North Africa Commercial Bank S.A.L.

Beirut – Lebanon

ANNUAL REPORT

2013

North Africa Commercial Bank S.A.L.

Head Office

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North Africa Commercial Bank S.A.L.

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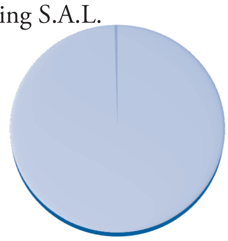
Ownership, BOD, General Management

Ownership

Libyan Foreign Bank	99.56%
Demoreco Holding S.A.L.	0.43%
Others	0.01%



Board of Directors Members

Mr. Mohamed Najib Hmeida Aljamal	**Chairman/General Manager**
Representative of Libyan Foreign Bank *Mr. Mohammad Najib Hassan Mansour Mugber*	Member
Representative of Demoreco Holding S.A.L. *Mr. Rida El Din Mohamed Bashir Banougah*	Member
Mr. Youssef Mabrouk Al Ajail	Member
Dr. Abubaker Mohamed Al Waddan	Member
Mr. Jean Paul Marsel Touma	Member
Mr. Mohamad Mounir Naffi	Member
Dr. Khaled Mohamed El Kurdi	Member
Mr. Tarek Sami Nahas	Member
Mrs. Rania Joseph El hage	Secretary of the board

General Management

Mr. Mohamed Najib Hmeida Aljamal	**Chairman/General Manager**
Mr. AlHadi Emjahed Altaher	Assistant General Manager
Mr. Rafic Hassan Houry	Assistant General Manager

North Africa Commercial Bank S.A.L.

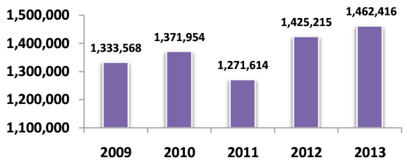
The Board of Directors Members of North Africa Commercial Bank S.A.L.

Members Name	Independent	Executive	Internal Audit Committee	Risk Management Committee
Mr. Mohammad Najib ahmida Al Jamal		•		
Representative of Foreign Libyan Bank Mr. Mohammad Najib Hassan Manssor Mugber				•
Representative of Demoreco Co. Holding Mr. Rida El Din Mohamed Bashir Banougah				•
Mr. Youssef Mabrouk Al Ajail			•	
Dr. Abu Baker Al Wadan			•	
Mr. Tarek Sami Nahass	•		•	
Dr. Khaled Mohammad Al Kurdi	•		President •	
Mr. Mohammad Mounir Al Naffi	•			President •
Mr. Jean Paul Marcel Touma	•			•

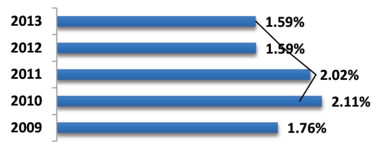
Mrs.Rania El hage Secretary of the Board
Mrs. Henriette Gemayel Secretary of Risk Committee
Mr. Hassan Ghalayini Secretary of Internal Audit Committee

Financial Highlights

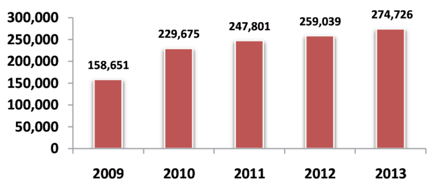
Total Assets



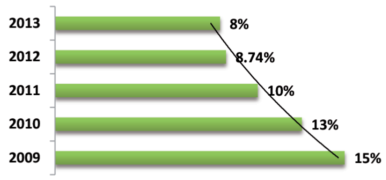
Return on Assets



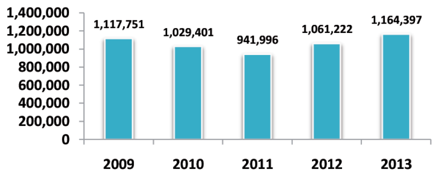
Shareholders' Equity



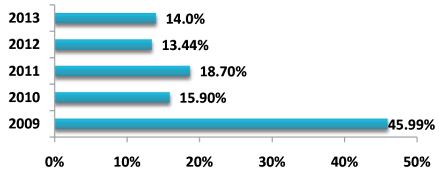
Return on Equity *



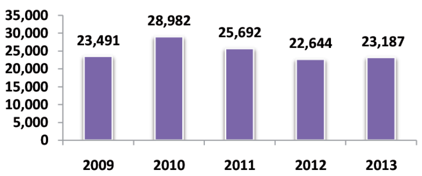
Total Deposits



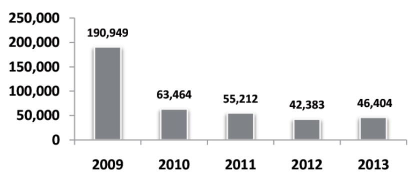
Loans and Advances to Deposits



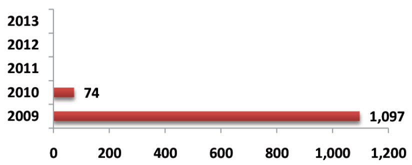
Net Profit



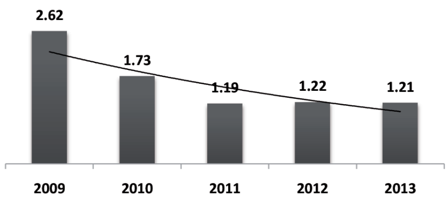
Financial Portfolio



Doubtful Debts



Gearing ratio



* Before Doubtful Provision and Taxes

Board of Directors Report

Chairman's letter

The political crises in various areas of the world have had their repercussions and have impeded the recovery of the global economy. As the Arab world and some of the countries in the North Africa region have been suffering unrest and troubles, which casted a shadow over the balances of their payables and various financial activities, Lebanon was no far from such repercussions.

The Lebanese banking system remained strong and stable, even in 2013, where it featured encouraging measures, including mainly, an 8.5% increase in the total assets within its commercial banks, a 9% increase in deposits and advances to the private sector, and a 12.3% growth in private funding, as well as, a 1.7 billion increase in foreign currency reserves reaching 31.7 billion by the end of 2013, which came as incremental support from the Banque du Liban. This enabled the BDL to assert its capabilities in complying with the norms of the Basel III accord, especially with the enforcement of the latest 2015 standards, allowing it to enhance confidence in the banking sector. Nevertheless, the accumulating economic problems faced by the State, as well as the non-recovery of the tourism sector, led to a decreased growth in different sectors, including the commercial sector. Moreover, strikes and high cost of living for the middle-income groups has impaired the level of demand as well as their purchasing power, with the exception of the real estate market which maintained stable levels due to the small surface of the Lebanese territories and the perseverance of the Lebanese immigrants' communication with their country.

In such context, North Africa Commercial Bank (NACB) has produced, achieving with all available potentials, net profits amounting to 15.38 million dollars by the end of 2013, hence conserving the average profitability of the previous year while registering a high return on its capital, amounting to 18%. Nevertheless, we strongly believe after assessing the regional situation, that the forthcoming years will be critical for the banking industry where the opportunities for improvement might shrink further to contend with a volatile economy. Thus entering into complementary projects, such as mergers or acquisitions in order to allow expansion in the banking sector is an issue of vital importance and might present a solution to this forthcoming issue.

The rich economic resources and its future potential in the Arab world, as well as the sufficient human expertise, enable us to build giant banking institutions in order to compete with the major international banks, achieving great profits for our economy and providing all advanced services to administrate such resources. The willingness and true intention of the decision makers, especially central banks and the shareholders of financial institutions with efficient capital are considered the basis in taking the next necessary step.

Finally, in my name, and on behalf of all the members of the board and all the personnel, allow me to thank the major shareholder and all the banks which collaborated with our bank, especially the Libyan commercial banks to whom we wish all the best, as well as our fellow banks within Lebanon and abroad, and to all who contributed to the support of our bank, hoping that God would grant us and our countries stability and prosperity.

Mohamad Najib Ahmeida EL Jamal
CEO & Chairman of the Board

Corporate Governance, Control and Risk Management Systems

The Corporate Governance in the Banking System aims to achieve a good level of optimal control and to enhance the internal and external communication lines. Thus, it promotes a culture of responsibility and accountability through the establishment and development of a measurement and evaluation system, in order to determine responsibilities and set the Bank's future strategy.

The banking industry has been concentrating its focus on the implementation of corporate governance principal as a consequence of the rapid growth in the financial markets and its globalization and technological progress, which led to the occurrence of an increase in competitive pressures between banks. Thus, the growth in the financial markets and the diversity of financial instruments has increased the importance of risk measurement, management and control. This requires constant innovative methodologies to manage banking operations, update laws, supervisory system and controls to maintain the integrity of the banking system.

The North Africa Commercial Bank Board of Directors has set its strategy and objectives in compliance with laws and regulatory regimes prevailing according to international best practices. Accordingly, this was set in order to protect the depositors and investors interests through the clear and transparent roles as well as the distribution of responsibilities between supervisory, control and executive authorities. The execution of the bank strategy moves in synchronization with the implementation of international accounting standards. Moreover, the Bank has a set of intensive employee training and rotation policies in order to achieve high-level skills.

The corporate governance system implementation has also led to an accessible financing and investment opportunities and contributed to decrease the degree of risk in banking operations.

The bank discloses its financial statements, whether through website publication or any other documentations required by the regulatory authorities, which is considered an element of transparency required achieving good governance.

NACB seeks to apply and enhance good governance procedures within the framework of a specific organizational structure. The Bank also distributes roles and defines responsibilities through the formation of specialized committees to reinforce the principle of accountability and to reflect the execution and application of all the standards and pillars in the banking industry.

The functions of these committees are distributed in the graph shown below:

Board of Directors' Committees

Internal Audit Committee

- Ensuring qualifications and independence of both regulators and internal audit unit.

- Monitoring the integrity of financial statements and reviewing disclosures standards adopted in the Bank.

- Assuring adequacy and effectiveness of systems and internal control procedures.

- Follow up the good execution of corrective suggestions presented in the reports of the internal audit unit and the regulatory authorities and controller's commission.

- Monitoring the bank's compliance to regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission.

Risk Committee

- Review the Risk Management strategy, as well as the risk appetite approved by the Board of Directors.

- Ensure the availability of risk management policies, frameworks, programs, and tools to do so, in parallel to the periodic revision to ensure their effectiveness and modify them if necessary.

- Revise stress tests used in the analysis of credit, market, and operational risks and approve plans for emergency cases.

- Discuss the reports of risk management.

- Monitor's the Bank's preparations to apply Basel 2 and 3 requirements with respect to the risk management and measurement.

Core Decisions' Executive Committees

Credit Committee

- Issues the necessary decisions on credit operations according to the limits and terms specified by the Bank Board of Directors.

- Examines and follows up on everything pertaining to the Credit Department, including the development of its policies and procedures.

ALCO Committee

- Issues all major decisions relating to investment processes in order to contribute, participate and ensure an optimal return.

- Illustrates the general framework for market risk management policy, including interest rate risk, liquidity risk, and Forex risk.

Senior Management Committees

Strategic Committee

- Formulates guidelines for conducting a new strategy in the Bank
- Recognizes expansion plans in terms of offering new products, accessing new markets, developing Bank activities, and training staff.

Anti-Money Laundering Committee

- Publishes a comprehensive guide for antimoney laundering activities.
- Follows up and discusses periodic reports filed by the Compliance Unit on banking operations, and ensures appropriate reporting to the Board.

Human Resource Committee

- Examines all the basic issues concerning human resources at the Bank.
- Plans for the enhancement of the staff capabilities to keep pace of developments in the banking industry.

Business Continuity Plan Committee

- Develops business continuity plan to mitigate the risk of disasters and exceptional conditions.
- Categorizes the Bank's activities priorities to basic, necessary and not obligatory.
- Identifies alternative location and key staff to perform this task.

Information Technology Security Committee

- Supervises the preparation of policies to ensure the safety of information technology systems.
- Examines and assesses all the information security risks.
- Reviews and adopts alternative plans to ensure the integrity of information systems in the Bank.

Management Information Systems Committee

- Creates comprehensive and complete databases.
- Plans and develops Management Information Systems, especially those related to financial reports for authorities and regulators, disclosures and risk management systems.

Internal Control Policies and Procedures Committee

- Supervises the development of internal control policies and procedures in the Bank depending on the nature of its activities and the degree of complexity of its operations.
- Continues to update these policies and procedures to keep pace with the progress of operational processes and controls in the Bank and any updates in the banking industry.

Foreign Account Tax Compliance Act-(FATCA) Committee

- Follow up the requirements of the Foreign Account Tax Compliance Act (FATCA) and the necessary procedures to be applied accordingly, taking into consideration the schedule enclosed in this Act.
- Coordinate directly with the Committee formed in the parent bank (Libyan Foreign Bank) to follow up the (FATCA) application, because of the close correlation to the bank owner in the application of this law, as stated in the texts.
-Provide the necessary training to all The Bank’s staff, especially to those who deal directly with customers.

The Bank Internal Control and Risk Management System:

Through the framework of activities undertaken by banking units and in light of the rapid developments and growth in the financial markets and the relevance of those developments to the banking units' activities, and its impacts positively or negatively on the overall performance of these units, this issue requires the presence of adequate internal control systems that are documented and supported by the Board of Directors. Hence, the system's policies and procedures should be clear and competent in order to avoid the bank business units any negative consequences resulting from errors committed by those who are in charge. In addition, the units must be up to date with any developments that occur in the banking sector and its financial activities.

The Internal Audit Unit:

The internal audit unit's main function is to reduce the risks associated with the bank's activities through:

- Ensuring that all transactions carried out by the bank are in line with the Bank's internal policies and procedures.
- Reviewing risk management's department procedures
- Reviewing internal control systems and information technology.
- Reviewing the approaches adopted concerning the corporate governance system implementation in the Bank
- Executing periodic tests for all operational and administrative activities.
- Executing periodic audit reviews and special investigations.
- Ensuring compliance with the regulatory requirements in parallel with international best practices. The internal audit function objective is to increase the Bank's benefit in the form that enhances its effectiveness and improves its performance.

Risk Management Department:

The Risk Management function is to identify, assess and measure risk in order to develop effective management strategies, and to take appropriate measures to mitigate these risks and reduce their effects. Hence, to meet the increase in risks that is associated with the bank activities, the bank complies with the following:

- Monitoring the level of risk that surrounds the work activities.
- Monitoring the necessary procedures to control the negative effects from these risks.
- The understanding of risk management functions and highlighting its importance.
- Conducting an evaluation of the bank's internal control and audit systems

Renewal policy of the bank risk appetite:

The Bank has determined the appropriate risk exposure in order to achieve exceptional profits, where the bank can maintain a more conservative and stable level, through the roles, responsibilities and limits approved by the Board of Directors based on the risk management committee recommendations, in addition to the limits imposed by the Central Bank of Lebanon.

The Bank Risk Management Committee prepares periodic reports concerning current risk exposures and uses several approaches to mitigate these risks. In addition, the Committee highlights the extent of deviation from these levels in compliance with the regulatory references, and sets the reasons of deviation in case it occurs.

In order to promote a culture of risk management in the Bank, a committee was created; where the Assets and Liabilities management committee is assigned to manage the market risk. The Risk Management Department is independent, and is directly related to the Bank's board of directors. This department also provides the Board of Directors periodic reports through the Risk Management Committee.

Compliance Department

The bank has created a compliance department whose objective is to identify and assess the risks of non-compliant tasks related to the Bank's activities. This department has sufficient authority to carry out its functions, especially in case of any litigation or regulatory breach. And this department is divided into two units:

1- Legal compliance unit

This unit hedges against legal risks by taking necessary mitigation measures. In addition, the unit prepares a schedule that is consistent with the size, nature and complexity of the Bank's operations, which in turn, determines the action plan to review its compliance with applicable laws and regulations. Furthermore, this aids in the identification and assessment of non–compliant risks associated with the Bank's activities, particularly the non-compliant risks associated with new products and activities. It also works to assess the effectiveness of actions taken to detect any breaches, and makes sure of the extent to which the personnel policy established is being conducted with appropriate tests.

The Bank strives to increase the in-depth knowledge about the principle of compliance and final legislation issued by the Foreign Account Tax Compliant Act (FATCA). The bank also assesses its commitment to this law through advanced preparation, management and implementation, taking into account the necessary human resources for its proper application. The bank has hired the consulting firm Deloitte (Deloitte & Touché) for this purpose. It should also be noted that the bank will register within the time limits set to appear within the first regulation of banks and financial institutions that are committed to the application of this law with the U.S. Internal Revenue Service (IRS).

2- Anti-Money Laundering and Combating Financing Terrorism

The Compliance Unit in the Bank has succeeded in the development of an automated database which includes all operations carried out by the bank as well as the preparation of daily related reports.

The bank's executive management oversees the subject of training personnel in the compliance department, especially in Anti-Money Laundering and Combating Financing Terrorism, in order to develop the staff's capabilities and inform them of the latest developments in the world of anti-money laundering and the financing of terrorism.

IT security Department and business continuity plan:

The Bank is committed to be consistent with the regulatory requirements and international legislation in terms of keeping and maintaining information and placing security measures to protect information systems and ensure the safety and the business continuity of the bank's activities. Therefore, the bank will implement all policies relating to this issue and it is committed to the IT Security standards in addition to the publication and promotion of culture-related to the data governance.

On the other hand, the unit has completed and met all requirements related to the bank's business continuity as a whole, applied at the Alternative site, where a comprehensive test was conducted on all levels at the year end. Currently the IT Security unit plays a positive and effective role in simulating several disaster scenarios in order to ensure the effectiveness and efficiency of the alternative site and the readiness of the elements and devices available in addition to updating the business continuity plan in harmony with the changes taking place.

The bank is keen on its growth continuity and diverse services availability. Therefore, the bank is in the process to enable and secure the readiness of personnel capabilities to achieve these objectives. Thus, within this target, the Board of Directors has approved the "succession plan Policy" which is compatible with the requirements that must be delivered with the personnel having sensitive positions.

The bank is committed to apply the Management Information System (MIS) requirements:

The Management Information System (MIS) is defined as a system which is capable of collecting, processing, classifying, and data archiving the information needed by decision-makers to carry out all administrative functions by the effective planning, organization, directing and control throughout all the Bank's business lines.

Furthermore, the bank's management sees that the process of investing in technology and software development goes hand in hand with the investment in human resources working in the bank, through the involvement of personnel in workshops and external or in house training seminars in order to raise the performance level of human resources, especially in matters related to compliance with international standards and belief that the human element is considered its primary feature.

Financial Analysis

Performance Measures & Financial Analysis

Following the volatile and erratic situation faced by the region over the last couple of years, the bank has witnessed an inclination in its main performance measures in 2013, which featured an array of achievements. This transpired owing to the fact that the bank's management has been gearing towards diversified capitalization and return maximization.

The bank's asset base increased to 1,462 billion Lebanese pounds, while its net accumulated profits for the year 2013 rose to 23,187 million, reflecting improved ratios relative to its peer sector class, as well as to the Lebanese overall economy which was affected by the circumstantial situation in the region. Nonetheless, the Lebanese banking industry, from an aggregate perspective, still reflects the gold standard in liquidity and adequacy compared to the neighboring region.

Moreover, the bank witnessed an unprecedented growth spurt of an approximate 15% in its capital accumulation over the last 5 years in order to cope with the increasingly stringent Basel requirements, reaching around 274 billion Lebanese Pounds by the end of 2013, which aided in buffering the bank's liquidity and adequacy ratios.

Following below is a brief time series analysis of the bank's performance measures over the last 5 years.

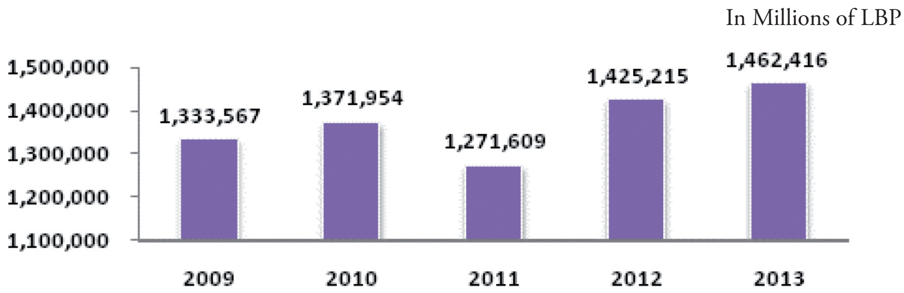
Asset Management:

I. Asset Base:

The bank's asset base has moderately grown over the last 5 years, and that is mainly due to the strength and attractiveness of the Lebanese market, the efforts placed by the bank to enhance its adequacy and investor relations, as well as the previously appreciating yield curve. Total assets increased by approximately 3% during 2013 owing to a simultaneous growth in deposits.

The exchange rate of U.S. dollar is 1507.50 LBP

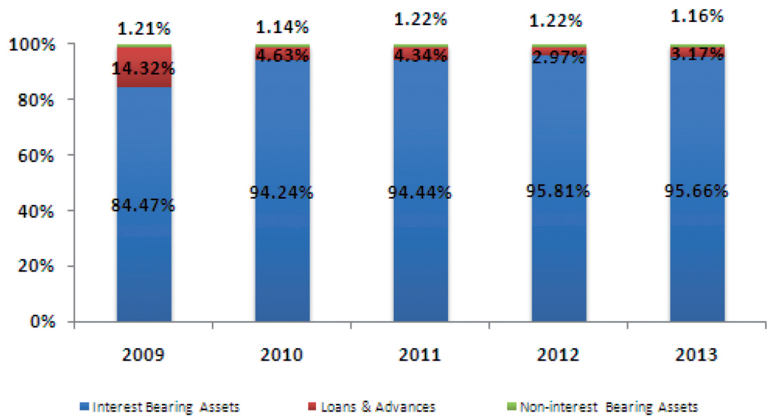
Total Assets



II. Asset Allocation

The bank has been leaning towards the adoption of a more conservative approach in its asset management and allocation over the previous years. In 2013, around 95.6% of all assets were invested in money markets and financial instruments, reflecting the bank's current strategy in buffering liquidity and minimizing unnecessary risks, especially with the economic slowdown and accelerated recession in the Lebanese market.

Asset Allocation



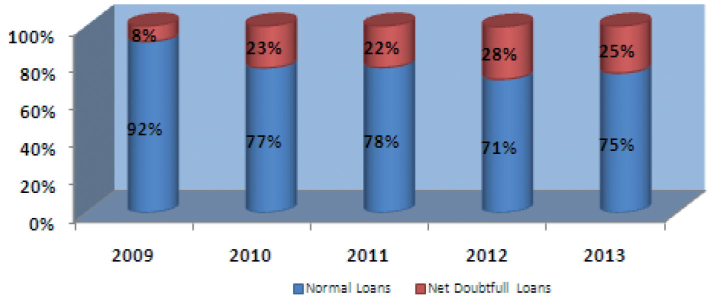
A. Loans & Advances

The bank's strategy has been shifting in correlation with the economic situation in Lebanon. The conservative credit policy adopted by the bank over the last few years shortlisted advances to a select few of trusted clients, further cushioned by a good track history and adequate collateral, in order to satisfy the bank's risk aversion and diminishing appetite. Moreover, the bank was able to dispose of its bad debt portfolio completely as a result of accumulated provisions by the end of 2013.

The exchange rate of U.S. dollar is 1507.50 LBP

North Africa Commercial Bank S.A.L.

Loans and Advances



In Millions of LBP	2009	2010	2011	2012	2013
Normal Loans	174,962	49,178	42,902	30,326	34,690
Net Doubtful Loans	15,987	14,286	12,310	11,971	11,714
Total Loans & Advances	190,949	63,464	55,212	42,483	46,404

B. Money Market Placements

Treasury placements at financial institutions, reserves at the Central bank, and commercial banks deposits constituted around 35% of total assets in 2013. This is a reflection of the bank's primary goals in satiating its liquidity needs and diminishing the duration of its asset portfolio.

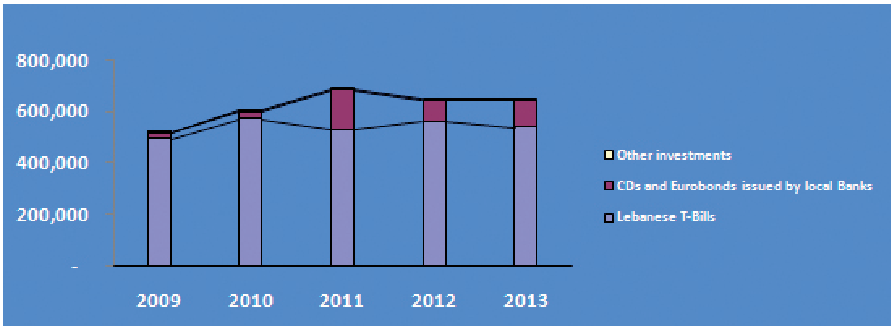
C. Financial Instruments & Securities

The bank's securities portfolio has seen some development over the years. In 2013, it represented approximately 45% of the bank's total asset base, with instruments ranging from Lebanese Treasury Bills, Lebanese Republic Euro Bonds, BDL CDs and T-Bonds, to Funds of different nature and scope. Below is a graph representing the breakdown of the bank's securities portfolio over the last 5 years.

The exchange rate of U.S. dollar is 1507.50 LBP

Growth in Financial Instruments

In Millions of LBP

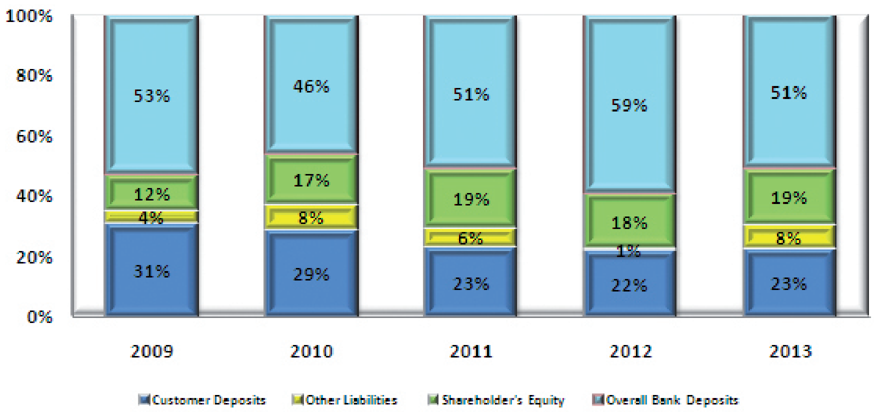


Liabilities & Equity

The bank has witnessed an increase in its client base over the past few years, resulting from an enhanced marketing strategy, and fortified by the continuous strength of the Lebanese banking system. This led to a growth in its deposits, especially those garnered from financial institutions and nonresident banks, which in turn assisted the bank in finding suitable high yielding and liquid investments.

I. Allocation of Liabilities & Owner's Equity

The bank's main sources of funding have seen some radical changes over the past years, with capital increasing to 19%, financial institution deposits hovering at 51%, while customer deposits decreased to 23% of the total balance sheet in 2013.



A. Customer Deposits

Overall customer deposits increased by around 15.7 billion Lebanese pounds in 2013, representing a year on year growth of approximately 5%, and constituting around 23% of all financing sources. This reflects the successful marketing efforts placed by the bank in 2013.

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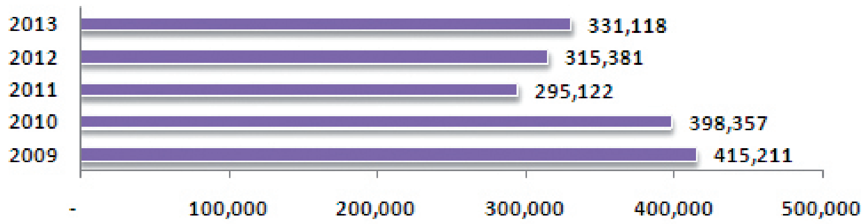
Customer Deposits

In Millions of LBP

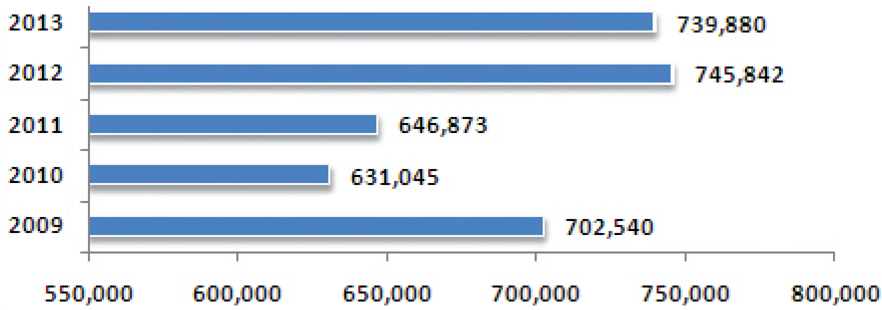


B. Bank Deposits

Deposits from the banking sector reached 739.8 billion Lebanese pounds by the end of 2013, a 5% growth over 2009, owing to the strenuous efforts by the bank's management to expand relations with both resident and nonresident banks. Total Bank deposits were the highest contributing source of funding in 2013, constituting around 51% of the balance sheet.

Bank Deposits

In Millions of LBP



C. Owner's Equity

The bank's strategy has always been targeted at minimizing and hedging against residual risks, which is why it has strived inherently to increase its tier 1 capital to provide adequate buffers for any future risks. Equity, prior to earnings retention, increased to 274 billion Lebanese Pounds by the end of 2013 representing a 6% growth over 2012.

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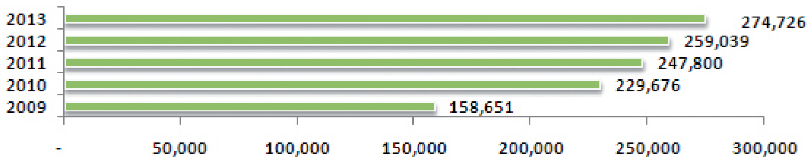
Shareholder's Equity

In Millions of LBP



	2009	2010	2011	2012	2013
Shareholder's Equity	158,651	229,676	247,800	259,039	274,726

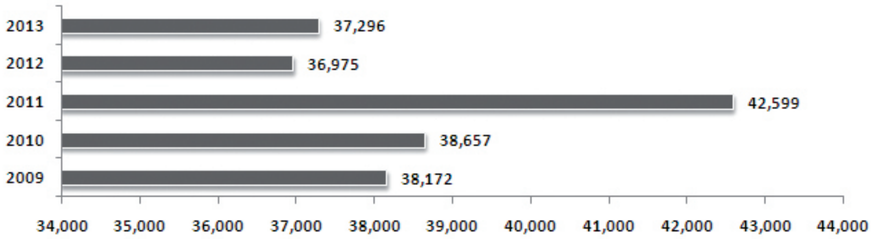
Profits & Losses

I. Net Interest Income

Interest Income marginally increased in 2013 reaching approximately 37 billion Lebanese Pounds. The bank's investment portfolio contributed to around 90% of total net interest income in 2013.

Net Interest Income

In Millions of LBP



II. General & Administrative Expenses

The bank maintained its ability over the last 5 years in rationalizing its expenses in coordination with its annual budgeting needs.

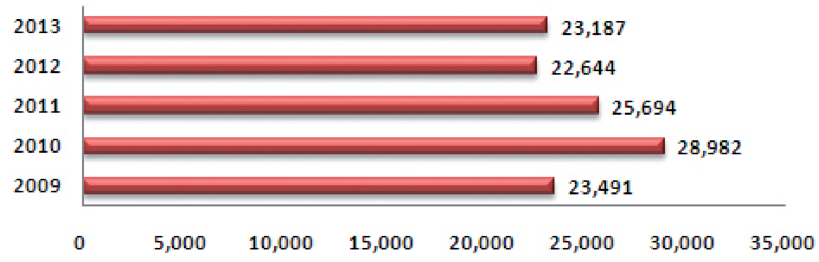
III. Net Profits

Net income grew by 2% in 2013, reaching 23.18 billion Lebanese Pounds, relative to its 2012 figure. The graph below breaks down the bank's net profits over the last 5 years.

The exchange rate of U.S. dollar is 1507.50 LBP

Net Profit

In Millions of LBP



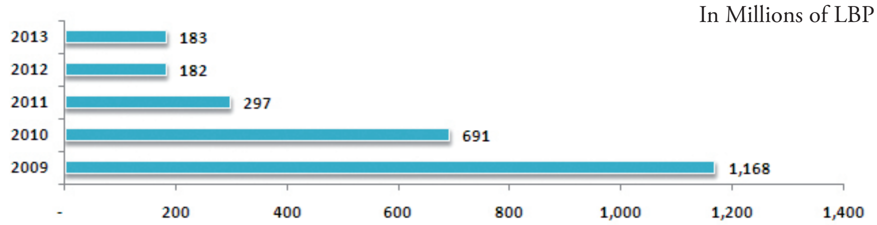
	2009	2010	2011	2012	2013
Net Profit	23,491	28,982	25,694	22,644	23,187

Documentary Credits

The bank's trade finance operations declined heavily in the last couple of years, mainly due to the economical and geopolitical turmoil accelerating in the middle east and africa region. Total documentary credits opened reached 183 million Lebanese pound in 2013, an approximate 1 million increase over 2012.

Total L/Cs Processed

In Millions of LBP

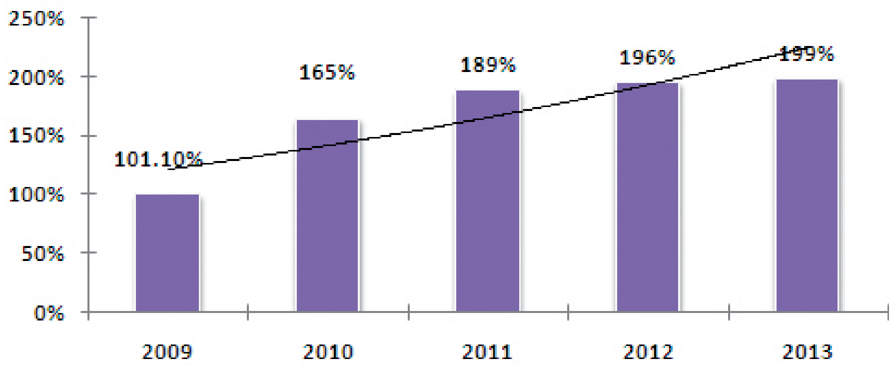


Liquidity

The bank's main liquidy measure, represented by the ratio of total liquid assets to customer deposits, reached 199% by the end of 2013, which reflects the bank's strategy of investing in highly liquid and marketable investments, necessary to provide adequacy in the portfolio in case of emergencies.

The exchange rate of U.S. dollar is 1507.50 LBP

Net Liquid Assets / Customer Deposits



Capital Adequacy (Basel III)

Following Basel III's latest requirements in terms of banking adequacy, the bank increased its total equity in 2013, which mainly led to its capital adequacy ratio increasing to approximately 20% that year. Listed below are tables representing the breakdown of the bank's capital adequacy ratio classes as required by Basel's standards.

	2009	2010	2011	2012	2013
Total Capital/Risk Weighted Assets	14.89%	16.25%	18.65%	18.28%	20.1%
Required By BDL	10%	10%	10%	10%	10%
Tier 1 Capital/Risk Weighted Assets	14.89%	16.25%	18.65%	18.28%	20.1%
Required By BDL	8%	8%	8%	8%	8%
Net Common Equity Tier 1/ Risk Weighted Assets	14.89%	16.25%	18.65%	18.28%	20.1%
Required By BDL	5%	5%	5%	5%	5%

The exchange rate of U.S. dollar is 1507.50 LBP

Shareholders Annual Meeting

The Shareholders Annual Ordinary Meeting held on 12/05/2014 approved the board of directors' report, the balance sheet and the profit and loss account for the financial year 2013 giving discharge to the members of the board.

NORTH AFRICA COMMERCIAL BANK S.A.L.

Financial statements and independent auditors' report
year ended 31 December 2013

Independent Auditor's Report

To the Shareholders

North Africa Commercial Bank S.A.L.

Beirut, Lebanon

We have audited the accompanying financial statements of North Africa Commercial Bank S.A.L., which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of 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 financial statements present fairly, in all material respects, the financial position of North Africa Commercial Bank S.A.L. as of December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements for the year ended December 31, 2012 have been audited by Sidani & Co. and other auditors.

Deloitte & Touche ***Sidani & Co.***

Beirut, Lebanon

February 20, 2014

North Africa Commercial Bank S.A.L.

Statement Of Financial Position

	Notes	2013 L.L. Million	2012 L.L. Million
Assets			
Cash and Central Bank	5	211,579	200,068
Deposits with banks and financial institutions	6	521,130	491,683
Deposits with the parent, sister and other related banks	7	1,715	24,747
Loans and advances to customers	8	46,404	42,383
Investment securities at fair value through profit or loss	9	6,377	6,148
Investment securities at amortized cost	9	658,190	642,845
Customers' liability under acceptances	10	1,606	1,503
Assets acquired in satisfaction of loans	11	5,871	5,871
Property and equipment	12	7,886	8,302
Intangible assets	13	515	311
Other assets	14	1,143	1,354
Total Assets		1,462,416	1,425,215
Liabilities			
Deposits from a central bank	15	84,430	93,399
Deposits from banks and financial institutions	16	224,519	243,228
Deposits from the parent, sister and other related banks	17	515,361	502,614
Customers' deposits	18	331,118	315,380
Liability under acceptances	10	1,606	1,503
Other liabilities	19	26,217	5,480
Provisions	20	4,439	4,572
Total liabilities		1,187,690	1,166,176
Equity			
Capital	21	15,000	15,000
Cash contribution to capital	21	148,489	148,489
Reserves not available for distribution	22	46,011	38,820
Reserves available for distribution		8,418	466
Retained earnings		33,621	33,620
Profit for the year		23,187	22,644
Total equity		274,726	259,039
Total Liabilities and Equity		1,462,416	1,425,215
Financial instruments with off-balance Sheet risks	30		
Letters of guarantee and standby letters of credit		53,241	53,095
Letters of credit - import		3,434	23,883
Letters of credit - export confirmed		36,906	44,306

The accompanying notes form an integral part of the financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	Notes	2013 L.L. Million	2012 L.L. Million
Interest income	23	53,068	51,965
Interest expense	24	15,772	15,134
Net interest income		37,296	36,831
Fee and commission income	25	2,630	3,129
Fee and commission expense		261	218
Net fee and commission income		2,369	2,911
Net gain on investment securities at fair value through profit or loss	26	101	248
Gain/(loss) on difference of exchange		157	80
Realized gain on disposal of securities at amortized cost	9	1,097	769
Other operating income		298	35
Net financial revenues		41,318	40,714
(Write-off)/write-back of bad debts		17	155
Net write-back of impairment loss on loans and advances	8	5,237	3,642
Net financial revenues after write-back of impairment loss		46,538	44,511
Salaries and related charges	27	12,648	12,412
Depreciation and amortization	12,13	829	779
General and administrative expenses	28	5,223	4,276
Total operating expenses		18,700	17,467
Profit before income tax		27,838	27,044
Income tax expense	19	4,651	4,400
Profit for the year		23,187	22,644
Other comprehensive income		-	-
Total comprehensive income for the year		23,187	22,644

The accompanying notes form an integral part of the financial statements.

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

	Capital L.L. Million	Cash contribution to Capital L.L. Million	Reserves not available for distribution L.L. Million	Reserves available for distribution L.L. Million	Retained Earnings L.L. Million	Profit for the Year L.L. Million	Total L.L. Million
Balance January 1, 2012	15,000	148,489	31,215	466	26,938	25,692	247,800
Allocation of 2011 profit	-	-	-	-	25,692	(25,692)	-
Transfer to reserves not available for distribution	-	-	7,605	-	(7,605)	-	-
Dividends paid (Note 21)	-	-	-	-	(10,500)	-	(10,500)
Other adjustments	-	-	-	-	(905)	-	(905)
Total comprehensive income for the year 2012	-	-	-	-	-	22,644	22,644
Balance December 31, 2012	15,000	148,489	38,820	466	33,620	22,644	259,039
Allocation of 2012 profit	-	-	7,191	7,952	7,501	(22,644)	-
Dividends paid (Note 21)	-	-	-	-	(7,500)	-	(7,500)
Total comprehensive income for the year 2013	-	-	-	-	-	23,187	23,187
Balance December 31, 2013	15,000	148,489	46,011	8,418	33,621	23,187	274,726

The accompanying notes form an integral part of the financial statements.

Statement of cash flows
for the year ended 31 December 2013

	Notes	2013 L.L. Million	2012 L.L. Million
Cash flows from operating activities			
Profit for the year before tax		27,838	27,044
Adjustments for:			
Depreciation and amortization	12,13	829	779
Change in fair value of investment securities at fair value through profit or loss	26	(32)	41
Write-back impairment on loans and advances from off balance sheet accounts		-	(155)
Net write back of impairment loss on loans and advances	8	(5237)	(3642)
Provision for employees' end-of-service indemnities	20	338	1237
Loss on disposal of property and equipment		1	-
Dividend income		(180)	(289)
Interest income		(53,068)	(51,965)
Interest expense		15,772	15,134
Increase in compulsory deposits with Central Bank of Lebanon with a maturity exceeding three months		(56,130)	(11,280)
Increase in deposits with banks and financial institutions with a maturity exceeding three months		(78,809)	(315,473)
Investment securities at fair value through profit or loss	9	(197)	38
Investment securities at amortized cost	9	(14,745)	41,890
Loans and advances to customers	8	1216	16,622
Other assets	14	211	(414)
Deposits from central banks	15	(8962)	20,871
Deposits from banks and financial institutions	16	(18,639)	92,388
Deposits from parent, sister and other related banks	17	12,440	6,234
Customers' deposits	18	15,647	20,290
Other liabilities	19	20,190	207
Other adjustments		-	(905)
Settlements made from provision for employees' end-of-service indemnities	20	(471)	(359)
		(141,988)	(141,707)
Income tax paid		(4,104)	(4,725)
Dividends received		180	289
Interest received		51,917	52,317
Interest paid		(15,451)	(14,813)
Net cash used in operating activities		(109,446)	(108,639)
Cash flows from investing activities:			
Acquisition of property and equipment	12	(354)	(612)
Acquisition of intangible assets	13	(264)	(57)
Net cash used in investing activities		(618)	(669)
Cash flows from financing activities:			
Dividends paid	21	(7,500)	(10,500)
Net cash used in financing activities		(7,500)	(10,500)
Net decrease in cash and cash equivalents		(117,564)	(119,808)
Cash and cash equivalents beginning of year		362,338	482,146
Cash and cash equivalents end of year	29	244,774	362,338

The accompanying notes form an integral part of the financial statements.

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

1. General information

North Africa Commercial Bank S.A.L. is a Lebanese joint-stock company registered in the Trade Register in 1973 under Number 30199 and in the Central Bank of Lebanon list of banks under number 62.

The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations. The head office is situated on Justinian Street, Hamra, Beirut.

The Bank is 99.56% owned by the Libyan Foreign Bank (parent bank).

2. New and revised international financial reporting standards (IFRSS)

2.1 New and revised Standards and Interpretations effective for the current period

In the current year, the Bank 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, 2013 and that are applicable to the Bank:

New and revised standards with no significant impact on the Bank's financial statements:

- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements uses control as the single basis for consolidation, irrespective of the nature of the investee and includes a new definition of control. IAS 27 and Separate Financial Statements and IAS 28 Associates and Joint Ventures have been amended for the issuance of IFRS 10 and IAS 12 will be withdrawn upon the effective date of IFRS 10.
- IFRS 11 Joint Arrangements establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of the parties to the joint arrangement, rather than its legal form. Joint control involves the contractual agreed sharing of control, and arrangements subject to joint control are classified as either a joint venture or a joint operation. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenues and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11 and SIC-13 Jointly Control Entities will be withdrawn upon the effective date of IFRS 11.

- IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or un structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.
- Amendment to IFRSs 10, 11 and 12 on transition guidance: These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative year. For disclosures related to un structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.
- IFRS 13 Fair Value Measurement establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an ‹exit price› notion and uses a ‹fair value hierarchy›, which results in a market-based, rather than entity-specific, measurement. IFRS 13 is applicable for both financial and non-financial items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances.
- Amendment to IAS 1 Presentation of Items of Other Comprehensive Income. The amendment requires to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. Income tax on items of other comprehensive income is required to be allocated on the same basis.
- Amendments to IAS 32 Financial Instruments, clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

2.2 New and revised IFRSs in issue but not yet effective:

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

- Amendments to IAS 32 Financial Instruments Presentation: relating to application guidance on the offsetting of financial assets and liabilities (Amendments are effective for annual periods beginning on or after January 1, 2014)
- Amendments to IFRS 10, 12 and IAS 27 (effective for annual periods beginning on or after January 1, 2014).
- Amendments to IAS 36 Impairment of assets modify the disclosure requirements

regarding the measurement of the recoverable amount of non financial assets (Effective for annual periods beginning on or after January 1, 2014).

- Amendments to IAS 39 Novation of derivatives and continuation of hedge accounting (Effective for annual periods beginning on or after January 1, 2014).
- IFRIC 21 Levies

The directors of the Bank do not anticipate that the application of these amendments will have a significant effect on the bank's financial statements in the period of initial application.

3. Significant accounting policies

Basis of Measurement

The financial statements have been prepared on the historical cost basis except for some financial instruments measured at fair value through profit or loss.

Assets and liabilities are grouped according to their nature and presented in the financial statements in accordance to their relative liquidity.

The principal accounting policies are set out below:

A. Foreign Currencies:

Transactions in currencies other than the entity›s reporting 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, which are recognized in other comprehensive income.

B.Recognition and Derecognition of Financial Assets and Liabilities:

The Bank 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 Bank 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 Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuers, are derecognized as management considers that they do meet the conditions for derecognition.

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.

The Bank 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.

When the Bank enters into transactions whereby it transfers assets recognized on its statement of financial position and retains all risks and rewards of the transferred assets, then the transferred assets are not derecognized, for example, securities lending and repurchase transactions.

C. 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 using the effective interest method, less impairment loss (except for debt instruments 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").

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 Bank 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 Bank 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.

D. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by the Bank 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, where applicable.

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 Bank are recognized at the proceeds received, net of direct issue costs, where applicable.

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 using the effective interest method.

E. Offsetting:

Financial assets and liabilities are set-off and the net amount is presented in the statement of financial position when, and only when, the Bank 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.

F. Fair Value Measurement of Financial Instruments:

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 of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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 Bank 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.

International Financial Reporting Standard (IFRS 13) establishes the hierarchy of fair value as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset and liability either directly or indirectly; and

Level 3 – Inputs are unobservable inputs for the asset or liability.

G. Impairment of Financial Assets:

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors’ or issuers’ liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collateral and guarantees.

The Bank considers evidence of impairment for assets measured at amortized cost at both specific asset and collective level.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

H. Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

I. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are disclosed at amortized cost net of unearned interest and after provision for credit losses. Non-performing loans and advances to customers are stated net of unrealized interest and provision for credit losses because of doubts and the probability of non-collection of principal and/or interest.

J. Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

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

	Years
Buildings	50
Furniture	5 - 12.5
Office equipment	12.5
Computer equipment	5
Vehicles	4
Leasehold improvements	4 - 16.5

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.

K. Intangible Assets:

Other intangible assets consisting of computer software and key money are amortized over a period of 5 years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

L. Assets acquired in satisfaction of loans:

Real estate properties acquired through the enforcement of collateral over loans and advances are measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who 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 and accumulated in equity.

M. Impairment of Financial and Non-Financial Assets:

At the end of each reporting period, the Bank reviews the carrying amounts of its financial and non-financial, asset 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 the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

N. Provision for Employees' End-of-Service Indemnity:

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff 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 and interest accrued by the Fund.

O. Provisions:

Provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

P. Revenue and Expense Recognition:

Interest income and expense are recognized on an accrual basis, taking account 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 the amortization of discount or premium.

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.

Interest income on financial assets measured at fair value through profit or loss and interest expense of financial liabilities designated at fair value through profit or loss are presented separately in the income statement.

Net gain and losses on financial assets measured at fair value through profit or loss 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 in accordance with IFRS 9, are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

Q. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the 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 income statement because of the items that are never taxable or deductible. The Bank'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 Bank 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 statement of financial position and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. 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.

R. Cash and Cash Equivalents:

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

4. Critical accounting judgments and key sources of estimation Uncertainty

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and 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 or in the future periods if the revision affects both current and future periods.

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

Classification of Financial Assets:

Business Model:

The business model test requires the Bank 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 Bank 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 Bank'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.

Characteristics of the Financial Asset:

Once the Bank 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 Bank 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.

B. Key Sources of Estimation Uncertainty:

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

Allowances for Credit Losses - Loans and Advances to Customers:

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.

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 3 F. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

5. Cash And Central Bank

	2013 L.L. Million	2012 L.L. Million
Cash on hand	1,348	1,055
Current accounts with Central Bank of Lebanon (including compulsory reserves)	24,119	19,503
Term placements with Central Bank of Lebanon	185,797	179,492
Accrued interest receivable	315	18
	211,579	200,068

Term placements with Central Bank of Lebanon have the following maturities:

	December 31, 2013			
	Accounts in LBP L.L. Million	Average interest rate %	Accounts in F/Cy L.L. Million	Average interest rate %
Maturity				
First quarter of 2014	4,500	2.86	166,222	0.46
Second quarter of 2014	-	-	15,075	0.23
	4500		181,297	

	December 31, 2012			
	Accounts in LBP L.L. Million	Average interest rate %	Accounts in F/Cy L.L. Million	Average interest rate %
Maturity				
First quarter of 2013	14,000	2.86	150,417	0.13
Second quarter of 2013	-	-	15,075	0.28
	14,000		165,492	

Current accounts with Central Bank of Lebanon include cash compulsory reserves in Lebanese Pound in the amount of LBP16.18billion (LBP12.68billion in 2012). This compulsory reserve is non-interest earning and is computed on the basis of 25% and 15% of the average weekly demand and term customers' deposits in Lebanese Pounds respectively, in accordance with the local banking regulations. Compulsory deposits are not available for use in the Bank's day-to-day operations.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP156million (LBP154million in 2012) 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, which includes all types of deposits, certificates of deposits and loans acquired from non-resident financial institutions with remaining maturities of one year or less.

6. Deposits with banks and financial institutions

	2013 L.L. Million	2012 L.L. Million
Current accounts with correspondents	53,952	28,777
Term placements	466,092	462,074
Accrued interest receivable	1,086	832
	521,130	491,683

Term placements represents, short term maturities, having an average interest rate on outstanding balances of 1.39% at year end 2013 (1.25% at year-end 2012).

Refer to Note 31 for outstanding balances with related parties.

7. Deposits with the parent sister and other related banks

	2013 L.L. Million	2012 L.L. Million
Current Accounts:		
Sister banks	1440	3,785
Parent bank	275	611
	1715	4,396
Term Placements:		
Parent bank	-	20,351
	-	20,351
	1715	24,747

Term placements with the parent and sister banks are short term, having an average interest rate on outstanding balances of 0.13% at year-end 2013 (0.1% at year-end 2012)

8. Loans and advances to customers

	December 31, 2013		
	Gross amount net of unrealized interest L.L. Million	Impairment allowance L.L. Million	Carrying amount L.L. Million
Performing Loans			
- Retail	2,629	-	2,629
- Housing loans	3,284	-	3,284
	5,913	-	5,913
Performing Loans – Companies			
- Corporate	26,708	-	26,708
- Small and medium enterprises	2,069	-	2,069
	28,777	-	28,777
Non-performing loans			
- Substandard	-	-	-
- Doubtful and bad	31,581	(19,867)	11,714
	31,581	(19,867)	11,714
	66,271	(19,867)	46,404

	December 31, 2012		
	Gross amount net of unrealized interest L.L. Million	Impairment allowance L.L. Million	Carrying amount L.L. Million
Performing Loans			
- Retail	3,563	-	3,563
- Housing loans	3,654	-	3,654
	7,217	-	7,217
Performing Loans – Companies			
- Corporate	21,576	-	21,576
- Small and medium enterprises	1,533	-	1,533
	23,109	-	23,109
Non-performing loans			
- Substandard	86	-	86
- Doubtful and bad	37,896	(25,925)	11,971
	37,982	(25,925)	12,057
	68,308	(25,925)	42,383

Performing loans include an economic group having an aggregate balance around LBP22billion as at December 31, 2013 (representing 63% of the total performing loans) in addition to indirect facilities amounting to LBP8.8billion at year-end 2013 (55% of the total performing loans in 2012). These facilities are covered by a cash collateral of LBP19.7billion, in addition to real estate mortgages and treasury bills aggregating to LBP10.5billion and concession of the customer's cash inflows from projects with the public sector.

The carrying value of loans and advances to customers include loan granted to a related party in the amount of LBP3billion (LBP3billion in 2012).

The movement of unrealized interest on substandard and doubtful loans is as follows:

	2013 L.L. Million	2012 L.L. Million
Balance – beginning of year	253,992	209,243
Additions	5,3127	45,003
Transfer (to)/from off-balance sheet	(90)	6
Write-back through profit or loss	(477)	(5)
Effect of exchange rates changes	(560)	(255)
Balance - end of year	305,992	253,992

The movement of the allowance for impairment of doubtful debts is as follows:

	2013 L.L. Million	2012 L.L. Million
Balance – beginning of year	25,925	30,605
Additions	210	-
Write-back through profit or loss	(5,447)	(3,642)
Transfer (to)/from off-balance sheet	(141)	8
Effect of exchange rates changes	(680)	(1,046)
Balance - end of year	19,867	25,925

9. Investment securities

	Fair value through profit or loss			Amortized Cost		
	Balances in LBP L.L. Million	Balances in Foreign currencies L.L. Million	Total L.L. Million	Balances in LBP L.L. Million	Balances in Foreign currencies L.L. Million	Total L.L. Million
December 31,2013						
Unquoted equity securities	170	75	245	-	-	-
Quoted equity securities	-	60	60	-	-	-
Investment fund	-	6,072	6,072	-	-	-
Lebanese treasury bills	-	-	-	93,050	-	93,050
Lebanese Government bonds	-	-	-	-	435,523	435,523
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	75,000	21,405	96,405
Corporate bonds – local bank	-	-	-	-	22,613	22,613
	170	6,207	6,377	168,050	479,541	647,591
Accrued interest receivable	-	-	-	3,858	6,741	10,599
	170	6,207	6,377	171,908	486,282	658,190
December 31,2012						
Unquoted equity securities	170	75	245	-	-	-
Quoted equity securities	-	71	71	-	-	-
Investment fund	-	5,832	5,832	-	-	-
Lebanese treasury bills	-	-	-	100,970	-	100,970
Lebanese Government bonds	-	-	-	-	448,045	448,045
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	27,000	34,218	61,218
Corporate bonds – local bank	-	-	-	-	22,613	22,613
	170	5,978	6,148	127,970	504,876	632,846
Accrued interest receivable	-	-	-	2,679	7,320	9,999
	170	5,978	6,148	130,649	512,196	642,845

The movement of investment securities during 2013 and 2012 is summarized as follows:

	2013	
	Investment securities at fair value through profit or loss	Investment securities at amortized cost
	L.L. Million	L.L. Million
Balance as at January 1	6,148	632,846
Additions	6,029	73,598
Sale (a)	(5,832)	-
Redemption upon maturity	-	(66,310)
Unrealized gain from change in fair value (Note 26)	32	-
Swap (net) (b)	-	7000
Amortization of discount/premium	-	(682)
Effect of exchange rates changes	-	1,139
Balance as at December 31	6,377	647,591

(a) Realized losses from sale of investment securities at fair value through profit or loss amounted to LBP111million (Note 26).

(b) During year 2013, the Bank sold certificates of deposit in Lebanese Pound issued by the Central Bank of Lebanon maturing in year 2014 classified at amortized with a carrying amount of LBP23billion in exchange of certificates of deposit amounting to LBP30billion maturing on February 9, 2023. The Bank realized a gain for around LBP1.1billion booked in the statement of profit or loss.

	2012	
	Investment securities at fair value through profit or loss	Investment securities at amortized cost
	L.L. Million	L.L. Million
Balance as at January 1	6,227	674,736
Additions	-	84,231
Redemption upon maturity	-	(95,405)
Swap (net) (c)	(41)	-
Amortization of discount/premium	-	(30,150)
Unrealized loss from change in fair value (Note 26)	-	(1,079)
Effect of exchange rates changes	(38)	513
Balance as at December 31	6,148	632,846

(c) During year 2012, the Bank swap Lebanese treasury bills maturing in year 2013 having a carrying amount of LBP30.15billion with Lebanese treasury bills maturing on November 12, 2018. The Bank realized a gain on this operation amounted to LBP769million booked in the statement of profit or loss.

A. Investments at Fair Value through Profit or Loss:

	LBP			F/CY		
	Cost L.L. Million	Fair Value L.L. Million	Cumulative change in fair value L.L. Million	Cost L.L. Million	Fair Value L.L. Million	Cumulative change in fair value L.L. Million
December 31,2013						
Unquoted equity securities	170	170	-	151	75	(76)
Quoted equity securities	-	-	-	133	60	(73)
Investment Fund	-	-	-	6,029	6,072	(43)
	170	170	-	6,313	6,207	(106)
December 31,2012						
Unquoted equity securities	170	170	-	151	75	(76)
Quoted equity securities	-	-	-	133	71	(62)
Investment Fund	-	-	-	5,972	5,832	(140)
	170	170	-	6,256	5,978	(278)

B. Investment Securities at Amortized Cost:

	LBP			F/CY		
	Amortized Cost L.L. Million	Accrued interest receivable L.L. Million	Fair value L.L. Million	Amortized Cost L.L. Million	Accrued interest receivable L.L. Million	Fair value L.L. Million
December 31,2013						
Lebanese Government bonds	-	-	-	435,523	6,332	434,420
Lebanese treasury bills	93,050	2,058	94,649	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	75,000	1,800	74,433	21,405	387	21,922
Corporate bonds – Local bank	-	-	-	22,613	22	22,613
	168,050	3,858	169,082	479,541	6,741	478,955
December 31,2012						
Lebanese Government bonds	-	-	-	448,045	6,399	448,456
Lebanese treasury bills	100,970	2,029	102,625	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	27,000	650	28,805	34,218	887	35,390
Corporate bonds – Local bank	-	-	-	22,613	34	22,613
	127,970	2,679	131,430	504,876	7,320	506,459

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Investments at amortized cost are segregated over remaining period to maturity as follows:

	LBP				C/V in F/CY			
December 31, 2013	Nominal value L.L. Million	Carrying value L.L. Million	Fair value L.L. Million	Average Coupon %	Nominal value L.L. Million	Carrying value L.L. Million	Fair value L.L. Million	Average Coupon %
Remaining Period to maturity								
Lebanese Government bonds:								
- Up to one year	-	-	-	-	116,228	116,233	116,530	7.75
- 1 year to 3 years	-	-	-	-	68,193	69,060	66,333	5.93
- 3 years to 5 years	-	-	-	-	120,830	120,830	122,247	6.88
- 5 years to 10 years	-	-	-	-	128,892	129,400	129,310	6.11
	-	-	-		434,143	435,523	434,420	
Corporate bonds – Local bank								
- 5 to 10 years	-	-	-		22,613	22,613	22,613	6.83
	-	-	-		22,613	22,613	22,613	
Lebanese treasury bills:								
- Up to one year	26,160	26,160	27,178	7.64	-	-	-	
- 1 year to 3 years	21,890	21,890	22,293	6.2	-	-	-	
- 3 years to 5 years	34,000	34,000	34,168	6.61	-	-	-	
- 5 years to 10 years	6,000	6,000	6,044	7.85	-	-	-	
- Over 10 years	5,000	5,000	4,966	8.74	-	-	-	
	93,050	93,050	94,649		-	-	-	
Certificates of deposit issued by the Central Bank of Lebanon:								
- 1 year to 3 years	-	-	-	-	21,105	21,405	21,922	10
- 3 years to 5 years	4,000	4,000	4,191	7.9	-	-	-	
- 5 years to 10 years	71,000	71,000	70,242	8.24	-	-	-	
	75,000	75,000	74,433		21,105	21,405	21,922	
Grand Total	168,050	168,050	169,082		477,861	479,541	478,955	

December 31, 2012	LBP Nominal value L.L. Million	LBP Carrying value L.L. Million	LBP Fair value L.L. Million	LBP Average Coupon %	C/V in F/CY Nominal value L.L. Million	C/V in F/CY Carrying value L.L. Million	C/V in F/CY Fair value L.L. Million	C/V in F/CY Average Coupon %
Remaining Period to maturity								
Lebanese Government bonds:								
- Up to one year	-	-	-	-	32,820	32,947	33,083	8.9
- 1 year to 3 years	-	-	-	-	142,212	143,395	145,426	7.77
- 3 years to 5 years	-	-	-	-	100,133	100,342	103,200	7.01
- 5 years to 10 years	-	-	-	-	171,062	171,361	166,747	5.72
	-	-	-		446,227	448,045	448,456	
Corporate bonds – Local bank								
- 5 to 10 years	-	-	-		22,613	22,613	22,613	6.83
	-	-	-		22,613	22,613	22,613	
Lebanese treasury bills:								
- Up to one year	20,920	20,920	21,318	6.24	-	-	-	-
- 1 year to 3 years	41,050	41,050	42,050	7.12	-	-	-	-
- 3 years to 5 years	33,000	33,000	33,000	6.49	-	-	-	-
- 5 years to 10 years	6,000	6,000	6,000	7.85	-	-	-	-
- Over 10 years	100,970	100,970	100,970		-	-	-	
					-	-	-	
Certificates of deposit issued by the Central Bank of Lebanon:								
- 1 year to 3 years	-	-	-	-	12,570	13,219	12,588	9
- 3 years to 5 years	23,000	23,000	24,605	9.78	21,105	20,999	22,802	10
- 5 years to 10 years	4,000	4,000	4,200	7.90	-	-	-	
	27,000	27,000	28,805		33,675	34,218	35,390	
Grand Total	127,970	127,970	131,430		502,515	504,876	506,459	

10. Customers' liability under acceptances

Acceptances represent documentary credits which the Bank 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.

11. Assets acquired in satisfaction of loans

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these assets should be liquidated within 2 years from the Central Bank approval acquisition date. In case of default of liquidation, the Bank should appropriate a special reserve from the yearly net profits over a period of 5 years. This statutory reserve is recorded under "Reserves" in shareholders' equity (Note 22).

A recent appraisal made by an independent expert, shows that the fair value of these assets exceeds its book value.

	2013 L.L. Million	2012 L.L. Million
Foreclosed assets acquired in satisfaction of loans	5,871	5,871

12. Property and equipment

	Property and buildings L.L. Million	Office and computer equipment L.L. Million	Furniture and fixtures L.L. Million	Vehicles L.L. Million	Leasehold Improvements L.L. Million	Advance Payments L.L. Million	Transfer to Intangible Assets L.L. Million	Total L.L. Million
Cost:								
Balance – January 1, 2012	6,864	2,495	2,122	465	5,662	-	-	17,608
Additions	-	112	145	-	189	166	-	612
Transfers	-	-	27	-	18	(45)	-	-
Balance - December 31, 2012	6,865	2,607	2,294	465	5,869	121	-	18,220
Additions	-	100	134	3	-	117	-	354
Transfers	-	-	33	-	93	(126)	(54)	(54)
Disposals	-	-	(1)	-	-	-	-	(1)
Balance - December 31, 2013	6,864	2,707	2,460	468	5,962	112	(54)	18,519
Accumulated depreciation:								
Balance – January 1, 2012	(1,760)	(2,189)	(1,625)	(340)	(3,320)	-	-	(9,234)
Depreciation charge	(137)	(111)	(81)	(36)	(319)	-	-	(684)
Balance - December 31, 2012	(1,897)	(2,300)	(1,706)	(376)	(3,639)	-	-	(9,918)
Depreciation charge	(137)	(121)	(87)	(36)	(334)	-	-	(715)
Balance - December 31, 2013	(2,034)	(2,421)	(1,793)	(412)	(3,973)	-	-	(10,633)
Net Book Value:								
Balance - December 31, 2013	4,830	286	667	56	1,989	112	(54)	7,886
Balance - December 31, 2012	4,967	307	588	89	2,230	121	-	8,302

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13. Intangible assets

	Computer Software L.L. Million
Cost:	
Balance, January 1, 2012	1,011
Additions	57
Balance, December 31, 2012	1,068
Additions	264
Transfer from property and equipment	54
Balance, December 31, 2013	1,386
Accumulated Depreciation:	
Balance, January 1, 2012	662
Amortization for the year	95
Balance, December 31, 2012	757
Amortization for the year	114
Balance, December 31, 2013	871
Carrying Value:	
Balance, December 31, 2013	515
Balance, December 31, 2012	311

14. Other assets

	2013 L.L. Million	2012 L.L. Million
Receivables from the National Social Security Fund	414	480
Prepaid expenses	213	312
Receivable from the Ministry of Finance	75	75
Others	441	487
	1,143	1,354

15. Deposits from a central bank

This caption consists of deposits from foreign central bank – the ultimate parent company.

	2013 L.L. Million	2012 L.L. Million
Demand deposits	9,047	18,009
Term deposits	75,375	75,375
Accrued interest payable	8	15
	84,430	93,399

16. Deposits from banks and financial institutions

	2013 L.L. Million	2012 L.L. Million
Current deposits	37,974	26,468
Term deposits	186,373	216,518
Accrued interest payable	172	242
	224,519	243,228

17. Deposits from the parent, sister and other related banks

	2013 L.L. Million	2012 L.L. Million
Current accounts:		
Sister banks	40	93
Parent bank	1,062	19,958
	1,102	20,051
Term deposits:		
Sister banks	61,808	30,150
Parent bank	446,069	446,369
	507,877	476,519
Cash margin with parent bank	5,804	5,773
Accrued interest payable	578	271
	515,361	502,614

Term deposits from parent and sister banks have the following maturities:

	December 31, 2013		December 31, 2012	
	Accounts in F/Cy L.L. Million	Average interest rate %	Accounts in F/Cy L.L. Million	Average interest rate %
First quarter of 2013	-	-	476,519	0.47
First quarter of 2014	507,877	0.45	-	
	507,877		476,519	

18. Customers' deposits

December 31, 2013	LBP L.L. Million	F/CY L.L. Million	Total L.L. Million
Deposits from customers:			
Current/demand deposits	723	5,387	6,110
Term deposits	104,584	193,861	298,445
Collateral against loans and advances	1,306	19,689	20,995
	106,613	218,937	325,550
Margins and other accounts:			
Margins on letters of guarantee	-	4,628	4,628
Accrued interest payable	179	761	940
Total	106,792	224,326	331,118

December 31, 2012	LBP L.L. Million	F/CY L.L. Million	Total L.L. Million
Deposits from customers:			
Current/demand deposits	466	1,738	2,204
Term deposits	81,247	185,578	226,825
Collateral against loans and advances	1,444	18,831	20,275
	83,157	206,147	289,304
Margins and other accounts:			
Margins on letters of guarantee	-	25,226	25,226
Accrued interest payable	24	826	850
Total	83,181	232,199	315,380

Customers' deposits at December 31, 2013 include coded deposit accounts in the aggregate of LBP548million (LBP658million in 2012). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which stipulates that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its Bank's independent auditors.

Customers' deposits include related party deposits in the amount of LBP5.57billion at December 31, 2013 (LBP10.18billion in 2012).

Deposits from customers are allocated by brackets of deposits as follows:

	LBP			F/CY		
	No. of Customers	Total Deposits L.L. Million	% to Total Deposits %	Total Deposits L.L. Million	% to Total Deposits %	Total L.L. Million
December 31, 2013						
Less than LBP 250 million	1,677	27,565	26	15,559	7	43,124
Between LBP 250 million and LBP 1,5 billion	131	51,158	48	20,192	9	71,350
Above LBP 1,5 billion	27	28,069	26	188,575	84	216,644
	1,835	106,792	100	224,326	100	331,118
December 31, 2012						
Less than LBP 250 million	1,848	29,177	35	18,083	8	47,260
Between LBP 250 million and LBP 1,5 billion	96	40,443	49	11,989	5	52,432
Above LBP 1,5 billion	22	13,561	16	202,127	87	215,688
	1,966	83,181	100	232,199	100	315,380

19. Other liabilities

	2013 L.L. Million	2012 L.L. Million
Provision for income tax	4,724	4,177
Payment orders	19,892	-
Withheld taxes payable	503	494
Accrued charges	694	398
Due to the National Social Security Fund	175	150
Payable to personnel	21	48
Sundry payables	208	213
	26,217	5,480

Payment orders represent transfers to foreign banks settled at the beginning of year 2014.

Provision for income tax as of December 31, 2013 is presented net of amounts paid in advance and deducted at source on certain interest income amounting to LBP531million (LBP500million in 2012).

The tax returns for the years 2009 to 2013 are still subject for review by the tax authorities.

20. Provisions

Provisions consist of the following:

	2013 L.L. Million	2012 L.L. Million
Provision for employees' end-of-service indemnity	4,270	4,403
Provision for loss on fixed foreign currency position	169	169
	4,439	4,572

The movement of the provision for employees' end-of-service indemnity is summarized as follows:

	2013 L.L. Million	2012 L.L. Million
Balance - beginning of year	4,403	3,525
Additions (Note 27)	338	1,237
Settlements	(471)	(359)
Balance - end of year	4,270	4,403

21. Share capital

At December 31, 2013 and 2012, the Bank's authorized ordinary share capital amounted to LBP15,000million consisting of 300,000 fully paid shares of LBP50,000 par value each.

Cash contribution to capital amounting to LBP148billion as at December 31, 2013 and 2012, represents funds injected by the bank's shareholders in order to promote, support and develop the activities of the Bank. These contributions are not subject to interest. According to local banking regulations, cash contribution to capital is considered as a core capital ratio in terms of calculating Bank's solvency.

As at 2013 year-end, the Bank has a fixed exchange position in the amount of USD3.5million, authorized by the Central Bank of Lebanon, to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pound.

In its meeting held on May 29, 2013, the Ordinary General Assembly resolved to distribute dividends to shareholders of LBP7.5billion (LBP7.6billion in 2012).

22. Reserves not available for distribution

	2013 L.L. Million	2012 L.L. Million
Legal reserve (a)	9,834	7,570
Reserve for general banking risks (b)	19,062	15,314
Special reserve (c)	13,588	13,588
Regulatory reserve for assets acquired in satisfaction of loans (Note 11)	3,527	2,348
	46,011	38,820

(a) The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of annual net profit. This reserve is not available for distribution. The Bank's General Assembly held on May 29, 2013 resolved to appropriate an amount of LBP2,264million from the net profit of 2012.

(b) 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 annually 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, on condition that the cumulative rate should not be less than 1.25% at the end of the tenth financial year, (starting from year 1998, i.e. 2007) and 2% at the end of the 20th year. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the total risk weighted assets and off-balance-sheet items. This reserve is not available for distribution, and is used to cover any annual or unpredicted losses after being communicated and approved by the Banking Central Commission. The Bank's General

Assembly held on May 29, 2013 resolved to appropriate an amount of LBP3,748million from the net profit of 2012.

(c) This special reserve is made in connection with the uncovered portion of doubtful debts and impaired loans subject of item No.4 of Article II of basic decision No. 7694 and Central Bank intermediary circular No. 209.

23. Interest income

	2013 L.L. Million	2012 L.L. Million
Interest income from:		
Deposits with the Central Bank of Lebanon	983	852
Deposits with banks and financial institutions	6,218	5,737
Loans and advances to customers	2,535	1,947
Investment securities at amortized cost	43,332	43,429
	53,068	51,965

Refer to Note 31 for interest income from related parties.

24. Interest expense

	2013 L.L. Million	2012 L.L. Million
Interest expense on:		
Deposits from banks and financial institutions	4,318	5,256
Deposits from customers	11,347	9,790
Deposits from related parties	107	88
	15,772	15,134

Refer to Note 31 for interest expense from related parties.

25. Fee and commission income

	2013 L.L. Million	2012 L.L. Million
Commission on documentary credits and guarantees	2,008	2,491
Commission on banking operations	407	427
Fees and commission on credit facilities	215	211
	2,630	3,129

26. Net gains on investment securities at fair value through profit or loss

	2013 L.L. Million	2012 L.L. Million
Dividends income	180	289
Net realized losses	(111)	-
Unrealized gain/(losses)	32	(41)
	101	248

27. Salaries and related charges

	2013 L.L. Million	2012 L.L. Million
Salaries	8,253	7,894
Vacation and other staff benefits	1,632	1,305
Provision for employees' end-of-service indemnity	338	1,237
Social Security contributions	953	853
Insurance expenses	594	466
School allowance	586	360
Transportation	292	297
	12,648	12,412

28. General and administrative expenses

	2013 L.L. Million	2012 L.L. Million
Directors' remunerations attendance fees and representation allowances	1,278	760
Travel expenses	206	123
Maintenance and repairs	393	437
Professional fees	560	364
Water electricity and telecommunication	475	491
Rent	754	640
Municipality and other taxes	90	84
Subscription	530	490
Insurance	124	130
Other operating expenses	813	757
	5,223	4,276

29. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of the following:

	2013 L.L. Million	2012 L.L. Million
Cash and deposits with Central Bank (net of compulsory reserve)	117,297	162,213
Term deposits with banks and financial institutions (a)	125,762	175,378
Term deposits with parent bank, sister and related banks (a)	1,715	24,747
	244,774	362,338

(a) Term deposits with banks comprise balances with original maturities of 90 days or less.

30. Financial instruments with off-balance-sheet risks

Guarantees and standby letters of credit and documentary letters of credit represent financial instruments with contractual amounts that carry credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Bank 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 letters of credit, which represent written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment documents of goods to which they relate and, therefore, have significantly less risks.

31. Balances and transactions with related parties

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors and related companies.

The size of these related-party transactions and outstanding balances at year-end, and relating expense and income for the year are as follows:

	2013 L.L. Million	2012 L.L. Million
(a)Deposits with related banks and financial institutions (Note 6)		
Current accounts	327	-
Term deposits	28,643	-
Accrued interest receivable	36	-
	29,006	
Interest income	56	-
(b)Deposits with parent sister and other related banks (Note 7)		
Current accounts:		
Sister banks	1,440	3,785
Parent bank	275	611
	1,715	4,396
Term deposits:		
Parent bank	-	20,351
	-	20,351
	1,715	24,747
Interest income	37	18
(c)Loans and advances to related parties (Note 7):		
Related companies	3,030	3,030
Interest income	70	75
(d)Deposits from a central bank (Foreign Central Bank Ultimate parent company) (Note 15)		
Current accounts	9,047	18,009
Term deposits	75,375	75,375
Accrued interest payable	8	15
	84,430	93,399
Interest expense	268	771
(e)Deposits from parent sister and other related banks (Note 17)		
Current accounts:		
Sister banks	40	93
Parent bank	1,062	19,958
	1,102	20,051
Term deposits:		
Sister banks	61,808	30,150
Parent bank	446,069	446,369
	507,877	476,519
Cash margin with parent bank	5,804	5,773
Accrued interest payable	578	271
	515,361	502,614
Interest expense	2,461	2,478
(f)Customers' deposits (Note 18):		
Customers' deposits – related parties	5,568	10,178
Interest expense	107	88
(g)Board of directors remunerations (Note 28)		
Board of directors remunerations representation and attendance fees	1,278	760

32. Financial risk management

Risk Management Framework

The Bank is exposed to different types of risk mainly credit risk, liquidity risk, operational risk and market risk. These risks are inherent in the Bank's activities but are managed through an ongoing process of identification, measurement, monitoring and mitigation.

The Board of Directors, the Risk Management Committee and the Risk Management Division are responsible for overseeing the Bank's risks, while the Internal Audit Department has the responsibility independently to monitor the implemented risk management process to ensure adequacy and effectiveness of the risk control procedures.

The Risk Management Division ensures that the capital is adequate to cover all types of risks that the Bank is exposed to and monitors compliance with risk management policies, procedures and lending limits. The Bank assesses its risk profile to ensure that it is in line with the bank's risk strategy and goals. The Board of Directors receives quarterly risk reports on the Bank's risk profile and capital management process.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet its obligations. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and investment securities. Credit risk also arises from off-balance sheet financial instruments such as documentary letters of credit and letters of guarantee.

Management of credit risk mainly includes:

- Identifying credit risk through implementing credit processes related to credit origination, analysis, approval and review.
- Measuring credit risk by ensuring that it is within the limits set by the Bank and the related authorities in addition to the assessment of guarantees taken.

The Bank manages the level of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers and to geographical and industry segments without exceeding limits of the facilities set by the local Bank's regulations. Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to any one borrower including banks are further restricted by sub-limits covering on and off-financial position exposures. Actual exposures against limits are monitored on a regular basis.

The principal collateral types for loans and advances consist of mortgages over real estate properties and bank guarantees. The Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

The Bank enters into netting arrangements with counterparties having a significant volume of transactions in order to restrict its exposure to credit losses. These arrangements do not generally result in an offset of assets and liabilities in the statement of financial position.

Measurement of Credit Risk

Loans and advances to customers

In measuring credit risk of loans and advances, the Bank considers the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with Central Bank of Lebanon circular No.58 the loans and advances to customers are classified into six classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are certainly able to honor their commitments. Some of the indicators related to this category are: continuous cash inflows, and availability of updated financial statements.
2	Follow up	Indicates that borrowers have an adequate ability to honor their commitments. Major characteristics of this category are inadequate documentation regarding borrower's activity and declining profitability.

3	Special mention	Indicates that borrowers are still able to honor their commitments with the existence of some weaknesses that may reduce ability to settle. Some indicators related to this category are delayed payments (60 to 90 days), decline in profitability and cash flows, excess over limit of more than 10%, more than one time debt rescheduling and borrower highly relying on leverage and rising conflict among shareholders.
4	Substandard	Indicates that borrowers› ability to serve their commitments is in question and depending on the improvement of financial and economic conditions on the liquidation of available collateral. The main characteristics of this category are repetitive overdues between 90 and 180 days, inability to cover interest payments for more than 6 months, remarkable decrease in cash flows and losses incurred for over three consecutive years. In this case, the Bank considers interests and commissions as unrealized but does not establish an allowance for impairment.
5	Doubtful	Indicates that Bank may not be able to recover loan in full. Major indicators are no movement for over six months and borrower is unable to settle rescheduled commitments. In this case, the Bank considers interests and commissions as unrealized and established an allowance for impairment accordingly.
6	Bad	Indicates that commitments cannot be recovered. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

The Bank adopted a risk-rating system (RCMS) to provide the ability to assess the risk of customers, and is used as a practical tool during all phases of the granting facility in the Bank.

The system approved by the Board of Directors aims to rate the risk of individual institutions, small businesses and medium-sized businesses, trading companies and new projects according to a special classification (Loan Grading System), mainly in terms of identifying the risk of the portfolio of loans and advances as loans and advances granted are assessed according to the six rating classes as follows:

- 7 classes to rate performing loans;
- 3 classes to rate non-performing loans.

Debt investment securities and other bills

The risk of the debt instruments included in the investment portfolio at amortized cost relates mainly to sovereign risk (including Central bank of Lebanon) to the extent of 96% in 2013 and 2012.

Concentration of credit risk by geographical location:

The Bank distributes exposures to geographical segments based on the original country of the contracting party as follows:

	Lebanon	Arab countries	Africa	Europe	Other	Total
	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
December 31, 2013						
Financial Assets						
Cash and Central Bank	211,579	-	-	-	-	211,579
Deposits with banks and financial institutions	292,314	147	-	204,615	24,054	521,130
Deposits with the parent, sister and other related banks	-	-	631	1,084	-	1,715
Investment securities at fair value through profit or loss	6,302	75	-	-	-	6377
Loans and advances to customers	43,374	-	-	-	3,030	46,404
Investment securities at amortized cost	658,190	-	-	-	-	658,190
Customers' liability under acceptances	-	-	1,606	-	-	1,606
	1,211,759	222	2,237	205,699	27,084	1,447,001
Off-balance sheet items						
Letters of guarantee and standby letters of credit	50,003	3,183	-	-	55	53,241
Letters of credit – import	-	3,434	-	-	-	3,434
Letters of credit - export confirmed	-	36,906	-	-	-	36,906
	50,003	43,523	-	-	55	93,581
December 31, 2012						
Financial Assets						
Cash and Central Bank	200,068	-	-	-	-	200,068
Deposits with banks and financial institutions	378,904	23	-	75,004	37,752	491,683
Deposits with the parent sister and other related banks	-	153	20,962	2,924	708	24,747
Investment securities at fair value through profit or loss	6,073	75	-	-	-	6148
Loans and advances to customers	39,353	-	-	-	3,030	42,383
Investment securities at amortized cost	642,845	-	-	-	-	64,2845
Customers' liability under acceptances	-	-	1,503	-	-	1,503
	1,267,243	251	22,465	77,928	41,490	1,409,377
Off-balance sheet items						
Letters of guarantee and standby letters of credit	50,181	2,914	-	-	-	53,095
Letters of credit – import	140	23,743	-	-	-	23,883
Letters of credit - export confirmed	19,868	24,438	-	-	-	44,306
	70,189	51,095	-	-	-	121,284

	Sovereign Risk	Financial Institutions	Manufacturing	Construction	Trading	Other	Individual	Total
	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
December 31, 2013								
Financial Assets								
Cash and Central Bank	211,579	-	-	-	-	-	-	211,579
Deposits with banks and financial institutions	-	521,130	-	-	-	-	-	521,130
Deposits with the parent sister and other related banks	-	1,715	-	-	-	-	-	1,715
Investment securities at fair value through profit or loss	-	6,317	-	60	-	-	-	6,377
Loans and advances to customers	-	3,070	5,786	25,363	5,592	680	5,913	46,404
Investment securities at amortized cost	635,556	22,634	-	-	-	-	-	658,190
Customers' liability under acceptances	-	1,606	-	-	-	-	-	1,606
	847,135	556,472	5,786	25,423	5,592	680	5,913	1,447,001
Off-balance sheet items								
Letters of guarantee and standby letters of credit	-	40,441	1,065	8,903	1,817	-	1,015	53,241
Letters of credit – import	-	-	-	425	3,009	-	-	3,434
Letters of credit - export confirmed	-	-	571	33,290	3,045	-	-	36,906
	-	40,441	1,636	42,618	7,871	-	1,015	93,581
December 31, 2012								
Financial Assets								
Cash and Central Bank	200,068	-	-	-	-	-	-	200,068
Deposits with banks and financial institutions	-	491,683	-	-	-	-	-	491,683
Deposits with the parent sister and other related banks	-	24,747	-	-	-	-	-	24,747
Investment securities at fair value through profit or loss	-	6,077	-	71	-	-	-	6,148
Loans and advances to customers	-	-	5,761	16,375	12,273	757	7217	42,383
Investment securities at amortized cost	620,198	22,647	-	-	-	-	-	642,845
Customers' liability under acceptances	-	-	-	1503	-	-	-	1,503
	820,266	545,154	5,761	17,949	12,273	757	7,217	1,409,377
Off-balance sheet items								
Letters of guarantee and standby letters of credit	-	41,479	420	10,223	24	-	949	53,095
Letters of credit – import	-	-	-	23,883	-	-	-	23,883
Letters of credit - export confirmed	-	19,868	95	3,541	20,802	-	-	44,306
	-	61,347	515	37,647	20,826	-	949	121,284

Guarantees held against loans and advances to customers:

	Gross Exposure Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Value of Collateral Received			
				Pledged Funds	First degree Mortgage on Properties	Personal Guarantees	Total Guarantees
	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
December 31, 2013							
Performing Loans:							
Retail	2,629	-	2,629	1,084	1,292	1,375	3,751
Housing Loans	3,284	-	3,284	-	3,354	-	3,354
Performing Loans - Corporate:							
Corporate	26,708	-	26,708	19,743	12,588	-	32,331
Small and medium enterprises	2,069	-	2,069	168	4,684	89	4,941
Doubtful and bad debts	31,581	(19,867)	11,714	-	42,303	-	42,303
	66,271	(19,867)	46,404	20,995	64,221	1,464	86,680
December 31, 2012							
Performing Loans:							
Retail	3,563	-	3,563	881	1,103	602	2,586
Housing Loans	3,654	-	3,654	-	3,399	-	3,399
Performing Loans - Corporate:							
Corporate	21,576	-	21,576	18,921	14,585	-	33,506
Small and medium enterprises	1,533	-	1,533	365	3,893	65	4,323
Substandard	86	-	86	-	-	-	-
Doubtful and bad debts	37,896	(25,925)	11,971	-	44,662	-	44,662
	68,308	(25,925)	42,383	20,167	67,642	667	88,476

Market Risks

Market risk is defined as the risk of losses in on and off-financial position, arising from adverse movements in market prices. The risks subject to Market Risk include: Interest Rate Risk and Foreign Exchange Risk.

Foreign Exchange risk

Foreign exchange risk arises from the exposure on banking assets and liabilities, denominated in foreign currencies.

	LBP	USD	GBP	Euro	JPY	Other	Total
	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
December 31, 2013							
Assets							
Cash and Central Bank	24,635	165,607	71	21,266	-	-	211,579
Deposits with banks and financial institutions	107	421,365	1,116	96,634	3	1,905	521,130
Deposits with the parent sister and other related banks	-	688	298	713	1	15	1,715
Investment securities at fair value through profit or loss	170	6,207	-	-	-	-	6,377
Loans and advances to customers	913	45,491	-	-	-	-	46,404
Investment securities at amortized cost	171,908	458,967	-	27,315	-	-	658,190
Customers' liability under acceptances	-	706	-	900	-	-	1,606
Assets acquired in satisfaction of loans	5,871	-	-	-	-	-	5,871
Property and equipment	7,886	-	-	-	-	-	7,886
Intangible assets	515	-	-	-	-	-	515
Other assets	1,143	-	-	-	-	-	1,143
Total assets	213,148	1,099,031	1,485	146,828	4	1,920	1,462,416
Liabilities							
Deposits from a Central Bank	-	79,945	-	4,485	-	-	84,430
Deposits from banks and financial institutions	-	125,780	66	98,661	-	12	224,519
Deposits form the parent sister and other related banks	-	515,212	-	149	-	-	515,361
Customers' deposits	106,792	191,522	1,419	29,553	-	1,832	331,118
Liability under acceptances	-	706	-	900	-	-	1,606
Other liablities	5,747	7,450	-	13,020	-	-	26,217
Provisions	3,781	658	-	-	-	-	4,439
Total liabilities	116,320	921,273	1,485	146,768	-	1,844	1,187,690
Net assets	96,828	177,758	-	60	4	76	274,726

	LBP	USD	GBP	Euro	JPY	Other	Total
	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
December 31, 2012							
Assets							
Cash and Central Bank	29,953	139,714	70	30,331	-	-	200,068
Deposits with banks and financial institutions	20	412,389	1,005	76,356	-	1,913	491,683
Deposits with the parent sister and other related banks	-	21,684	325	1,625	1,099	14	24,747
Investment securities at fair value through profit or loss	170	5,978	-	-	-	-	6,148
Loans and advances to customers	997	41,386	-	-	-	-	42,383
Investment securities at amortized cost	130,649	486,026	-	26,170	-	-	642,845
Customers' liability under acceptances	-	-	-	1,503	-	-	1,503
Assets acquired in satisfaction of loans	5,871	-	-	-	-	-	5,871
Property and equipment	8,302	-	-	-	-	-	8,302
Intangible assets	311	-	-	-	-	-	311
Other assets	740	614	-	-	-	-	1,354
Total assets	177,013	1,107,791	1,400	135,985	1,099	1,927	1,425,215
Liabilities							
Deposits from a Central Bank	-	81,973	-	11,426	-	-	93,399
Deposits from banks and financial institutions	-	141,015	2	64,212	37,988	11	243,228
Deposits form the parent sister and other related banks	-	502,479	-	135	-	-	502,614
Customers' deposits	83,181	170,307	1,383	58,700	-	1,809	315,380
Liability under acceptances	-	-	-	1,503	-	-	1,503
Other liablities	5,032	448	-	-	-	-	5,480
Provisions	3,792	780	-	-	-	-	4,572
Total liabilities	92,005	897,002	1,385	135,976	37,988	1,820	1,166,176
Net assets	85,008	210,789	15	9	(36,889)	107	259,039

Interest rate risk

Interest rate risk of the banking portfolio is mainly managed through continuous monitoring of the interest rate repricing gap.

Exposure to Interest rate risk

Below is a summary of the Bank's interest rate gap position on major financial assets and liabilities reflected at carrying amounts at year end by repricing time bands:

	Not subject to Interest L.L. Million	Less than 1 Month L.L. Million	1 to 3 Months L.L. Million	3 Months to 1 Year L.L. Million	1 to 5 Years L.L. Million	Over 5 Years L.L. Million	Total L.L. Million
December 31, 2013							
Financial Assets							
Cash and Central Bank	25,467	121,251	49,784	15,077	-	-	211,579
Deposits with banks and financial institutions	53,952	144,560	139,170	183,448	-	-	521,130
Deposits with the parent sister and other related banks	1,715	-	-	-	-	-	1,715
Investment securities at fair value through profit or loss	6,377	-	-	-	-	-	6,377
Loans and advances to customers	-	39,600	2	3,062	3,740	-	46,404
Investment securities at amortized cost	-	6,352	6,946	139,694	271,188	234,010	658,190
	87,511	311,763	195,902	341,281	274,928	234,010	1,445,395
Financial Liabilities							
Deposits from a Central Bank	9,047	75,383	-	-	-	-	84,430
Deposits from banks and financial institutions	37,974	37,187	68,243	81,115	-	-	224,519
Deposits form the parent sister and other related banks	1,103	308,159	191,024	15,075	-	-	515,361
Customers' deposits	60,376	213,709	17,895	39,138	-	-	331,118
	108,500	634,438	277,162	135,328	-	-	1,155,428

	Not subject to Interest L.L. Million	Less than 1 Month L.L. Million	1 to 3 Months L.L. Million	3 Months to 1 Year L.L. Million	1 to 5 Years L.L. Million	Over 5 Years L.L. Million	Total L.L. Million
December 31, 2012							
Financial Assets							
Cash and Central Bank	20,558	154,494	9,939	15,077	-	-	200,068
Deposits with banks and financial institutions	28,777	217,585	163,384	36,235	45,702	-	491,683
Deposits with the parent sister and other related banks	4,396	20,351	-	-	-	-	24,747
Investment securities at fair value through profit or loss	6,148	-	-	-	-	-	6,148
Loans and advances to customers	-	31,670	3,645	1,530	5,294	244	42,383
Investment securities at amortized cost	-	14,618	20,374	38,044	368,318	201,491	642,845
	59,879	438,718	197,342	90,886	419,314	201,735	1,407,874
Financial Liabilities							
Deposits from a Central Bank	18,009	-	75,390	-	-	-	93,399
Deposits from banks and financial institutions	26,468	100,577	116,183	-	-	-	243,228
Deposits form the parent sister and other related banks	20,051	274,539	208,024	-	-	-	502,614
Customers' deposits	103,353	176,650	10,648	24,729	-	-	315,380
	167,881	551,766	410,245	24,729	-	-	1,154,621

Liquidity Risk

Liquidity risk is the risk of being unable to meet 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. To face this risk, management distributes its sources of funding and manage its assets according to a cash policy that seeks to preserve an adequate liquidity balance and financial instruments than can be readily liquidated in the financial market.

Financial liabilities based on the earliest possible contractual maturity:

December 31, 2013	Up to 3 months L.L. Million	3 months to 1 year L.L. Million	Total L.L. Million
Financial liabilities			
Deposits from a central bank	84,430	-	84,430
Deposits from banks and financial institutions	143,404	81,115	224,519
Deposits from the parent, sister and related banks	500,286	15,075	515,361
Customer deposits	291,980	39,138	331,118
	1,020,100	135,328	1,155,428
December 31, 2012			
Financial liabilities			
Deposits from a central bank	18,009	75,390	93,399
Deposits from banks and financial institutions	127,045	116,183	243,228
Deposits from the parent, sister and related banks	294,590	208,024	502,614
Customer deposits	290,651	24,729	315,380
	730,295	424,326	1,154,621

32. Capital management

The Bank manages its capital to comply with the capital adequacy requirements set by Central Bank of Lebanon, the bank's lead regulator.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office (in Lebanon) and LBP500million for each local branch and LBP1.5billion on each branch abroad (for Lebanese banks, in addition to the required amount by the related authorities abroad).

The Bank's capital is split as follows:

Tier I capital: Comprises share capital, cash contribution to capital, reserves from appropriation of profits, retained earnings (exclusive of profit for the year) after deductions for intangible assets.

Tier II capital : Comprises qualifying subordinated loans and bonds and change in fair value resulting from revaluation of real estate.

The bank's capital adequacy ratio was as follows:

	2013 L.L. Million	2012 L.L. Million
Tier I capital	232,222	220,148
Tier II capital	-	-
Total regulatory capital	232,222	220,148
Credit risk	1,207,837	1,147,418
Market risk	18,583	17,574
Operational risk	78,947	83,035
Risk-weighted assets of credit, market and operational risks	1,305,367	1,248,027
Risk based capital ratio- Tier I	17.87%	17.64%
Risk based capital ratio- Tier I and Tier II capital	17.87%	17.64%

33. Fair value of financial assets and liabilities

The following table shows the carrying amounts and fair values of financial assets and liabilities recognized in the financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are measured at amortized cost and where the directors consider that the carrying amounts of these financial assets and liabilities are reasonable approximations of their fair value:

December 31, 2013	Notes	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
		L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
Financial assets at fair value						
Investment securities at fair value through profit or loss						
Unquoted equity securities	9	245	-	-	245	245
Quoted equity securities	9	60	60	-	-	60
Investment fund	9	6,072	-	-	6,072	6,072
		6,377	60	-	6,317	6,377
Financial assets at amortized cost						
Investment securities at amortized cost						
Lebanese treasury bills	9	95,108	-	96,707	-	96,707
Lebanese Government bonds	9	441,855	-	440,752	-	440,752
Certificates of deposits in LBP issued by Central Bank	9	76,800	-	76,233	-	76,233
Certificates of deposits in foreign currencies issued by Central Bank	9	21,792	-	22,309	-	22,309
Corporate bonds – local bank	9	22,635	-	22,635	-	22,635
		658,190	-	658,636	-	658,636

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

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 instruments included in the financial statements, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used where applicable (Level 3):

December 31, 2013

Financial instruments	Date of valuation	Valuation technique and key inputs	Significant unobservable inputs
Quoted equity securities	December 31,2013	Quoted prices at active markets	N/A
Unquoted equity securities	December 31,2013	Non resident	N/A
Investment Fund	December 31,2013	Fair value was provided by the fund manager	N/A
Lebanese treasury bills	December 31,2013	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Lebanese Government bonds	December 31,2013	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor.	N/A
Certificates of deposits in foreign currencies issued by Central Bank	December 31,2013	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.	N/A
Corporate bonds-Local bank		Fair value was provided by the issuer	N/A

34. Contingent liabilities

There are some lawsuits filed against the bank; the bank's management and legal advisor do not expect to incur material liability as result of the disputed claims.

As stated in note 19, the tax returns for the years from 2009 to 2013 remain subject to tax examination and final assessment by the tax authorities.

35. Approval of the financial statements

The financial statements for the year ended December 31, 2013 were approved by the Bank's Board of Directors in its meeting held on February 20, 2014.