El-Bahr,
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958724

Zouk Mikael
Zouk Mikael Main Road, Bsoussi Bldg.
Tel: 961 1 9016914

Zouk Mosbeh
Jeita Highway
Tel: 961 1 906934

Smart Branches

Kfardebian
Kfardebian Main Street, facing municipality, Mehanna bldg.
Tel: 961 1 906754

Foch
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 958720

Notre Dame de Secours
Notre Dame de Secours hospital, Jbeil
Tel: 961 1 906730

Gefinor
Hamra, Clemenceau Street, Gefinor Center,
Block A, Ground Floor
Tel: 961 1 958738 | 39 | 40

International Directory

Subsidiaries

United Kingdom
Bank of Beirut (UK) Ltd.
17 A Curzon Street,
London (West End) W1J 5HS, England (UK)
Tel: +44 20 74938342 | 6 - Fax: +44 20 74080053
www.bankofbeirut.co.uk

Germany (UK subsidiary branch)
Bank of Beirut (UK) Ltd. - Frankfurt Branch
Grueneburgweg 2, 60322 Frankfurt
Tel: +49 69 915067710
Fax: +49 69 915067799
www.bankofbeirut.de

Australia (16 branches)
Bank of Sydney Ltd.
Australian Head Office,
Sydney City Branch, Laiki Bank House,
Level 4, 219-223 Castlereagh Street,
2000 Australia, Sydney
Tel: +61 2 8262 9000 - Fax: +61 2 9283 7723
www.beiruthellenic.com.au

Branches

Cyprus
Bank of Beirut - Cyprus Branch
Griva Digheni Street, Maximos Plaza,
Block E, 3rd Floor, Office No.3
P.O. Box: 59662 - 4011, Limassol, Cyprus
Tel: +357 25 814202 | 3 | 4 | 5 | 6 | 7 | 8
Fax: +357 25 814209

Sultanate of Oman - Ghubrah
Bank of Beirut - Ghubrah Branch
and Head Office Sultanate of Oman Head Office,
North Ghubrah, Way No.3815,
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Muscat, Sultanate of Oman
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Sultanate of Oman - Qurum
Bank of Beirut - Muscat Branch
Way No. 3009, Shatti Al Qurum,
Al Jawhara Bldg. 576, Block 3,
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Tel: +968 24696281 - 24696294
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Sultanate of Oman - Sohar
Bank of Beirut - Sohar Branch
Falaj Al Qabail
P.O Box: 487, Postal Code: 322, Sohar,
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Tel: + 968 26750644 | 36 | 86
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Sultanate of Oman - Muscat
The Wave Branch
The Walk Mall Building. Way No: 4,
Bock 304, No: 132. First Floor,
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Emirates NBD premises,
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Nigeria
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Libya
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