LGB BANK

بنك لبنان والخليج ش.م.ل.

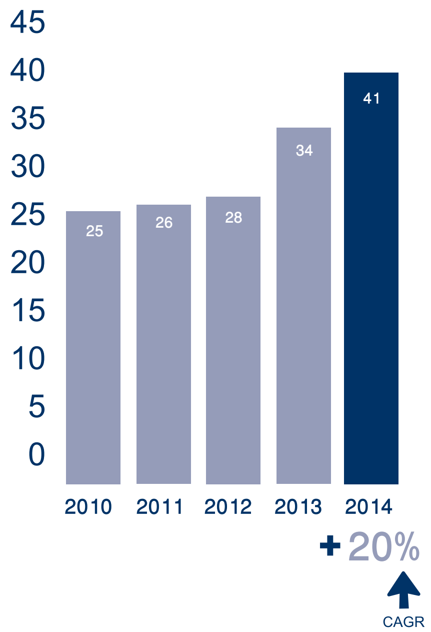
ANNUAL REPORT 2014

Contents

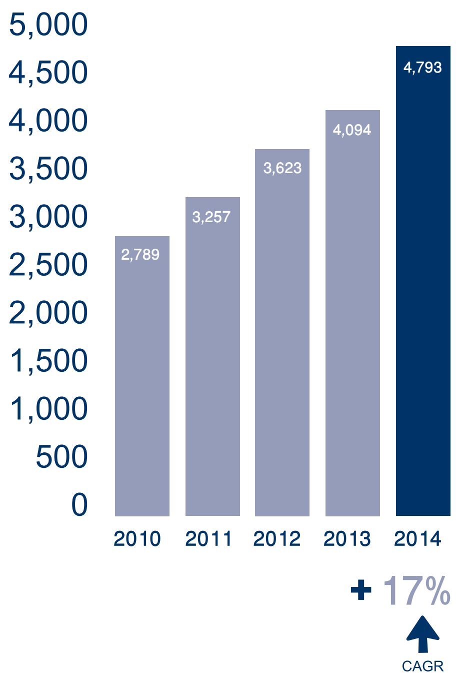
FINANCIAL HIGHLIGHTS

In millions of LBP					As at December 31
	2014	2013	2012	2011	2010
Balance Sheet					
Total Assets	4,793,244	4,093,660	3,622,979	3,257,439	2,789,052
Customers' Deposits	4,225,906	3,564,320	3,242,413	2,892,778	2,478,701
Loans & Advances	1,923,909	1,596,134	1,371,187	1,087,001	902,259
Equity	412,121	368,647	286,102	263,037	221,608
Financial Results					
Net Operating Income	95,284	81,274	67,874	61,263	59,591
Net Interest Income	67,380	63,766	44,751	28,867	29,331
Net Non-interest Income	33,265	31,383	27,758	36,947	43,814
Net Income	40,849	34,125	28,158	26,337	24,706

Net Income
In billions of LBP

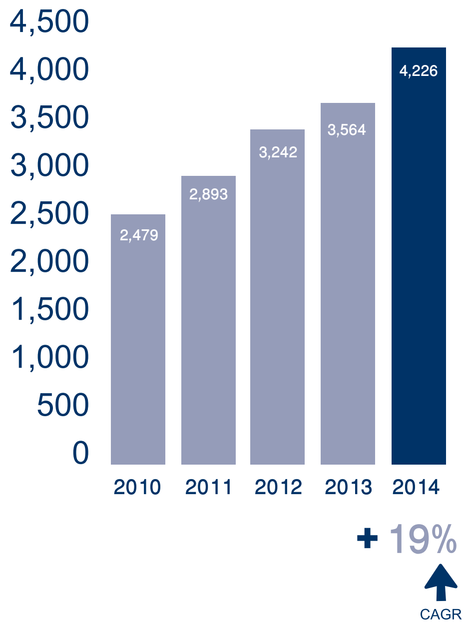


Total Assets
In billions of LBP

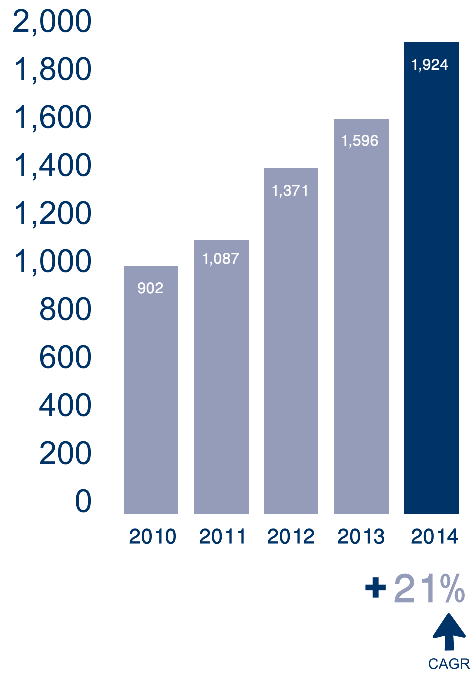


CAGR: Compounded Annual Growth Rate

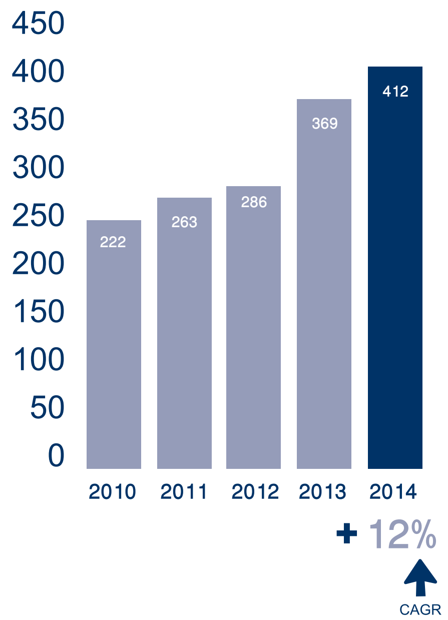
Total Customers' Deposits
In billions of LBP



Total Loans & Advances
In billions of LBP



Total Equity
In billions of LBP



CHAIRMAN &
VICE CHAIRMAN'S
LETTER

Dear Valued Stakeholders,

We are pleased to release the Annual Report and figures of LGB BANK for the year ended December 2014. The Bank marked a milestone in the success of our steady growth strategy, as you will find in this report; by achieving remarkable performance and generating solid returns despite the challenging global market and unfavorable regional conditions.

Building relationships, expanding our network locally and regionally, enhancing capabilities and offering comprehensive out of the box banking solutions, have been a major focus for us in the past few years and especially in 2014.

In 2014, we have recorded high margin profitability with a consistent growth of 20% reaching LBP 41 Billion from LBP 34 Billion in 2013. This winning figure is a reflection of the significant growth in our assets that reached LBP 4.7 Billion and our customers' deposits that expanded to LBP 4.2 Billion, which brings an increase of 17% and 19% year-on-year respectively. Moreover, the Bank's loan portfolio reached LBP 1.9 Billion; growing by 21% in 2014.

LGB BANK's strategy of enhancing our equity is always of high concern. In fact, this year the shareholders' equity increased by 12% through issuing preferred shares to reach LBP 412 Billion.

LGB BANK worked relentlessly to maintain a high asset quality which is considered a top management priority with the help of its control functions. The Bank follows strict rules in building its asset base and exerts cautious efforts to create a certain balance between growth and risk taking, resulting in a high quality asset base.

To safeguard the interests of our shareholders, we are continuously committed to apply the best corporate governance practices and enforce the areas of Compliance and Anti-Money Laundering. The Bank implemented the AML reporter which provides a significant improvement in our transaction monitoring capabilities; in addition we upgraded our processes and technology to support our AML and sanctions management. We have more to do, but a strong foundation is in place.

LGB BANK is always working on the long term to establish a larger footprint in all Lebanese and regional markets. Our network's growth plan is ambitious and we insist on carrying this expansion strategy as we have reached, till this moment, a network of 17 branches across Lebanon, with several openings planned in the pipeline.

Along this domestic drive, LGB BANK remains keen on developing new regional markets and identifying more investment opportunities around the promising regional markets, as we remain reliable on international trade activities through solid partnerships with correspondent banks around the world; accompanied by consolidating our position in the region through our Cyprus Branch and Dubai Representative Office in UAE

To ensure our continuous development and success, we highly focus on building a strong human capital. Therefore, the Bank has developed a policy that encourages career advancement and individual growth; in addition, it leads serious professional training programs and advanced incentives schemes to our employees.

Moving up in the recognition ladder, our implemented business model was highly appreciated by market experts. During 2014, LGB BANK earned many international excellence awards from distinguished institutions around the world; Best Innovative Banking Product, Best Bank in Retail Products and Excellence Award for banking operations. These awards were only the result of the joint efforts of LGB Bank's team.

In accordance with its clear strategic directions, LGB BANK has revamped its total brand image releasing a new logo and new branch design focusing on the needs of its customers, with one clear objective, to create a new way of banking that unites modern technologies, innovative products and traditional values. We believe that the new branding strategy grants LGB BANK a competitive edge and enables us to secure and expand our position in this challenging environment.

This year, a spectrum of innovative and customer-centric products attracted substantial interest from existing and new clientele, as these new additions targeted various segments meeting the needs of different businesses whether retail, SME, corporate finance or investment. Besides launching first of a kind products, we were keen on enhancing our electronic platforms and its security in addition to presenting comprehensive solutions such as mobile banking, mobile payments, e-banking and loyalty programs through a unique rewarding scheme offering a variety of redemption options such as cash back, gifts, vouchers and donations.

During 2014, LGB BANK further enhanced its communication channel by initiating a fully fledged social media network along with our redesigned website while providing the 24/7 SMS banking and call center services along with flexible late banking hours at our main branch at Allenby street.

LGB BANK has always endorsed corporate responsibility actions and is active on several social initiatives as part of its efforts to sustain its business environment. Throughout 2014, we were involved in supporting several civic societies and empowerment projects.

On behalf of our Board of Directors, we extend our sincerest appreciation for the ongoing support and loyalty shown by our shareholders and customers. We also express our gratitude for our management and staff members for their high level of professionalism and dedication, for their hard work being incremental for securing LGB BANK's greatest accomplishments throughout the years.

Abdul Hafiz M. Itani
Chairman-General Manager

Samer A.H Itani
Vice Chairman- Chief Executive Officer

OUR BANK

■ Historical Foundation

With 50 years of banking tradition, trust and excellence in customer service, LGB BANK stands today as one of Lebanon's deeply rooted banks.

Established in 1963 under the name of Banque de Credit Agricole s.a.l., LGB BANK adopted its current name and shareholders form in 1980 when a group of businessmen (led by the current Chairman) acquired the majority of its shares. The Bank currently operates from its head office which is located in Beirut Central District, and is backed by a powerful network of 17 branches spread across the country, with a new branch opening soon in Jal El Dib, along with a branch in Cyprus since 1986, and a Representative Office in Dubai, UAE.

As one of the most evolving and vibrant institutions in the country today, LGB BANK is committed to a regular systematic expansion strategy. By early 2012, the Bank had embarked on a new branding effort which, aligned with its business strategy, promised to propel it to new heights. In 2013, this strategy has transformed into an enhancement of LGB BANK's operational and information technology infrastructure, a substantial growth in profits and deposits, and most importantly into a concentrated modernization and development of the human capital. 2014 also marked major changes in the Bank's new identity which aimed at reflecting its core values and attributes in terms of quality and professionalism. The latter has affected LGB BANK's corporate image, achievements and premises, amongst others. The Bank's expansion strategy runs simultaneously in Lebanon and the Middle East, as LGB BANK is continuously tapping into potential prospective markets.

With its dedication and clear vision, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and innovative products that match the customers' financial aspirations.

■ Vision

Based on its ongoing pursuit of excellence and optimized customer satisfaction, LGB BANK aims to become the bank of choice for Lebanese and regional customers. Through a consolidated and growing network of branches and affiliates, we aim to establish lasting relationships with our customers and continuously improve our performance to gradually become a cornerstone in the banking industry.

■ Mission

At LGB BANK, we thrive to provide our customers with best in line products and services that meet their evolving short and long term needs. Our mission is to establish trustful and personalized relations with each and every one of our clients; while giving them access to a team of reliable professionals, who are committed to a high quality financial performance. We value excellence over quantity and settle for nothing less than outstanding results that surpass our clients' expectations.

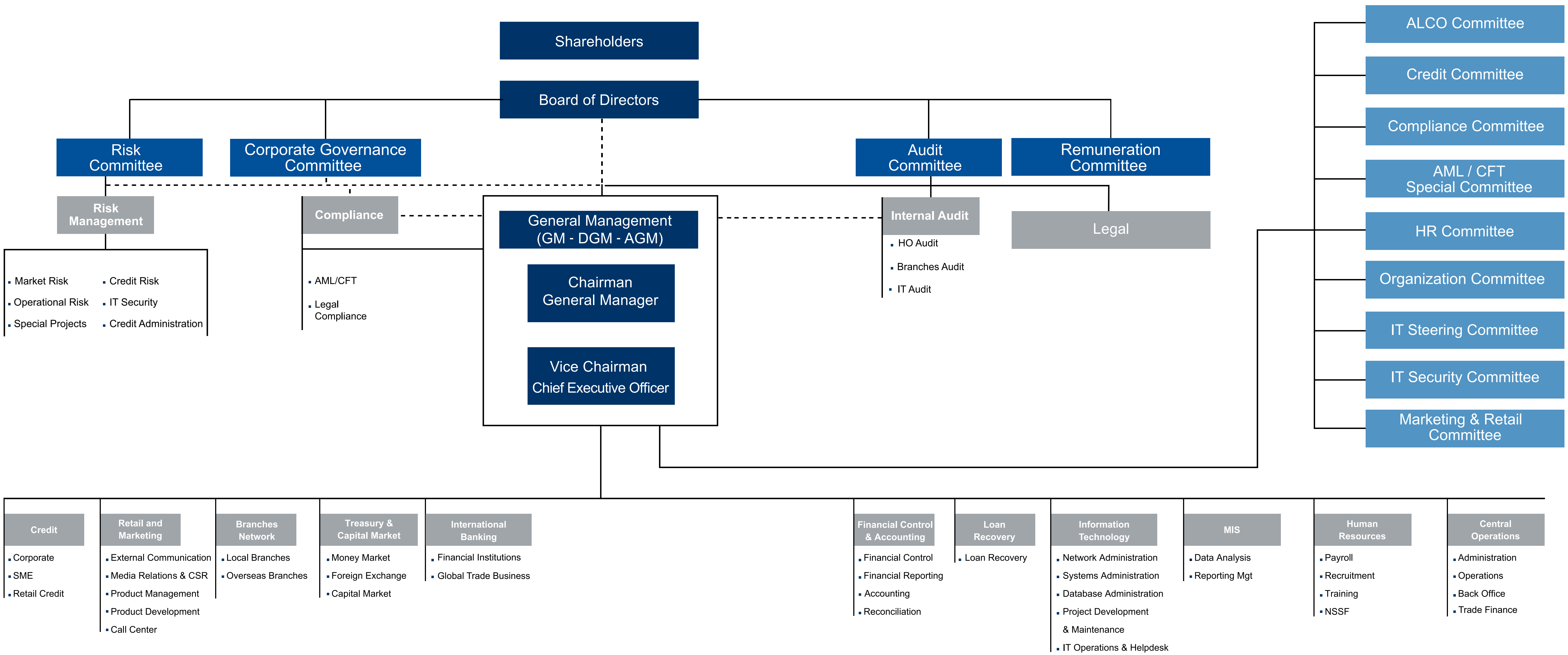
■ Values

Legacy
From one generation to another, the Bank has cumulated a valuable experience thus, building a successful and proven track record. LGB BANK firmly believes in the consistency and continuity that a valuable banking legacy can offer.

Integrity
At LGB BANK we put our customers' best interests at the forefront of our operations. We believe that delivering genuinely good services will undoubtedly lead us to achieve success. This is why we adopt a widely transparent strategy while dealing with our clients.

Quality
LGB BANK has a long and proven track record in the Lebanese market; one that is marked by the delivery of high quality products and services. Indeed, premium quality remains at the heart of our business strategy which aims at preserving high levels of customer satisfaction by offering impeccable services.

Accountability
LGB BANK is a reliable banking partner for Lebanese customers. We provide them with a diversified portfolio of offerings, based on thorough analysis of the market and the local customers' needs. We also put at the disposition of our clients the expertise of a pool of industry experts who offer professional advice and reliable solutions.


Shareholders
Board of Directors
Risk Committee
Corporate Governance Committee
Audit Committee
Remuneration Committee
ALCO Committee
Credit Committee
Compliance Committee
AML / CFT Special Committee
HR Committee
Organization Committee
IT Steering Committee
IT Security Committee
Marketing & Retail Committee
Risk Management
Market Risk
Operational Risk
Special Projects
Credit Risk
IT Security
Credit Administration
Compliance
AML/CFT
Legal Compliance
General Management (GM - DGM - AGM)
Chairman General Manager
Vice Chairman Chief Executive Officer
Internal Audit
HO Audit
Branches Audit
IT Audit
Legal
Credit
Corporate
SME
Retail Credit
Retail and Marketing
External Communication
Media Relations & CSR
Product Management
Product Development
Call Center
Branches Network
Local Branches
Overseas Branches
Treasury & Capital Market
Money Market
Foreign Exchange
Capital Market
International Banking
Financial Institutions
Global Trade Business
Financial Control & Accounting
Financial Control
Financial Reporting
Accounting
Reconciliation
Loan Recovery
Loan Recovery
Information Technology
Network Administration
Systems Administration
Database Administration
Project Development & Maintenance
IT Operations & Helpdesk
MIS
Data Analysis
Reporting Mgt
Human Resources
Payroll
Recruitment
Training
NSSF
Central Operations
Administration
Operations
Back Office
Trade Finance

CORPORATE GOVERNANCE

■ GOVERNANCE

LGB BANK is keen on ensuring complete compliance with local and international governance practices. Armed with the core values of integrity, transparency, and accountability, the Bank's governance culture has been progressively evolving to encompass robust risk management and control practices that direct it in sustaining business performance and delivering long term value to stakeholders.

The Board's key governance responsibilities are to set the Bank's strategic objectives while relying on Management's relevant and timely controls to facilitate complex decision making. The board also sets the Bank's internal controls and risk appetite through a well-defined policy supported by proper oversight to ensure the accurate and comprehensive implementation of these controls.

LGB BANK recognizes its responsibility towards its stakeholders in ensuring safe, sound, and ethical financial operations. It is essential therefore, that our risk culture supports our risk profile and our adopted risk management practices.

LGB BANK acknowledges that long term success is achieved by having the right leaders in place. Thus, talent development and strategic succession planning are critical components of sustainable success at the Board and Executive Management levels.

CORPORATE GOVERNANCE FRAMEWORK

The Bank's Corporate Governance Policies, including the Code of Corporate Governance, Board Charter, Code of Conduct and Code of Ethics, lay a solid foundation for transparent and accountable decision making. The Bank's Corporate Governance Framework is specifically designed to guide the Board in achieving the Bank's aims, led by the highest ethical standards and interests of its stakeholders. As part of our continuous commitment to sound Corporate Governance, Succession Planning remains one of the Bank's key focuses this year, along with enhancing our Succession Plan, mainly focusing on the Bank's key managerial and functional positions for talent and leadership development. In addition, the Bank also fortified its Disclosure Policy to ensure that all required regulatory disclosures are done effectively and efficiently, taking into account due disclosure of conflict of interests.

BOARD SELECTION AND ELECTION

Board members are appointed on merit, based on the required diversity for effective decision making. Board members' selection relies on integrity, character, range of skills, professional experiences and background, and finally, willingness to commit adequate time and effort to the Bank in addition to putting forth value added material to the Board.

BOARD RESPONSIBILITIES

The Board sets strategic objectives and policies that are focused on delivering long-term value providing overall strategic direction within a framework of risk appetite and controls. It aims at ensuring that executive management is balanced between promoting long-term growth and delivering short-term objectives.
The Board is also responsible for ensuring that Management maintains a system of internal control which provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. In addition, the Board is responsible for guaranteeing that management maintains an effective Risk Management and oversight process at the highest level. In carrying out its responsibilities, the Board upholds the Bank's reputation and manages the materiality of financial risks and other threats inherent in the business thus, reaps the benefits of implementing specific controls.

■ BOARD COMMITTEES

AUDIT COMMITTEE

The Audit Committee's mission resides in assessing the integrity of the Bank's financial reporting, the effectiveness of internal controls in addition to the performance of the Bank's Internal Audit Unit and External Auditors with respect to the suitability and relevance of the submitted reports.
The Audit Committee supports the Board in protecting the interests of shareholders and other stakeholders by acting with the right level of diligence to assure that appropriate and prudent judgments have been made with respect to financial reporting given that the financial statements provide a realistic view of the Bank's financial position and that the auditor's independent analysis on behalf of shareholders is both objective and effective.

RISK COMMITTEE

The Risk Committee reviews and recommends the Bank's Risk Policies and Risk Appetite directly to the Board.
It is also responsible for identifying and monitoring the Bank's risk profile for all types of risks and ensuring that the overall risk profile and risk appetite remain appropriate, in addition to recognizing and assessing future potential risks. The Committee oversees the Risk Management Framework, assesses its effectiveness, and supervises the proper implementation of Risk Management policy in order to adapt to local needs and regulations.

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for ensuring that the composition of the Board and its Committees are suitable and function efficiently by regularly examining the skills, experiences and diversity of the Board and of each Committee member. The Committee is responsible for reviewing the Bank policies on corporate governance and making recommendations to the board in addition to succession planning suggestions for key Board and Executive Management positions.It also monitors the training and continuous professional development of directors and senior management, as well as reviews shareholders' communication policy on a regular basis and makes appropriate recommendations to the board wherever recommended to enhance effective communication between the Banks and shareholders.

The Committee also assesses the annual Board's effectiveness review process by remaining up-to- date with any corporate governance issues and developments to ensure that the Bank's practices are always in line with the highest corporate governance standards.

REMUNERATION COMMITTEE AND REMUNERATION PRACTICES

The Remuneration Committee is responsible for setting the principles and framework of the Bank's Remuneration Policy. In particular, it oversees the remuneration policy's proper implementation and alignment with the Bank's business strategy, objectives, risk appetite, values, long term interests and all regulatory requirements. Periodically, the committee reviews the principles on the basis of which this policy is implemented and submits any suggested modifications and recommendation to the Board of Directors.

In addition, the Remuneration Committee ensures that a fair and transparent system is in place for determining remuneration packages, on the basis of merit, qualifications, and competence, and having regard to the Bank's operating results, individual performance, and comparable market statistics which thereby reflect our objectives of good corporate governance and sustained, long-term value creation for our shareholders.

The Remuneration Policy takes into consideration the nature of service, complexity of tasks, and visibility of the role, time commitment, and related risks to spread a culture of reward for performance that encourages effective performance while maintaining short-term and long-term financial stability and conformity to the Bank's overall strategy. Thus, it comprises of fixed and variable components. It is also important to note that the remuneration of control functions is determined in away to ensure their objectivity and independence.

Mr. Abdul Hafiz M. Itani
Chairman – General Manager

Mr. Abdul Hafiz Itani has been the Chairman - General Manager since 1980 upon acquiring the majority of the Bank's shares along with a group of local and Gulf investors.
With more than 65 years of experience in the banking and finance industry, Mr. Itani's professional career, crowned with his successful management of a long-lasting established family business, impelled him to lead LGB BANK through affluent and challenging times to be one of the leading banks in Lebanon.
During his career timeline, Mr. Itani has occupied several key positions in the Lebanese banking sector.

Mr. Samer A.H Itani
Vice Chairman - CEO

Mr. Samer Itani started his Banking career at LGB BANK by occupying several managerial positions in different divisions at the Bank, prior to being selected in 1995 as a member of the Board of Directors.
Mr. Itani was appointed to his current position in 2007 and is currently responsible for leading the restructuring and expansion strategies of the Bank, thus positioning it as one of the best performing Lebanese banks.
Mr. Itani holds a degree in finance and international management from Georgetown University in Washington DC. He attended advanced management programs at both INSEAD and London Business School.

Mr. Joseph M. Hakim
Deputy General Manager - Board Member

Mr. Hakim joined LGB BANK in 1980 and assumed several key positions before being appointed as Deputy General Manager and Head of the International Banking Division.

Mr. Hakim has 54 years of solid banking experience as he formerly worked in different local commercial banks and holding several managerial positions. Mr. Hakim holds a degree in general commerce from the American University of Beirut.

Me. Antoine Chader
Board Member

With over 45 years of experience in law, banking, government and financial institutions, Me. Chader's professional career is marked with key positions, appointed Chairman and General Manager of many local Banks and the President of Association of Banks in Lebanon. He was also elected as a Member of the Lebanese Parliament. Me. Chader is a prominent Lebanese lawyer holding a Law Degree from the Saint Joseph University's Law School.

Mr. Emile H. Baroud
Board Member

Mr. Baroud is an independent member on the Board of Directors since 2009.
Mr. Baroud's professional career is marked with 50 years of banking experience and a strong network of International and Arab relations, having formerly worked abroad as General Manager at Qatar National Bank in Paris, Executive Vice President at the Saudi European Bank in Paris and Assistant Director at Banque du Benelux. Mr. Baroud holds a degree in Economics from the Université de Paris.

Mr. Mounib M. Hammoud
Board Member

Mr. Mounib Hammoud is an independent member on the Board of LGB BANK.

Mr. Hammoud has over 35 years of experience in banking, institutional finance, city making, land development, real estate development, retail and tourism projects development, strategic planning, corporate finance and financial architecture, as well as sales and marketing of real estate projects, in the Middle East, North Africa and Europe. He holds a Masters degree in Business Administration from AUB.

Mr. Saeed Mosbah Mirza
Board Member

Mr Saeed Mirza is an independent member on the Board of Directors and a prominent Judge with over 50 years of experience in law, government, banking and financial institutions. He joined the Ministry of Justice as a judge in 1971. He headed the judicial efforts on important national scales and participated in the documentation efforts of high value legal texts and legal provisions.

Dr. Mohammed Cheaib
Board Member

With over 50 years of experience in the Lebanese Banking Sector, Dr. Cheaib is an independent member on the Board of Directors. He is now Chairman and General Manager of INTRA Investment, and an independent member of board at Phoenicia Bank, Casino Du Liban as well as a member of the International Association of Arab Bankers. With several studies published in Lebanese media outlets, Dr. Cheaib holds a Ph.D. in Finance and Banking from Marseille University in France.

Mr. Rabih Noueiri
Board Member

Mr. Noueiri has been an independent member on the Board of Directors since 2009.
Mr. Noueiri has more than 35 years of American, European, and local banking experience. He was the Executive Manager at American Express Bank in London, Member of the Executive Management at Union Bancaire Privée in London, Senior Vice President at Chase Manhattan Bank in addition to several key positions in local commercial Banks.
Mr. Noueiri holds a Business and Commerce Masters degree from Beirut Arab University.

Dr. Ghaleb Mahmasani
Board Member

Dr. Mahmasani is an independent member of the Bank's Board. Dr. Mahmasani currently holds the position of Acting President at the Beirut Stock Exchange Commission in addition to memberships in other prestigious local and international legal commissions and committees such as the Commission on Electoral Law – Lebanon, the Commission of modernization of Laws at the Lebanese Ministry of Justice, the Legal Commission at the Banker's Association of Lebanon, the International Court of Arbitration of the International Chamber of Commerce (ICC) in Paris and the National Committee of the Permanent Court of Arbitration at the Hague, the Netherlands.
Dr. Mahmasani holds a Ph.D. in Law from Lyon University in France.


LGB BANK
P2P
Merchants
ATM Locator
Cardless ATM
Request OTP
Your Phone Is
Your Card
BANKING
TILL 10 PM
DOWNTOWN, ALLENBY BRANCH
Banking By Night
LGB BANK
بنك لبنان والخليج
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01 965 965

■ CORPORATE & COMMERCIAL BANKING

LGB BANK enjoys a well-established position in the field of commercial lending with a concentration on corporate banking services through a distinctive approach for quality planning and trustworthy financial consultancy. After years of success in the local financial market, and with the unshakable reliability of its clientele, the Bank has been acknowledged as a highly reliable business partner rather than a service provider.

With the support of its skilled personnel and solid financial and logistic resources, LGB BANK keeps a close track of its customers' businesses and projects, while granting them financial counseling and proper orientation as well as enabling them to achieve all their business goals.

Customer portfolio at LGB BANK comprises small, medium and large scaled enterprises, all of which benefit from a variety of products and services tailored to meet their specific financial needs. Our offerings include the classical overdraft facilities, project financing, loan syndication and structured business solutions, in addition to the trade finance products such as Letters of Credit (LCs) and Letters of Guarantee (LGs).

It is worth mentioning that LGB BANK aims to expand its clientele portfolio of corporate and commercial business while maintaining adequate collateralized debt obligations and full compliance with the regulations of the Central Bank of Lebanon.

■ INVESTMENT & PRIVATE BANKING

Backed by a solid track record and a proven know- how in customer handling and servicing, LGB BANK has established a robust private banking practice to provide customers with a premium range of financial advisory, brokerage and capital markets' services.

For this purpose, the Bank has taken steps to constitute a specialized cell of professionals trained in private banking, whose objective is to offer the Bank's clients with reliable consultancy and personalized solutions with access to a broad spectrum of markets.

PRODUCTS AND SERVICES

The Bank offers its clients access to an array of personalized products engineered to meet their modern banking needs.
These offerings include:
• Equities, fixed income and foreign exchange
• Money markets
• Multi-asset class funds
• Alternative investment and hedge funds
• Structured products with various underlying instruments
• Capital protected products
• Brokerage services
• Safekeeping of all types of financial instruments

PRIVATE BANKING

In a highly competitive market, LGB BANK has managed to accustom a niche segment of high net worth customers by offering them impeccable services. To maintain such strong bonds, the Bank's Private Banking teams have been able to provide their customers with investment products based on a clear understanding of their business objectives. Backed by a high sense of resourcefulness, in-depth business knowledge and solid commitment towards the Bank, the teams' performance has been commendable from all angles.

In parallel, the Bank's private banking services include the provision of investment consultancy in both domestic and international markets in equities, fixed income, mutual funds and foreign exchange. Skilled team members provide the Bank's clients with informed advices and an eclectic range of investment products, including stocks, bonds, funds and structured products.

TREASURY

The Treasury Department at LGB BANK is the clients' key to access World Money and Capital Markets as well as Foreign Exchange. Whether the client's interest lies in investment banking, equities, fixed income or foreign exchange, LGB BANK has the global network and industry expertise to meet his expectations.

The Treasury Department also plays a strategic role in the management of the Bank's assets & liabilities.
It has the responsibility of recommending the financial engineering solutions that would secure optimum returns on investment and boost the Bank's profitability.

■ RETAIL BANKING

LGB BANK has, at all times, based its product development policy around the client's ever-changing needs, and kept up with the evolving requirements of the markets. In parallel, the Bank was always keen to continuously improve the customer's banking experience, by providing a totally modern and transparent service based on trust and knowledge of the client's aspirations whilst capitalizing on the role of new technologies.

Adopting this dynamic approach, the ultimate objective of LGB BANK is to go beyond its customers presumptions and retain their loyalty as their preferred Bank. During the last few years, the Bank has kept on developing its portfolio of targeted products and services, aligning its actions with its broad product strategy and succeeding in widening its clientele base, while remaining faithful to its quality standards.

The Retail Banking practice at LGB BANK is aligned with the Bank's corporate strategy which aims at presenting personalized services through innovation. In fact, one of the Bank's main business objectives is to offer its customers unmatched services while giving them a choice of real value banking products.

INNOVATIVE SERVICES

In light of its wider corporate strategy, LGB BANK has been a leader in the field of retail banking.
It is to be remembered that the Bank was the first to introduce the SMS alert service.The "Banking by Night" service is another one of the Bank's pioneering initiatives which provides customers with flexible banking hours, making the Bank one of the very few financial institutions in Lebanon to open its doors for a second shift from 7:00 PM to 10:00 PM. The LGB BANK mobile payment platform, a ground-breaking service at LGB BANK, is a highly safe payment solution which comes in the form of a mobile application. By linking a credit card to a mobile number, the service enables customers to make secure and reliable purchases within the app. With customer satisfaction in focus, LGB BANK is also working on developing a series of new retail solutions and products, as the Bank's objective works to stay ahead and be the first to introduce premier products and services.

PAYMENT CARDS

Responding to evolving banking needs and modern lifestyles, LGB BANK proposes an extended line-up of MasterCard and VISA to choose from, including Debit, Credit and Prepaid cards.
Each of these cards offers tailor-made solutions in line with clients' diverse requirements, allowing customers flexible payment solutions around the globe.
With an objective to introduce innovative payment solutions that offer value added benefits to cardholders, LGB BANK, in collaboration with MasterCard, launched the First UAE Dirham Credit Card that has been specifically designed for UAE visitors and residents, offering its holders exclusive benefits and rewards while sparing inconvenient change rates.

A real pioneer in this field, LGB BANK was one of the first banks to issue MasterCard in Lebanon, back in 1992. Today the Bank offers a wide range of payment cards from Titanium, Gold, Platinum, and Black under both MasterCard and Visa brands, with many currencies such as USD, LBP, Euro and UAE Dirham. LGB cards are developed with appealing payment facilities and flexible use limits which are constantly revised to meet the customers' increasing demand for cash.

In addition to the regular payment cards that come handy anytime and anywhere, the Bank also offers a Debit MasterCard with an exclusive Pin Trigger, a feature through which customers can activate their cards via the Bank's ATMs or any other ATM related to CSC Bank s.a.l so as to avoid fraudulent attempts.

Topping this range of retail offerings is the LGB Black Card. Considered as an exclusive "MasterCard World Card", a global access to a group of internationals has now been exclusively offered to the most valued customers, as Black Card holders can take advantage of the generous services, exclusive offers and luxurious experiences presented to the very few. Moreover, the Black Card comes with a special package for Yacht owners, "The Yacht Concierge Card", enabling Yacht owners to get the most of their Yachting experience. The card is designed to provide a genuine royal treatment to sail into a world of luxurious services.

Further in line with its customer centric strategy, the Bank initiated its LGB Loyalty Program under "Cash is the Gift". This loyalty concept allows LGB Credit Card holders to collect points and redeem them in Cash. In this sense, LGB BANK reconfirms its intent to provide an unmatched banking experience by rewarding its customers for their loyalty as well as their frequent use of its payment cards.

CONSUMER LOANS

With a rising demand on loan products, LGB BANK has developed services that aim to improve its customers' quality of life, whether from a personal or a professional standpoint.
In addition to the usual common loans such as the Home, Personal and Car loans, the Bank has launched the Public Sector Personal Loan which allows public employees to obtain a competent credit facility against an attractive rate and within favorable conditions. Along with the private offer for salary domiciliation which allows private sector employees to benefit from a wide range of free services and offers, the loan also allows customers to transfer existing liabilities and centralize their loans with LGB BANK while benefiting from additional funding with minimum formalities.

Targeting a different customer segment, LGB BANK also offers the "Doctor's Package" a special product that satisfies doctors' professional and personal financial needs.

BANCASSURANCE SERVICES

Bancassurance is a byproduct that has also been witnessing significant growth since the beginning of this decade. In collaboration with Allianz SNA Insurance, the leading insurance partner, LGB BANK has been able to provide its customers with highly beneficial insurance programs covering personal accidents, health, fire, car and other matters. The Bank has designed even more customized programs for its customers, including "Education Plan" and "Retirement Plan", an educational saving plan and a retirement saving plan, both coupled with life insurance. In 2010, the Bank introduced the Income Compensation Plan providing customers, with a cost-effective plan B that allows them to sustain their income in case of accidents.

THE e-LGB BANK PLATFORM

Over the past few years, the world has witnessed a real electronic revolution, pushing most businesses to leverage their operations through an online system. In this line, LGB BANK has launched a modern and upbeat version of its corporate website, www.lgbbank.com, with user friendly functions to meet its clients' contemporary needs and expectations, in a virtually controlled world. The website includes both corporate and retail banking products and services, thus creating a comprehensive interface to browse and explore.

Digital specialists have implemented the Online Banking platform, "LGB Online Banking", allowing the Bank's customers to benefit from a number of products and services from the comfort of their homes or offices. LGB Mobile Banking platform was made also available, on Apple store, Google play and Blackberry World providing LGB BANK customers with even more flexibility, giving them the opportunity to complete many of their daily banking transactions, in a swift and efficient manner at their own convenient time.

■ INTERNATIONAL & CORRESPONDENT BANKING

Despite the local and regional political instability, 2014 was marked by an ongoing proactive and aggressive strategy adopted by the International Banking Division, while keeping up with the decisions of Banque du Liban as well as with international regulatory standards either on the AML/CFT or the Compliance level.

This three-pronged strategy stipulated:

- Securing: building partnerships with main correspondents to establish sustainable relationships
- Enhancing: offering adequate competitive services to expand and enlarge the network
- Developing: moving quickly to capture early-entrant advantages and gaining more connections within new markets

Hence, the targets set for this year were successfully met thanks to the ongoing commitment, responsibility, and expansion of the national economy in its various sectors.

In addition to the above, efforts were exerted to strengthen LGB BANK's business relationships with Correspondents by providing financial support to prominent and new businesses in the market.

■ MARKETING AND COMMUNICATION

While being recognized as a banking instiution striving for excellence and ambitious growth, LGB BANK was able to win several international industry prizes that confirm its standing and business philosophy including the STP award from Commerz Bank and the most innovative banking product in Lebanon. Further leveraging its efforts to meet the latest banking trends and provide an optimised experience to its customers, LGB BANK has changed its brand identity by giving it a modern look and feel accordingly with its evolving values. This initiative aimed essentially at mirroring the Bank's core values and attributes including transparency, quality, integrity and professionalism. In addition, the rebranding operation which affected the Bank's corporate image, advertisements, premises and even ATMs, aimed at providing customers with a more welcoming and friendly atmosphere, where they would feel secure and comfortable. The Bank continues to improve its excellence practices, striving to provide a world class experience to its customers, which gained it several recognition awards from renowned financial authorities in the world commending its level of service.

Today, the Bank's main communication priority remains to highlight its customer centric strategy using a mix of conventional and out-of-the-box tools. Lately, LGB BANK has redesigned its corporate website to meet contemporary users' expectations and launched the "e-LGB Bank Newsletter" to keep its customer base in the loop of the Bank's news, activities and updates. As a result, LGB BANK has been able to make quite an entrance and impact on the Lebanese banking scene, gaining in communication penetration and market share.

A key element of LGB BANK's campaigns is to factually convey its corporate values. LGB BANK does not build its reputation on commercial promotions, but rather on actual servicing. This is how the Bank is managing to retain and sustain its customers' trust with a rightfully communicated and reliable performance. An example of that is the UAE Dirham Card campaign that was done in 2014.

Furthermore, the Bank has adopted an "open door" communication policy whether towards the customers or between employees, aiming at safeguarding its image from all possible angles: well thought internal communication activities that enhance the synergy between the employees and promote teamwork; corporate social responsibility communication that endorses community initiatives including the constant endorsement of "Ajialouna", a Lebanese non profitable association; and customer campaigns that highlight the competitive edge of the Bank's products and services.

Additionally, LGB BANK maximised its exposure by participating in the Beirut Boat Show edition where it showcased its pioneering "Boat Loan", reaping great praise and success amongst its own customers and other visitors of the event.

■ HUMAN RESOURCES

LGB BANK fully understands the importance of investing in the human capital perceived as a major component of its customer-centric strategy, aiming at delivering unmatched and highly personalized services. In line with this, a harmonious and growing team of experts from various professional backgrounds is constantly being mustered; the team reflect the values and ethical princples of the BANK while trying to fulfill its longstanding legacy.

By better understanding the Bank's strategy and objectives, the employees are able to offer a better fitted product and a more personalized approach to customers. This is exactly why prior to the enrollment, many of the employees at LGB BANK are initiated to its culture through internships. Such trainings allow them to have an overview of the Bank, as well as at its products and services while getting acquainted with its code of conduct.

From the entry level, all employees are requested to comply with a clear corporate behavior that matches the Bank's image including adherence to high standards of confidentiality, professionalism, transparency and integrity.

Each and every employee needs to abide by the guidelines of the Employee Handbook and the Code of Ethics, thus reflecting a live image of the Bank's commitment towards its customers. Consequently, all are bound to act in an ethical, fair and transparent manner setting the example for the others to follow. In parallel, LGB BANK adopts an equal opportunity policy that ensures an objective selection and fair assessment of job candidates.

We perceive the human capital as the most valuable of assets offering every staff member an inspiring working environment to grow and prosper within. We give much importance to teamwork and cooperative efforts above all and look to retain talents by providing them with a challenging team spirited atmosphere, that triggers creativity and allows team members to assume higher responsibilities while being apt to multitasking.

LGB BANK also seeks to update and modernize its job requirements bearing in mind the changing nature of assigned tasks and activities. Not only that, but the Bank's employees are subject to talent reinforcement trainings to strengthen their skills and knowledge. These trainings include in-house and external seminars and workshops covering technical and non-technical areas; this will help employees acquire new abilities and advance their professional career while ensuring a more rewarding experience for the Bank's customers.

■ INFORMATION TECHNOLOGY

A technically advanced business platform provides an optimized customer experience, regardless of the line of business. In the banking sector, technology is enabling financial institutions with a competitive edge to reduce error margins, save time and speed up business procedures to ensure the highest levels of customer satisfaction.

To keep up with the fast changing business trends, banks need to integrate cutting edge technologies that guarantee more flexibility and practicality to their clients. Consequently, LGB BANK has embraced the technological revolution to ride the wave of sustainable growth in a challenging world economy. In line with this, the Bank is enhancing the functionality of its core banking system and implementing new modules, coupled with a comprehensive reengineering, enhancement and improvement of its human and technological resources and processes.

A real pioneer in this field, LGB BANK was one of the very first banks in Lebanon to adopt such technological updates in the industry. In fact, the technological reform stipulated the upgrade of the infrastructure to introduce better risk and security controls and improve productivity. A new security system was also implemented in order to avoid hacking and fraudulent actions.

The IT interface deployed by LGB BANK allows great flexibility in terms of work flow and transactions' processing; in addition to allowing employees to share information internally, creating a solid synergy between departments. All units are linked together by a robust IT system and supported by highly qualified and skilled engineers who are ready to assist with any request.

Furthermore, the Bank adopted a new software known as "Trade Innovation Plus", which comes to replace the already existing IT software and displays highly flexible functions, delivering an optimized performance in quality and speed, as it facilitates transactions related to Transfers and Treasury.

Yet, integrating new technologies in its internal processes is not the only policy LGB BANK implemented to become a modern financial institution. The Bank has actually worked on developing innovative electronic banking solutions to deliver even higher performance, by providing employees with special online tools that could facilitate their daily chores; and by allowing customers to access a set of online services that simplify their banking transactions. The Bank has also boosted its IT platform by increasing the number of ATMs across the Lebanese territory getting strategically closer to the Lebanese customers.

Recently, and in line with its commitment to remain among the most advanced banks in Lebanon, LGB BANK has entirely redesigned and launched its corporate website to offer a comprehensive online experience to its clients. Thoroughly planned and executed, the new website offers an active and user friendly platform for customers wherever they are. This will enable the Bank to remain at the forefront of banking technology and support its business development strategy.

Today, the Bank is conducting a series of new projects to exploit technological advances and makes sure that the latest solutions are being implemented.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BASIS OF PRESENTATION

The following part which covers the Management Discussion and Analysis section (MD&A) enables readers to assess the performance of Lebanon & Gulf Bank s.a.l. – referred to as "The Bank" - for the year ended December 31, 2014 as compared to its previous year ended December 31, 2013.
MD&A should be taken in conjunction with our Financial Statements and related notes for the year ended December 31, 2014. Amounts are expressed in Lebanese Pounds and are primarily derived from the Bank's Annual Financial Statements prepared in accordance with International Financial Accounting Standards (IFRS).

ECONOMIC ENVIRONMENT

As a result of the weak political situation and decline in investments which affected the overall Lebanese economy, the economic growth in Lebanon is still witnessing a sluggish increase in 2014, where real GDP rose by just 1.7%.
According to the Ministry of Finance, fiscal deficit decreased by 22% to reach USD 3.3 billion, down from USD 4.2 billion.

Moreover, gross public debt increased by 5% to reach USD 66.6 billion, where LBP denominated debt rose by 10% and FC denominated debt decreased by 2%. Gross debt to GDP maintained a ratio of 140% in 2014.

Trade deficit dropped by 0.64% to account for USD 17.2 billion. This contraction in deficit is a result of the decrease in imports by 3.5%.

The net deficit in balance of payment has increased where the deficit increased by 25% to reach USD 1,407 million after a fall down during 2013 (deficit of USD 1,128 million).

As for the monetary situation, the Lebanese banking sector proved its strong stability, even in difficult times. The money aggregate M3 increased by 6% to reach USD 118 billion, where bank loans to the private sector remained the most important factor in money creation.

Major Economic Indicators in Lebanon

In USD millions

	2013	2014	Change
GDP	45,200	47,500	2,300
Real GDP growth	1.5%	1.7%	0.2%
Imports	21,228	20,494	-734
Exports	3,936	3,313	-632
Trade deficit	(17,292)	(17,181)	111
Balance of payments	(1,128)	(1,407)	-279
Gross Public Debt	63,462	66,560	3,098
Gross Public Debt/GDP	140%	140%	0
Deficit	4,222	3,278	-944

Source: BDL, Ministry of Finance, IMF, ABL, IIF

LEBANESE BANKING ENVIRONMENT

Despite the limited economic growth and political conditions, the supervisory authority in Lebanon always tends to maintain a safe banking environment where the banking activities in Lebanon show a positive growth in 2014.

Standard and Poors rating agency has raised its outlook for Lebanon to stable from negative. This is attributed to the reliance on customers' deposits as the major source of funds in addition to maintaining solid foreign reserves – standing at 80% of local currency reserves.

A 6.6% increase in total assets for commercial banks was noted during 2014 where total assets reached LBP 264,863 billion compared to an 8.1% increase during 2013 where total assets reached LBP 248,468 billion.

Lebanese banks depend on deposits as a primary source of funds, so an expansion of 6% in total deposits was noted as they increased from LBP 205,329 billion in 2013 to reach LBP 217,721.

Loans to customers showed a growth of 7.4% to reach LBP 76,732 billion. Moreover, loans to deposits ratio stood at 35.24%, an increase of 0.44% compared to 2013.

The dollarization ratio of deposits decreased slightly in 2014 to reach 65.71% compared to a 66.1% in 2013. Moreover, the dollarization of loans witnessed a minimal drop in 2014 - from 76.5% in 2013 to 75.6% in 2014.

In billions of LBP

As at December 31

	2013	2014	Amount	Growth %
Total assets	248,468	264,863	16,395	6.6
Total deposits	205,329	217,721	12,392	6.0
o/w in LBP	69,535	74,657	5,122	7.4
o/w in FC	135,794	143,064	7,270	5.4
Total loans	71,427	76,732	5,305	7.4
o/w in LBP	16,766	18,753	1,987	11.9
o/w in FC	54,661	57,979	3,318	6.1
Equity	21,410	23,719	2,309	10.8
Dollarization of deposits (%)	66.1%	65.71%	-	-0.39
Dollarization of loans (%)	76.5%	75.56%	-	-0.94
Loans/Deposit Ratio (%)	34.8%	35.24%	-	0.44
Deposits/Assets (%)	83%	82%	-	-1
Equity/Assets Ratio (%)	8.6%	8.9%	-	0.3

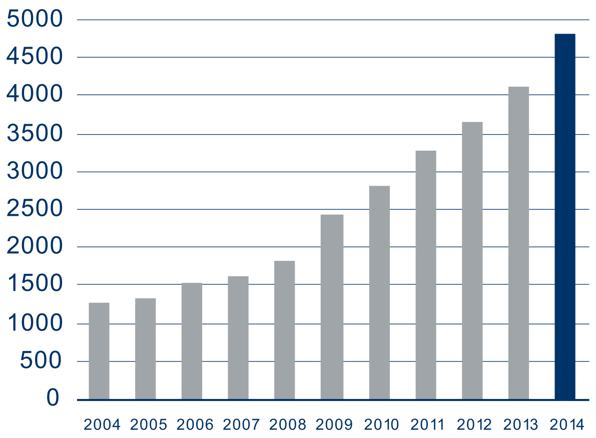
Source: Central Bank of Lebanon

THE BANK'S GROWTH

Between 2004 and 2014, LGB BANK managed to achieve a steady and continuous growth in all main financial indicators.

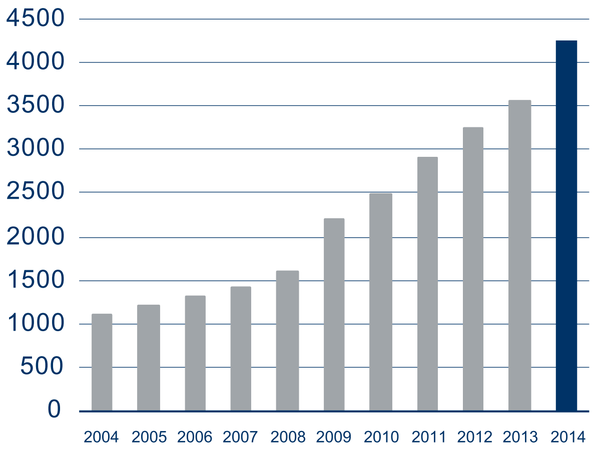
TOTAL ASSETS IN BILLIONS OF LBP

During the period of 2004-2014, the total assets of the Bank increased from LBP 1,241 billion (USD 823 million) as of December 2004 to LBP 4,793 billion (USD 3,179 million) as of December 2014, reflecting a remarkable growth of 286%.



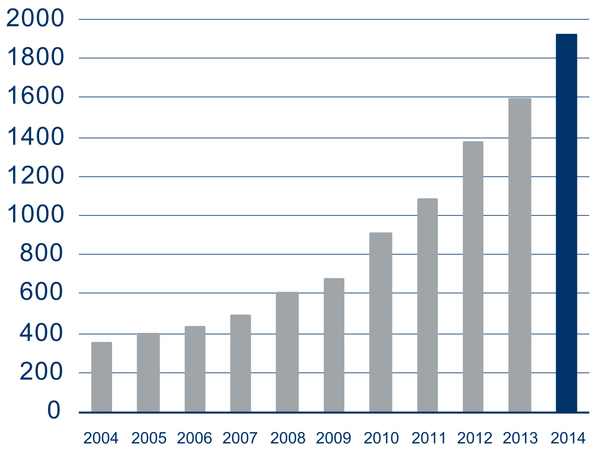
CUSTOMERS' DEPOSITS IN BILLIONS OF LBP

The growth in the Bank's assets during the period of 2004-2014 reflected a similar growth in Customers' Deposits which increased by 283% from LBP 1,103 billion (USD 732 million) as of December 2004 to LBP 4,226 billion (USD 2,803 million) as of December 2014.



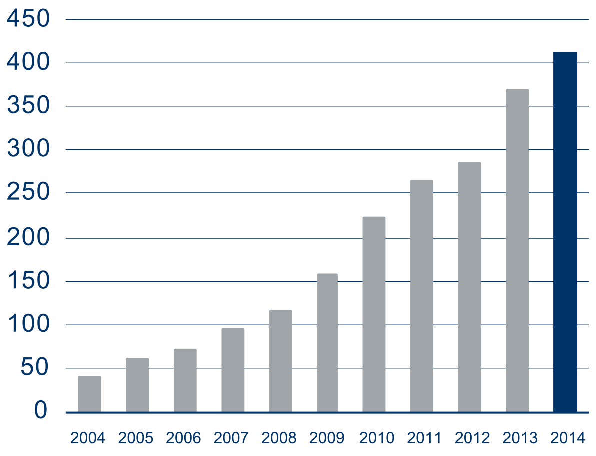
LOANS & ADVANCES IN BILLIONS OF LBP

The Bank successfully grew its commercial and retail lending portfolio. Accordingly, Loans & Advances to customers increased from LBP 354 billion in 2004 (USD 234 million) to reach LBP 1,924 billion (USD 1,276 million) as of December 2014, reflecting a growth of 443%.



EQUITY IN BILLIONS OF LBP

The increase in Equity from LBP 38 billion in 2004 (USD 25 million) to LBP 412 billion in 2014 (USD 273 million) reflected a growth of 984%.



THE BANK'S PERFORMANCE

Despite the difficult aftermath of the recent turmoil, 2014 was another successful year for LGB BANK. The Bank maintained a strong performance where total assets increased by 17% to reach LBP 4,793 billion and customers' deposits rose by 19% to stand at LBP 4,226 billion.

The Bank's loan portfolio increased by 21% to reach LBP 1,924 billion in 2014. Moreover, shareholders' equity rose by 12% to stand at LBP 412 billion. Net income witnessed an increase of 20% to reach LBP 41 billion with a stable ratio for Return on Average Assets (ROAA) accounting for 1% in 2013 & 2014, as well as a steady ratio for Return on Average Equity (ROAE) declared at 10.4% in 2013 & 2014.

1. PROFITABILITY

Profitability for the period ending on December 31st, 2013 and 2014 was as follows:

In millions of LBP			As at December 31	
			Growth	
	2013	2014	Amount	%
Net Income	34,125	40,849	6,724	19.7
Net Interest Income	63,766	67,380	3,614	5.7
Net Fees and Commission Income	13,828	19,028	5,200	37.6
Total Net Non-Interest Income	31,383	33,265	1,882	6
Net Operating Income	81,274	95,284	14,010	17.2
Total Operating Expenses	41,011	46,512	5,501	13.4

1.1 NET INTEREST INCOME

Net Interest Income increased by 5.7% between 2013 & 2014, from LBP 63.8 billion in 2013 to LBP 67.4 billion in 2014. This is due to a 16% increase in interest income in 2014, a 21% balance sheet increase in loans (2013-2014) and other increases in balances with the Central Bank and other banks.

BREAKDOWN OF INTEREST RECEIVED

In millions of LBP	As at December 31	
	2013	2014
Interest received from investments securities	92,930	111,659
Interest received from loans and advances	98,564	111,637
Interest received from banks and financial institutions	20,681	22,682
Interest received from related parties	81	117
TOTAL	212,256	**246,095**

BREAKDOWN OF INTEREST PAID

In millions of LBP	As at December 31	
	2013	2014
Interest paid on deposits from customers	(145,186)	(174,080)
Interest paid on banks and financial institutions	(2,551)	(4,010)
Interest paid on related parties' deposits	(753)	(625)
TOTAL	(148,490)	(178,715)

1.2 NET FEES AND COMMISSIONS INCOME

An increase in loan services and trade finance business in 2014 resulted in a 38% increase in net fees and commissions income, compared to 11% in 2013.

In millions of LBP	As at December 31	
	2013	2014
Fee and commission received		
Credit related fees and commissions	7,449	8,474
Trade Finance	3,965	8,303
General banking income	1,918	2,268
Electronic banking	835	654
Other services	49	43
	14,216	19,739
Fee and commission paid		
Correspondents' accounts	(388)	(711)
NET FEE AND COMMISSION INCOME	13,828	19,028

1.3 TOTAL NET NON INTEREST INCOME

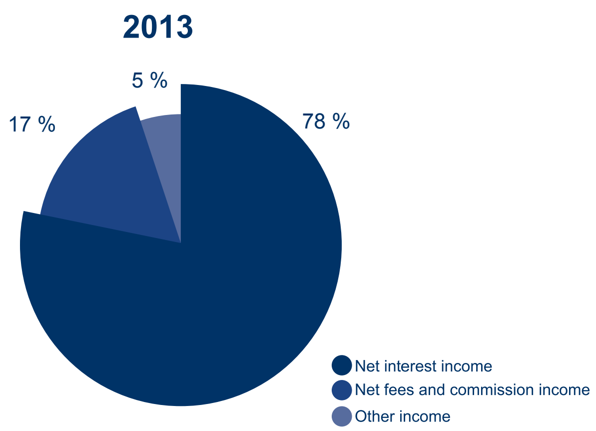
Non-interest income increased by 6% from LBP 31.4 billion in 2013, up to LBP 33.3 billion in 2014. This is mainly due to the increase in profit from fees and commissions, although the net gain on financial investments decreased by 48% in 2014 from LBP 9.6 billion in 2013 down to LBP 5.0 billion in 2014.

In millions of LBP	As at December 31	
	2013	2014
Net fees and commission	13,828	19,028
Net trading income	4,739	5,908
Net gain on financial investments	9,571	5,023
Other operating income	3,245	3,306
TOTAL	31,383	33,265

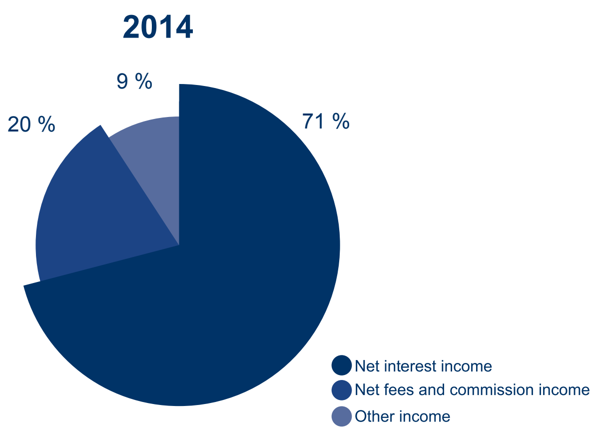
1.4 NET OPERATING INCOME

Net Operating Income registered an increase of 17% from LBP 81.3 billion in 2013, to LBP 95.3 billion in 2014, where the total operating expenses registered an increase of 7%, going up from LBP 41 billion in 2013, to LBP 44 billion in 2014.

BREAKDOWN OF TOTAL NET OPERATING INCOME



BREAKDOWN OF TOTAL NET OPERATING INCOME



BREAKDOWN OF TOTAL OPERATING EXPENSES

In millions of LBP	As at December 31	
	2013	2014
Personnel expenses	(22,768)	(25,241)
Depreciation of property and equipment	(3,554)	(3,397)
Other operating expenses	(14,689)	(15,082)
TOTAL	(41,011)	(43,720)

2. SOURCES AND USES OF FUNDS

In millions of LBP	As at December 31			
			Growth	
	2013	2014	Amount	%
Total assets	4,093,660	4,793,244	699,584	17.1
Customers' Deposits	3,564,320	4,225,906	661,586	18.6
Loans and advances to customers (net)	1,596,134	1,923,909	327,775	20.5
Security portfolio	1,392,539	1,651,185	258,646	18.6
Total equity	368,647	412,121	43,474	11.8
Net Income for the year	34,125	40,849	6,724	19.7
Dollarization of deposits	70.0%	70.6%	-	0.6%
Dollarization of loans	81.0%	82.0%	-	1.0%

2.1 SOURCES OF FUNDS

Similar to all Lebanese banks, LGB BANK's main source of funds is Customers' Deposits, which accounted for 88.2% of its overall funding sources in 2014 compared to 87.4% in 2013.

Shareholders' Equity accounted for 8.6% in 2014 compared to 9% in 2013.

BREAKDOWN OF FUNDING SOURCES

In millions of LBP — As at December 31

	2013	%	2014	%	Growth Amount	Growth %
Customers' Deposits	3,564,320	87.1	4,225,906	88.2	661,586	18.6
Shareholders' Equity	368,647	9.0	412,121	8.6	43,474	11.8
Banks and Financial Institutions	89,446	2.2	53,132	1.1	-36,314	-40.6
Other Liabilities	58,629	1.4	70,372	1.4	11,743	20.0
Due to Central Banks	12,618	0.3	31,713	0.7	19,095	151.3
TOTAL	4,093,660	100	4,793,244	100	699,584	17.1

2.1.1 CUSTOMERS' DEPOSITS

Constituting the main funding source, Customers' Deposits recorded a continuous growth over the years, reaching LBP 4,226 billion as of December 31, 2014 and representing an increase of 19% in comparison to LBP 3,564 billion on December 31, 2013.

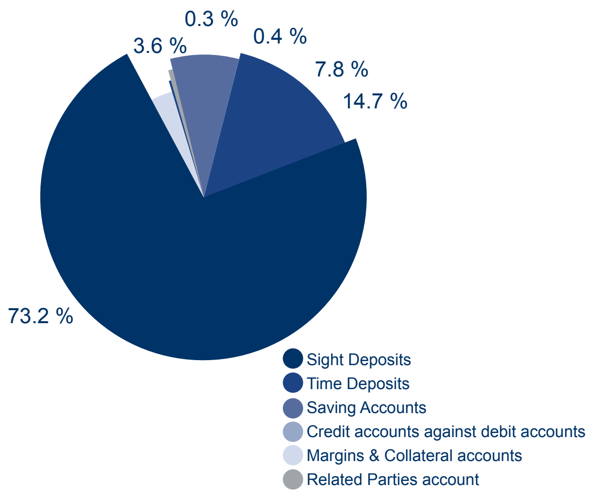
DEPOSIT DISTRIBUTION BY TYPE

In millions of LBP — As at December 31

	2013	%	2014	%	Growth Amount	Growth %
Sight Deposits	276,312	7.8	295,481	7.0	19,169	6.9
Time Deposits	525,260	14.7	695,861	16.5	170,601	32.5
Saving Accounts	2,610,110	73.2	3,027,364	71.6	417,254	16.0
Credit accounts against debit accounts	126,718	3.6	160,235	3.8	33,517	26.5
Margins & collateral accounts	10,873	0.3	35,424	0.8	24,551	225.8
Related parties account	15,046	0.4	11,541	0.3	-3,505	-23.3
TOTAL	3,564,319	100	4,225,906	100	661,587	18.6

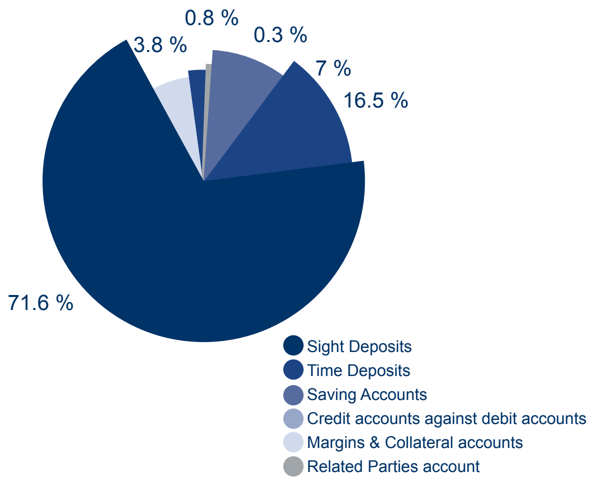
DEPOSITS DISTRIBUTION

2013



DEPOSITS DISTRIBUTION

2014



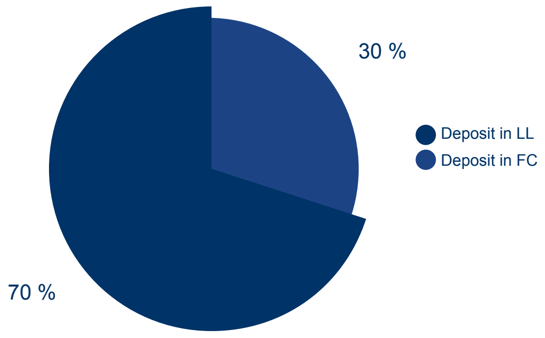
DEPOSIT DISTRIBUTION BY CURRENCY

The breakdown of deposits' growth indicates that deposits denominated in LBP grew by 16% in 2014 compared to those denominated in foreign currencies which increased by 19.7%.

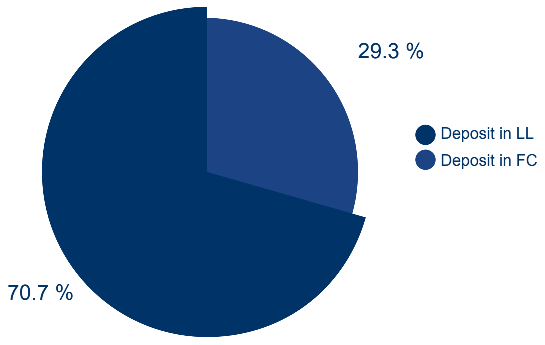
The "Deposits Dollarization Rate" (measured as deposits denominated in foreign currencies to total deposits) slightly decreased from 70.0% as of December 31st, 2013 (compared to 71.5% for the banking sector) to 70.7% at the end of 2014 (compared to 75.8% for the banking sector). This has led to a fall in dollarization by approximately 0.7%.

DEPOSIT DISTRIBUTION BY CURRENCY FOR THE YEARS 2013 AND 2014 WAS AS FOLLOWS:

2013



2014



2.1.2 CAPITALIZATION

The Bank's current equity is mainly composed of supportive, core shareholders who have helped in maintaining our policy of retaining full earnings. These earnings have served to reinforce the capital base over the last five years.

Total capital funds increased by 11.8% year on year to USD 273.38 million at the end of 2014, contributing to total funds of nearly 9 % in 2014 and 2013.

Tier I capital alone increased by 4.4% to USD 245.11 million at the end of 2014 compared to USD 234.8 million in 2013.

Tier I capital increase was mainly attributed to retain 2014's profits, amounting to USD 23.0 million after dividend distribution. This measure falls in line with the Bank's strategy of growing organically and at a steady pace.

2.2 USES OF FUNDS

Maintaining high asset quality and adequate liquidity remains one of the Bank's fundamental priorities.

Loans and Advances to customers accounted for 40.1% from total assets in 2014 in comparison to 39% in 2013, while Loans to Deposit ratio increased from 44.8% in 2013 to 45.5% in 2014, as per the Bank's lending policy.

The share of cash and balances with the Central Bank recorded a slight decrease from 15.3% in 2013 to 15.1% in 2014. The share of Security Portfolio slightly increasd from 34.2% in 2013 to 34.3% in 2014. This has resulted in a slight decrease in the Bank's total exposure to the Lebanese Government from 48.5% in 2013 to 47.8% in 2014.

In millions of LBP — As at December 31

	2013	%	2014	%	Growth Amount	Growth %
Cash and Balances with Central Bank	627,965	15.3	721,207	15.0	93,242	14.8
Banks and Financial Institutions	347,609	8.5	354,318	7.4	6,709	1.9
Loans to banks and financial institutions	8,026	0.2	6,972	0.1	-1,054	-13.1
Security Portfolio	1,392,539	34.0	1,651,185	34.4	258,646	18.6
Loans and Advances to Customers	1,596,134	39.0	1,923,909	40.1	327,775	20.5
Other Assets	121,387	3.0	135,653	2.8	14,266	11.8
TOTAL	**4,093,660**	**100**	**4,793,244**	**100**	**699,584**	**17.1**

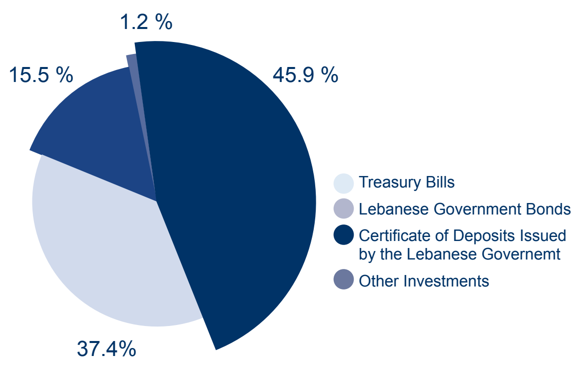
2.2.1 SECURITY PORTFOLIO

In millions of LBP — As at December 31

	2013	%	2014	%	Growth Amount	Growth %
Treasury Bills	639,683	45.9	761,759	46.1	122,076	19.1
Lebanese Government Bonds	519,944	37.4	625,516	37.9	105,572	20.3
Certificate of Deposits issued by the Lebanese Government	216,162	15.5	200,136	12.1	-16,026	-7.4
Other Investments	16,750	1.2	63,774	3.9	47,024	280.7
TOTAL	**1,392,539**	**100**	**1,651,185**	**100**	**258,646**	**18.6**

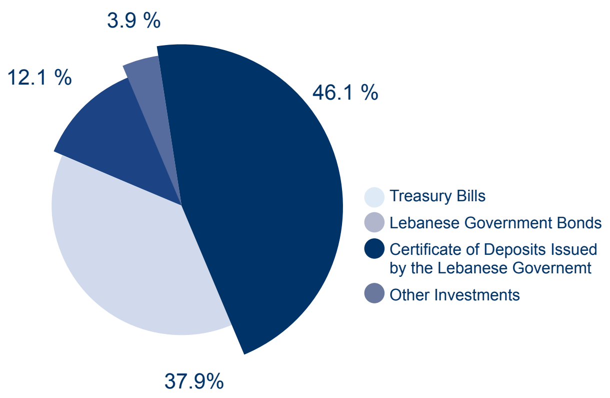
DISTRIBUTION BY TYPE

2013



DISTRIBUTION BY TYPE

2014



DISTRIBUTION BY CLASSIFICATION

In millions of LBP — As at December 31 — 2013

	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	-	-	-	-	639,683	46.2	639,683	45.7
Lebanese Government Bonds	-	-	-	-	519,944	37.6	519,944	37.1
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	216,162	15.6	216,162	15.4
Others	4,964	100	11,786	100	8,026	0.6	24,776	1.8
TOTAL	**4,964**	**100**	**11,786**	**100**	**1,383,815**	**100**	**1,400,565**	**100**
Per Cent to Total		**0.4**		**0.8**		**98.8**		**100**

In millions of LBP — As at December 31 — 2014

	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	-	-	-	-	761,759	48.0	761,759	46.1
Lebanese Government Bonds	-	-	-	-	625,516	39.4	625,516	37.9
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	200,136	12.6	200,136	12.1
Others	57,454	100	6,320	100	-	-	63,774	3.9
TOTAL	**57,454**	**100**	**6,320**	**100**	**1,587,411**	**100**	**1,651,185**	**100**
Per Cent to Total		**3.5**		**0.4**		**96.1**		**100**

2.2.2 NET LOANS AND ADVANCES TO CUSTOMERS

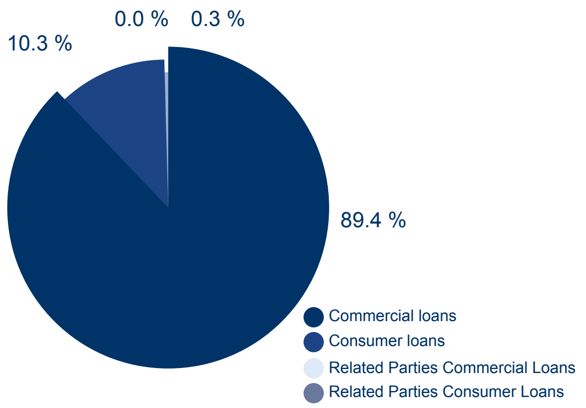
The “Loans and Advances to Customers” portfolio witnessed an increase of 20.5% in 2014, reaching LBP 1,924 billion compared to LBP 1,596 billion in 2013. Following the Bank’s lending policy, the Bank increased its “Loan to Deposit Ratio”, which stood at 45.5% at the end of 2014 compared to 44.8% at the end of 2013.

In millions of LBP — As at December 31

	2013	%	2014	%	Growth Amount	Growth %
Net loans and advances to customers	**1,590,755**	**99.7**	**1,920,738**	**99.8**	**329,983**	**20.7**
Commercial loans	1,426,878	89.4	1,724,658	89.6	297,780	20.9
Consumer loans	163,877	10.3	196,080	10.2	32,203	19.7
Loans & advances to related parties	**5,379**	**0.3**	**3,171**	**0.2**	**-2,208**	**-41.0**
Commercial loans	57	-	63	-	6	10.5
Consumer loans	5,322	0.3	3,108	0.2	-2,214	-41.6
TOTAL	**1,596,134**	**100**	**1,923,909**	**100**	**327,775**	**20.5**

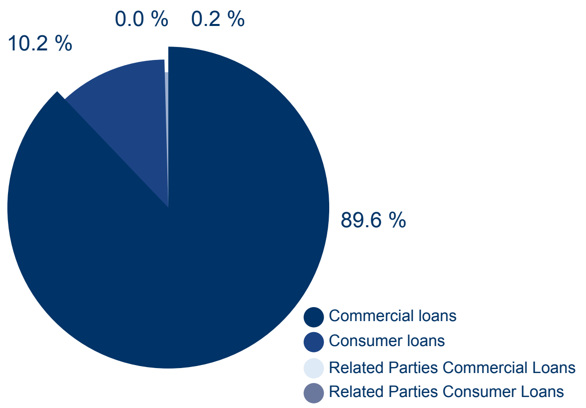
LOANS & ADVANCES DISTRIBUTION

2013



LOANS & ADVANCES DISTRIBUTION

2014



■ 3. RISK MANAGEMENT

LGB BANK’s Risk Management framework provides a robust and consistent approach to Risk Management across the Bank and is a core component of the Bank’s Internal Governance framework. Throughout 2014, the integrated governance, risk, and control frameworks were further embedded while continuing the use of a consistent approach to risk appetite, delegated authorities and governance committee structures.

Effective Risk Management is fundamental to the success of the Bank, and is recognized as one of the Bank’s strategic priorities. The primary goals of Risk Management are consistent with the Bank’s strategies and risk appetite, and there is an appropriate balance between risk and reward in order to maximize shareholder returns.

The Bank’s Risk Management framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the global markets in which the Bank operates, including regulatory standards and industry best practices. It consists of three key elements: Risk Governance, Risk Appetite, and Risk Management Techniques.

The Bank has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized Risk Management that is independent of business lines.

The Board of Directors, either directly or through related committees, ensures that decision-making is aligned with the Bank’s strategies and risk appetite. The Board receives regular updates on key risks of the Bank – including periodic comprehensive summary of the Bank’s risk profile and performance of the portfolio against defined goals, which is also presented to the Board Risk Committee – and approves key risk policies, limits, strategies, and risk appetite.

The Chief Risk Officer (CRO) is responsible for Risk Management under the oversight of the Board Risk committee. The CRO, who oversees the Global Risk Management division of the Bank, has direct access to the Board Risk Committee.

CREDIT RISK

The Board of Directors reviews and approves the Bank’s credit risk strategy and policy. The objective of the credit risk strategy is to ensure that target markets and products’ offerings are well defined and the risk parameters for the portfolios are clearly specified.

Risk Management develops the credit risk management framework and policies that detail the delegation of authority for granting credit, the credit risk rating architecture and associated parameter estimates, and the calculation of the allowance for credit losses.

Credit Risk Management regularly reviews the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio and to determine whether corrective action is required. These reviews include the examination of the risk factors for particular products, industries and countries. The results of these reviews are reported to the Risk Committee and, when significant, to the Board.

Stress testing is conducted regularly as a supplementary tool to assess resilience to adverse market conditions and to act upon if mitigating actions are deemed necessary. Stress testing framework helps ensure our portfolio is not overly exposed to extreme market events. Stress tests and their results are reviewed by the risk committee and potential Management actions are proposed if necessary.

MARKET RISK

The Board of Directors reviews and approves market risk policies and limits annually. The Bank’s Asset and Liability Committee (ALCO) and Market Risk Management oversee the application of the framework set by the Board, and monitor the Bank’s market risk exposures and activities.

Risk Management provides independent oversight of all significant market risks, supporting the ALCO with thorough analysis, quantification and recommendation regarding new investments and products.

The applied market risk measurement methodologies support risk quantification, scenario analysis and stress testing, for its market risks. Various scenarios are performed to take into account changes in the operating environment in Lebanon and the region where the methodologies are used in the stress testing range from single factor to multi-factor stress tests.

LIQUIDITY RISK

The Bank defines its liquidity risk framework, strategy, and in particular its tolerance to liquidity risk by identifying, measuring and managing its liquidity risk position.

The Bank supports a strong liquidity risk management culture and ensures association to the Bank’s strategic objectives while taking into consideration all supervisory circulars and Basel requirements. The Risk Management division is responsible for the oversight and validation of the Bank’s liquidity risk framework, limits, reporting and funding related issues.

Stress testing and scenario analysis play a central role in the Bank’s liquidity Risk Management framework and is considered as part of its liquidity monitoring, a continuous update of its Contingency Funding Plan, which incorporates an assessment of asset liquidity under various stress scenarios. The purpose is to ensure sufficient liquidity for the Bank under both idiosyncratic and systemic market stress conditions.

OPERATIONAL RISK

Operational Risk Management is at the core of the Bank’s operations - integrating Risk Management practices into processes, systems and cultures. As a pro-active partner to senior management, Risk Management value lies in supporting and challenging them to align the business control environment with the Bank’s strategy by measuring and mitigating risk exposure contributing to optimal return for stakeholders.

The three lines of defense model help to ensure proper accountability and clearly define the roles and responsibilities for Operational Risk Management. The first line of defense is the business unit, who owns the risks in their businesses and operations. The second line of defense is led by an Operational Risk department within the Risk Management division, with support from control functions across the Bank. The third line of defense is Internal Audit.

LGB BANK has implemented an operational risk umbrella that encompasses all aspects of potential risks - bank protection, fraud prevention, key risk indicators, capture of operational loss data, business line risk oversight and new products and initiatives for data security.

INFORMATION SECURITY

LGB BANK has implemented an information security Management System following best practices and ISO standards.

The Information Security department, responsible for enhancing the information Security program, manages the development, implementation, and enforcement of information systems' security polices and related recommended guidelines, operating procedures and technical standards, as well as ensures appropriate risk mitigation and control process for security incidents which are operated as required.

The department also provides direction and guidance on safeguarding the confidentiality, integrity and availability of LGB BANK's information and computing assets, thus conducting security awareness sessions and training to LGB BANK's staff.

In addition, the Information Security department continuously enhances the risk management program that ensures the identification of vulnerabilities and threats to the information resources, while putting into practice countermeasures in order to reduce risk to an acceptable level, based on the value of the information resource to the organization.

OTHER RISKS

A good reputation and a positive public image is an invaluable asset to our Bank. Risk Management monitors all business activities, policies and procedures, to guarantee that they are in compliance with legal requirements.

Reputational Risk is managed and controlled throughout the Bank by codes of conduct, governance practices and Risk Management programs, policies, procedures and training. Many relevant checks and balances are undertaken by Risk Management procedures, particularly operational risk, where reference is made to the Bank's well-established compliance program. All directors, officers and employees have a responsibility to conduct their activities in accordance with the LGB BANK Guidelines for Business Conduct.

Strategic Risk is also a vital component of Risk Management, where proper business decisions and appropriate business planning are addressed in all business units.

CAPITAL FUNDS AS PER BASEL III

The Bank conducts an annual strategic planning process, which lays out the development of its future strategic direction for its business areas. The adequacy of capital is actively managed and monitored where the primary objective of the Bank's capital management is to ensure that the Bank maintains a sufficient level of capital to exceed all regulatory requirements and to achieve a strong credit rating, while optimizing shareholders' value.

This is done through a greater focus on the Bank's own estimates of capital demand and targeted earnings through a more formalized assessment of key risks, risk bearing capacity and the use of enterprise stress testing to assess impact of capital demand, capital supply and liquidity, as a complement to economic and regulatory capital.

The targets are monitored on an ongoing basis in ALCO and Risk Committee meetings. Any projected shortfall from limits and targets is discussed together with potential mitigating strategies seeking to ensure that we remain on track. Amendments to the strategic and capital plan must be approved by the Board.

The Bank is fully compliant with Basel III, Capital Requirement and with the BCCL intermediate circular no.282, dated December 2011 and the updates in March 2014 intermediate circulars 258 and 259. The current Bank's adequate capital ratios are the result of its internal capital generation, management of the balance sheet and periodic cash injection by existing shareholders and issuance of preferred shares. Those ratios are calculated in accordance with the Standardized Approach for Credit Risk, the Basic Indicator Approach for Operational Risk and the Standardized Measurement for Market Risk

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The ICAAP is becoming more and more of a corner stone in setting the Bank's strategy, which includes ongoing assessment of risks and updates of measurement techniques and controls set by the Bank for all its risks to reach the best mitigation and assessment of overall required capital to cover any unanticipated losses.

The Board and senior management are liable for incorporating capital planning and capital management into the Bank's overall management culture and approach. They ensure that the reliability of the Capital Planning Process is communicated, implemented and supported by sufficient authority and resources. Their main concern is to ensure that the Bank maintains an adequate level of near and longer term capital needs and capital expenditures required for the foreseeable future to exceed all regulatory requirements

■ 4. INTERNAL AUDIT

The Internal Audit Unit carries out independent risk- based audit and reviews of key business, support, and other control areas, and provides an independent assurance service to the Board Audit Committee and Management, focusing on reviewing the level of effectiveness of the governance, Risk Management and control processes that the management has put into place.

■ 5. COMPLIANCE MANAGEMENT

As per its internal policies and in line with local regulations and international standards, LGB BANK continues improving and strengthening its internal controls.

This year witnessed the implementation of the Bank's decision to restructure the Compliance framework into a consolidated function that consists of two units: The AML/CFT Compliance Unit and the Legal Compliance Unit.

Through a synergy of collaboration with both the Risk and Audit functions, the Compliance function adopts a Risk Based Approach to handling non-compliance risks, which can be mainly listed as:

- Risks of non-complying with laws, rules and regulations in jurisdictions in which the Bank is present.
- Risks of non-complying with laws, rules and regulations in jurisdictions with which the Bank has financial or non-financial transactions.
- Risks of non-complying with the Bank's internal policies and procedures.
- Risks of non-complying with international standards.

AML/CFT COMPLIANCE

The Bank continues to further develop this particular compliance function while capitalizing on its long experience in the field of insuring, both locally and internationally, the Bank's compliance with AML/CFT laws, rules and regulations.

The AML/CFT Compliance has been boosted with the introduction of new technologies to enhance its on-boarding controls as well as the monitoring of suspicious transactions.

LEGAL REGULATORY COMPLIANCE

The Legal Compliance Unit oversees the Bank's receiving, understanding and executing requested tasks that regulatory bodies enforce.

The strategy adopted to achieve the above can be roughly divided into the following steps:

1- Prioritizing requirements based on their risk of non compliance.
2- Building a Legal Compliance Library.
3- Overseeing the Banks' compliance by performing suitable tests.
4- Following up on future compliance issues.

■ 6. TRANSPARENCY AND DISCLOSURES

In an endeavor to further strengthen its corporate governance standards and enhance transparency and disclosure in its financial reports, the Bank has adopted one of the strongest global standards of transparency in financial reporting, the International Financial Reporting Standards (IFRS) as certified by the International Accounting Standards Board.

The Board directs the process of disclosure and communication with stakeholders, to ensure that they are fair, transparent, comprehensive and timely. These disclosures include the Bank's profile, statements of its vision and mission, strategy and objectives as well as its financial statements.

The appropriate financial and practical information is disclosed through our main shareholders, annual report, website, brochures, newsletters as well as regular announcements in the media.

■ 7. SOCIAL RESPONSIBILITY PROGRAMS

The Bank plays an active role in supporting its local communities by contributing to a number of social responsibility programs that are aligned with its overall business strategy. These initiatives embody the Bank's commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the communities in which it operates

AUDITOR'S REPORT

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Independent auditors' report

To the shareholders of
LEBANON & GULF BANK S.A.L.

We have audited the accompanying separate financial statements of Lebanon & Gulf Bank SAL (the "Bank"), which comprise the separate statement of financial position as at 31 December 2014, the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements
Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate 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 separate 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 separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2014, and unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG
KPMG

BDO, Semaan, Gholam & Co.

29 April 2015
Beirut, Lebanon

FINANCIAL STATEMENTS

Separate statement of Comprehensive Income

In millions of LBP — For the year ended 31 December 2014

	Notes	2014	2013
Interest and similar income	20	246,095	212,256
Interest and similar expense	21	(178,715)	(148,490)
NET INTEREST INCOME		**67,380**	63,766
Fee and commission income	22	19,739	14,216
Fee and commission expense	22	(711)	(388)
NET FEE AND COMMISSION INCOME		**19,028**	13,828
Net gain from financial assets at fair value through profit or loss	23	5,908	4,739
Net gain from derecognition of financial assets at amortized cost	24	5,023	9,571
Other operating income	25	3,306	3,245
TOTAL OPERATING INCOME		**100,645**	95,149
Net Credit losses	26	(5,361)	(13,875)
NET OPERATING INCOME		**95,284**	81,274
Personnel expenses	27	(25,241)	(22,768)
Depreciation of property and equipment	10	(3,397)	(3,554)
Other operating expenses	28	(15,082)	(14,689)
TOTAL OPERATING EXPENSES		**(43,720)**	(41,011)
Net loss on disposal of property and equipment		(143)	(262)
PROFIT BEFORE TAX		**51,421**	40,001
Income tax expense	29	(10,572)	(5,876)
PROFIT FOR THE YEAR		40,849	34,125

The attached notes 1 to 36 are an integral part of these separate financial statements.

Separate statement of Financial Position

In millions of LBP — For the year ended 31 December 2014

	Notes	2014	2013
ASSETS			
Cash and balances with Central Banks	3	721,207	627,965
Due from Banks and Financial Institutions	4	354,318	347,609
Financial assets at fair value through profit or loss	5	57,454	16,750
Loans to banks and financial institutions		6,972	8,026
Net loans and advances to customers at amortized cost	6	1,920,738	1,590,755
Net loans and advances to related parties at amortized cost	7	3,171	5,379
Debtors by acceptances		53,193	44,505
Financial assets at amortized cost	8	1,587,411	1,375,789
Investment in subsidiary	9	**6,320**	-
Property and equipment	10	49,507	42,611
Assets obtained in settlement of debt	11	27,003	27,137
Other assets	12	5,950	7,134
TOTAL ASSETS		**4,793,244**	4,093,660
LIABILITIES AND EQUITY			
Liabilities			
Due to Central Bank	13	31,713	12,618
Due to Banks and Financial Institutions	14	53,132	89,446
Customers' deposits at amortized cost	15	4,214,365	3,549,274
Related parties' deposits at amortized cost	7	11,541	15,046
Engagements by acceptances		53,193	44,505
Other liabilities	16	10,495	8,103
Provisions for risks and charges	17	6,684	6,021
TOTAL LIABILITIES		**4,381,123**	3,725,013
Equity			
Share capital - common shares	18	194,068	191,200
Share capital - preferred shares	18	14,819	13,400
Share premium - preferred shares	18	95,391	87,610
Non distributable reserves	19	49,324	40,460
Retained earnings		17,670	1,852
Net results of the financial period – Profit		40,849	34,125
TOTAL EQUITY		412,121	368,647
TOTAL LIABILITIES AND EQUITY		4,793,244	4,093,660

The attached notes 1 to 36 are an integral part of these separate financial statements.

Separate statement of Cash Flows

In millions of LBP — For the year ended 31 December 2014

	Notes	2014	2013
OPERATING ACTIVITIES			
Profit for the year before tax		51,421	40,001
Adjustments for:			
Depreciation of property and equipment	10	3,397	3,554
Provision for employees' end of service benefits	17	794	865
Net credit losses	26	5,361	13,875
Net gain on disposal of assets obtained in settlement of debts	25	(1,375)	(1,447)
Net Loss on disposal of property and equipment		143	262
Net gain from derecognition of financial assets at amortized cost	24	(5,023)	(9,571)
Unrealized gain on financial assets at fair value through profit or loss	23	(1,761)	(537)
Realized gain on financial assets at fair value through profit or loss	23	(1,037)	(674)
Provisions for structural exchange position		-	21
Change in fair value of financial assets through other comprehensive Income reclassified to income statement		-	(198)
Operating profit before working capital changes		51,920	46,151
Changes in operating assets and liabilities			
Cash and balances with Central Banks		(89,726)	(39,549)
Due from banks and financial institutions		(22)	-
Financial assets at fair value through profit or loss		(38,009)	54,921
Net loans and advances to customers at amortized cost		(335,344)	(239,342)
Net loans and advances to related parties at amortized cost		2,208	467
Assets obtained in settlement of debt		(2,925)	(6,296)
Proceeds from disposal of assets obtained in settlement of debt		4,414	5,539
Other assets		1,184	1,158
Due to Banks and Financial Institutions		(4,711)	2,915
Customers' deposits at amortized cost		665,091	320,317
Related parties' deposits at amortized cost		(3,505)	1,590
Other liabilities		421	2,189
Cash from operations		250,996	150,060
Taxation paid		(8,601)	(4,185)
Retirement benefits paid	17	(131)	(97)
Refunded contributions	17	-	105
Net cash from operating activities		242,264	145,883

The attached notes 1 to 36 are an integral part of these separate financial statements.

Separate statement of Cash Flows (continued)

In millions of LBP — For the year ended 31 December 2014

	Notes	2014	2013
INVESTING ACTIVITIES			
Term deposits with central banks		(58,287)	(13,145)
Financial assets at amortized cost		(206,599)	(153,044)
Financial assets at fair value through other comprehensive income		-	10,936
Acquisition of subsidiary		(6,320)	-
Loans to banks and financial institutions		1,054	1,055
Net acquisition of property and equipment		(10,830)	3,045
Proceeds from sale of property and equipment		361	121
Dividends received	23	103	152
Net cash used in investing activities		(280,518)	(150,880)
FINANCING ACTIVITIES			
Issuance of common shares	18	-	19,253
Redemption of preferred shares (2007 issue)	18	(22,161)	-
Issue of preferred shares (2014 issue)	18	30,150	34,656
Dividends paid	30	(5,364)	(5,291)
Due to Central Bank		19,095	12,618
Net cash from financing activities		21,720	61,236
Net effect of foreign exchange		53	(100)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(16,481)	56,139
Cash and cash equivalents at 1 January		393,589	337,450
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	377,108	393,589

The attached notes 1 to 36 are an integral part of these separate financial statements.

Separate statement of Changes in Equity

In millions of LBP — For the year ended 31 December 2014

	Note	Share capital-common shares	Share capital-preferred shares	Share premium-preferred shares	Non distributable reserves	Change in fair value of financial assets at fair value through other comprehensive income	Retained earnings	Net Results of the financial period- Profit	Total equity
Balance at 1 January 2014		**191,200**	**13,400**	**87,610**	**40,460**	**-**	**1,852**	**34,125**	**368,647**
Appropriation of 2013 profits		-	-	-	12,716	-	21,409	(34,125)	-
Dividends distributions	30	-	-	-	-	-	(5,364)	-	(5,364)
Increase of par value of share capital from	18	2,868	159	-	(2,800)	-	(227)	-	-
LBP 20,000 to LBP 20,300	18	-	(2,800)	(18,309)	(1,052)	-	-	-	(22,161)
Redemtion of preferred shares (2007 issue)	18	-	4,060	26,090	-	-	-	-	30,150
Issue of preferred shares (2014 issue)		-	-	-	-	-	-	40,849	40,849
Total comprehensive income for the year 2014									
Balance at 31 December 2014		**194,068**	**14,819**	**95,391**	**49,324**	**-**	**17,670**	**40,849**	**412,121**
Balance at 1 January 2013		97,200	8,800	57,554	65,615	198	28,577	28,158	286,102
Appropriation of 2012 profits		-	-	-	12,491	-	15,667	(28,158)	-
Dividends distributions	30	-	-	-	-	-	(5,291)	-	(5,291)
Increase of capital	18	94,000	4,600	30,056	(37,646)	-	(37,101)	-	53,909
Transfer to income statement		-	-	-	-	(198)	-	-	(198)
Total comprehensive income for the year 2013		-	-	-	-	-	-	34,125	34,125
Balance at 31 December 2013		**191,200**	**13,400**	**87,610**	**40,460**	**-**	**1,852**	**34,125**	**368,647**

The attached notes 1 to 36 are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Lebanon & Gulf Bank SAL (the "Bank") is a Lebanese joint stock company incorporated in 1963 under the name of Agricultural Credit Bank. The name of the Bank was changed to Lebanon & Gulf Bank SAL in year 1980. The Bank is registered under No 43171 in the Beirut Register of Commerce and under No 94 on the banks' list published by the Central Bank of Lebanon.

The Bank provides a full range of commercial banking activities through its headquarter located in Beirut Central District, Allenby street, Beirut, Lebanon, and its branches in Lebanon and a foreign branch in Larnaca (Cyprus).

On 14 March 2013, the Central Bank of the United Arab Emirates licensed the Bank to open a representative office in Dubai. This license is valid for 5 years. The representative office conducted its business starting from the above date.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The separate financial statements have been prepared on the historical cost basis except for the measurement at fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Functional and presentation currency
The separate financial statements are presented in Lebanese Pound (LBP) which is the functional and presentation currency of the Bank and all amounts are rounded to the nearest million (LBP million) except when otherwise indicated.

Statement of compliance
The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of separate financial statements
The shareholders of the Bank have elected to present separate financial statements.

The Bank produces consolidated financial statements that are available for public use and that comply with IFRS. These consolidated financial statements can be obtained from Lebanon & Gulf Bank S.A.L. registered office located in Allenby Street, Beirut, Lebanon.

The Bank presents its separate statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the separate statement of financial position date (current) and more than 12 months after the separate statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
Except for the changes below, the Bank has consistently applied the accounting policies as set out in note 2.4 to all years presented in these separate financial statements.

The Bank adopted certain standards and amendments to standards, with a date of initial application of 1 January 2014. The nature and the impact of each new standard and amendments are described below.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not relevant to the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 does not have material financial impact on the Bank's separate financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Bank has not novated its derivatives during the current period.

IAS 36 Impairment of Assets
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. The Bank has early adopted these amendments to IAS 36 in the prior period since the amended/additional disclosures provide useful information as intended by the IASB.

2.3 STANDARDS ISSUED BY NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014, however the Bank has not applied the following new or amended standards in preparing these separate financial statements.

IFRS 9 Financial Instruments
IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements.

It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 9. This standard is expected to have a pervasive impact on the Bank's separate financial statements. In particular, calculation of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its separate financial statements resulting from the application of IFRS 15.

The following amended standards are not expected to have a significant impact on the Bank's separate financial statements.

- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Annual Improvements to IFRSs 2012–2014 Cycle various standards.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Foreign currency translation
The separate financial statements are presented in Lebanese Pound which is the Bank's presentation currency. The foreign branch of the Bank determines its own functional currency and items included in its separate financial statements are measured using that functional currency.

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain from financial assets at fair value through profit or loss" in the income statement.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

(ii) Translation of foreign branches
As at the reporting date, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate

component of equity. On disposal of a foreign branch, the deferred cumulative amount recognized in equity relating to that particular foreign branch is recognized in the income statement.

(B) Financial instruments – classification and measurement

(i) Date of recognition
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification and measurement of financial instruments

a. Financial assets
The classification of financial assets depends on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or at fair value.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Financial assets at amortized cost
Financial assets that meet both of the following conditions are subsequently measured at amortized cost less any impairment loss (except for financial assets that are designated at fair value through profit or loss upon initial recognition):

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

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

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment are recognized in the income statement in "Net credit losses".

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify financial assets.

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "Net gain from derecognition of financial assets at amortized cost" in the income statement.

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and net loans and advances to customers and related parties – at amortized cost.

After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Net loans and advances to customers and related parties" are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in "Net credit losses".

Financial assets at fair value through profit or loss
Included in this category are those debt instruments that do not meet the conditions in "Financial assets at amortized cost" above, debt instruments designated at fair value through profit or loss upon initial recognition and equity instruments at fair value through profit or loss.

Debt instruments at fair value through profit or loss
These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and interest income are recorded under "Net gain from financial assets at fair value through profit or loss" in the income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Gains and losses arising from the derecognition of debt instruments at fair value through profit or loss are also reflected under "Net gain from financial assets at fair value through profit or loss" in the income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Equity instruments at fair value through profit or loss
Investments in equity instruments are classified at fair value through profit or loss, unless the Bank designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and dividend income are recorded under "Net gain from financial assets at fair value through profit or loss" in the income statement.

Gains and losses arising from de-recognition of equity instruments at fair value through profit or loss are also reflected under "Net gain from financial assets at fair value through profit or loss" in the income statement.

b. Financial liabilities
Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost consist of due to central bank, due to banks and financial institutions, customers' and related parties' deposits.

"Due to central bank, due to banks and financial institutions, customers' and related parties' deposits"

After initial measurement, due to central bank, due to banks and financial institutions, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

(iii) Day 1 profit or loss
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets
The Bank reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes when significant to the Bank's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

(C) Derecognition of financial assets and financial liabilities

(i) Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;

- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (a) The Bank has transferred substantially all the risks and rewards of the asset, or
  (b) The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the income statement.

(D) Fair value measurement

The Bank measures financial instruments designated at fair value through profit or loss at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability to which the Bank has access at that date.

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

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly (i.e., as prices) or indirectly (i.e., derived from prices) observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable and has a significant effect on the instrument's valuation.

The objective of valuation techniques is to arrive at a fair value measurement that reflects 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 best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

The Bank's management determines the policies and procedures for recurring fair value measurement, such as unquoted financial assets.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

(E) Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

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

(F) Leasing

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee
Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement in the period in which they are incurred. Contingent rental payable are recognized as an expense in the period in which they are incurred.

(G) Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense
For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate (EIR) method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as “Interest and similar income” for financial assets and “Interest and similar expense” for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission
The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time.
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.
Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.
Other fees and commission expense relate mainly to transaction and service fees which are expensed as the services are received.

(iii) Dividend income
Dividend income is recognized when the Bank's right to receive the payment is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in “Net gain from financial assets at fair value through profit or loss”.

(iv) Net gain from financial assets at fair value through profit or loss
Results arising from financial assets at fair value through profit or loss, include all gains and losses from changes in fair value and related income or expenses, dividends for financial assets at fair value through profit or loss and foreign exchange differences.

(H) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise cash on hand, unrestricted balances with central banks and balances with original maturities of a period of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments including: cash and balances with central banks, due from banks and financial institutions and due to banks and financial institutions.

Cash and cash equivalents are carried at amortized cost in the separate statement of financial position.

(I) Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognized such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives and is generally recognized in profit or loss. Land is not depreciated. The estimated useful lives are as follows:

• Buildings	40 years
• Vehicles	8.33 years
• General installations and improvements	4 years
• Furniture	13.33 years
• Office equipment	10 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net loss on disposal of property and equipment" in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

(J) Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. The Bank's intangible assets include the value of computer software and key money.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less than any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The recognized period and the recognized method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the recognized period or method, as appropriate, and treated as changes in accounting estimates. The recognized expense on intangible assets with finite lives is recognized in the income statement.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives.

(K) Assets obtained in settlement of debt

The Bank occasionally acquires assets in the settlement of certain loans and advances. The Bank accounts for repossessed assets in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267.

Upon sale of repossessed assets, any gain or loss realized is recognized in the income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for assets in settlement of debts disposed off" in the following financial year. These reserves cannot be distributed as dividends.

(L) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

(M) Financial guarantees and loan commitments

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized in the separate financial statements (within "Other liabilities") at fair value, being the premium received.

Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Any increase in the liability relating to financial guarantees is recorded in the income statement in "Net credit losses".

(N) Provisions for risks and charges

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined based on Management's best estimates. The expense relating to any provision is presented in the income statement net of any reimbursement.

(O) Employees' end-of-service benefits

For the Bank and its branches operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches are accrued for in accordance with the laws and regulations of the respective countries in which the branches are located.

(P) Income tax

Income tax expense comprises current tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank and its branches operate.

Current tax for the current and prior years is measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date. Current tax also includes any tax arising from dividends.

The Bank's profits from operations in Lebanon are subject to a tax rate of 15% after deducting the 5% tax on interest received according to Law no. 497/2003 dated 30 January 2003.

Dividends are subject to a flat 10% tax, reducible to 5% provided that the entity is listed on a regulated stock exchange.

(Q) Assets held in custody and under administration

The Bank provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Bank and accordingly are recorded as off financial position items.

(R) Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

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

(S) Customers' acceptances

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

2.5 SUMMARY OF ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Bank's separate financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

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

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

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

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:
• Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
• How management evaluates the performance of the portfolio;
• Whether management's strategy focuses on earning contractual interest revenues;
• The degree of frequency of any expected asset sales;
• The reason for any asset sales; and
• Whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets
The Bank exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the separate statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in the notes.

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.
Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.
The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

■ 3. CASH AND BALANCES WITH CENTRAL BANKS

In millions of LBP

	2014	2013
Cash on hand	16,979	19,019
Cash in transit	–	1,515
Current accounts with Central Bank	107,194	74,850
Deposits with the Central Banks	597,034	532,581
	721,207	627,965

Cash and balances with the Central Banks include balances with the Central Bank in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Pound as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments. Accordingly, the obligatory reserve amounted to LBP 78,225 million at 31 December 2014 (2013: LBP 59,210 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon placements equivalents to 15% of total deposits in foreign currencies regardless of their nature. These placements amounted to US$ 294,494 thousands (equivalent to LBP 443,950 million) as at 31 December 2014 (2013: US$ 247,588 thousands equivalent to LBP 373,239 million).
Foreign branches are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

There were no obligatory reserves at Cyprus branch at 31 December 2014 and 31 December 2013.

■ 4. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

In millions of LBP

	2014	2013
Current accounts	200,849	140,053
Checks for collection	21,360	27,665
Blocked accounts	22	22
Term accounts	132,087	179,869
	354,318	347,609

■ 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In millions of LBP

	2014	2013
Equity instruments	57,454	16,750

At 31 December 2013, the Bank reclassified its investment in CSC Bank SAL from financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss. The unrealized revaluation gain amounting LBP 198 million at 31 December 2012 was transferred to the income statement.

On 28 April 2014, the Board of Directors of the Bank resolved to acquire an additional 40% of the share capital of CSC Bank SAL for an amount of USD 35 million which resulted in 49% ownership in total. Subsequently, the Bank sold 10% of the CSC Bank SAL shares, resulting in an ownership of 39% at 31 December 2014.

6. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

In millions of LBP

	2014	2013
Commercial loans	1,803,820	1,501,586
Consumer loans	196,621	163,660
	2,000,441	1,665,246
Less:		
Allowance for impairment losses	(73,940)	(67,920)
Allowance for unrealised interest on impaired loans	(5,763)	(6,571)
	1,920,738	1,590,755

Impairment allowance for loans and advances to customers at amortized cost

The movement of the allowance for impairment losses for loans and advances to customers at amortized cost during the year was as follows:

In millions of LBP

	2014	2013
Balance at 1 January	67,920	56,657
Add:		
Charge for the year	6,529	16,958
Foreign exchange difference	(381)	117
	74,068	73,732
Less:		
Provisions written-off	(119)	(2,313)
Write-back of provisions	(9)	(3,499)
Balance at 31 December	73,940	67,920
Individual impairment	63,217	58,860
Collective impairment	10,723	9,060
	73,940	67,920
Gross amount of loans individually determined to be impaired	89,863	89,981
Gross amount of loans classified as substandard	13,788	30,349

* The charge for the year is detailed as follows:

In millions of LBP

	2014	2013
Individual impairment	4,832	15,698
Collective impairment	1,697	1,260
	6,529	16,958

The movement of allowance for unrealized interest on impaired loans during the year was as follows:

In millions of LBP

	2014	2013
Balance at 1 January	6,571	5,334
Add:		
Unrealized interest for the year	603	1,336
Foreign exchange difference	(252)	71
	6,922	6,741
Less:		
Recoveries of unrealized interest	(1,159)	(139)
Amounts written-off	–	(31)
	(1,159)	(170)
Balance at 31 December	5,763	6,571

In millions of LBP

	2014	2013
Unrealized interest on substandard loans	2,391	3,446
Unrealized interest on doubtful loans	2,451	2,204
Unrealized interest on bad loans	921	921
	5,763	6,571

7. RELATED PARTIES

Related parties of the Bank include Key Management Personnel of the Bank, close family members of Key Management Personnel and entities controlled or jointly controlled by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Directors of the Bank.

Entities under common directorships are defined as those entities for which members of the Bank's board or Key Management Personnel also serve as directors.

Terms and conditions of transactions with related parties

The Bank enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates.

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

In millions of LBP

	2014		2013	
	Outstanding balance	Income (expense)	Outstanding balance	Income (expense)
Key Management Personnel				
Net loans and advances	3,108	117	5,322	81
Deposits	10,883	(625)	13,615	(753)
Guarantees taken	319	–	75	–
Entities under common directorships				
Net loans and advances	63	–	57	–
Deposits	658	–	1,431	–
Guarantees given	–	–	–	–

Compensation of the Key Management Personnel of the Bank

In millions of LBP

	2014	2013
Short-term benefits*	1,336	979

*Short-term benefits comprise of salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

- During the year ended 31 December 2014, the Bank paid attendance fees to the members of the board of directors amounting to LBP 672 million (2013: LBP 642 million);
- During the year ended 31 December 2014, the Bank received dividends amounting to LBP 741 million (2013: LBP 134 million) from CSC Bank SAL.
- During the year ended 31 December 2014, the Bank did not receive attendance fees from CSC Bank SAL (2013: LBP 20 million).

8. FINANCIAL ASSETS AT AMORTIZED COST

In millions of LBP

	2014	2013
Quoted financial investments		
Governmental debt securities	625,516	519,944
Unquoted financial investments		
Central Bank's certificates of deposits	200,136	216,162
Governmental debt securities	761,759	639,683
	961,895	855,845
	1,587,411	1,375,789

9. INVESTMENT IN SUBSIDIARY

In millions of LBP

		% of ownership			
Company	Country of incorporation	2014	2013	2014	2013
L & Gulf Company Limited	U.A.E	100	–	6,320	–

During 2014, the Bank acquired 100% of shares of L & Gulf Company Limited a newly incorporated entity in the UAE. The principal activity for which the offshore company is established is to purchase and own an office in Dubai for Lebanon & Gulf Bank Rep Office.

10. PROPERTY AND EQUIPMENT

In millions of LBP

	Freehold land and buildings	Vehicles	Furniture, office installa-tions and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2014	32,750	2,240	37,225	–	72,215
Additions	2,396	486	3,387	4,561	10,830
Disposals	–	(814)	(77)	–	(891)
Transfers	2,190	3	948	(3,141)	–
Write offs	–	(45)	(75)	–	(120)
Translation difference	(19)	(13)	(85)	–	(117)
At 31 December 2014	37,317	1,857	41,323	1,420	81,917
Depreciation:					
At 1 January 2013	4,486	825	24,293	–	29,604
Charge for the year	568	186	2,643	–	3,397
Relating to disposals	–	(411)	(61)	–	(472)
Relating to write offs	–	(17)	(18)	–	(35)
Translation difference	(12)	(12)	(60)	–	(84)
At 31 December 2014	5,042	571	26,797	–	32,410
Net carrying amount:					
At 31 December 2014	32,275	1,286	14,526	1,420	49,507

In millions of LBP

	Freehold land and buildings	Vehicles	Furniture, office installa-tions and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2013	28,914	1,951	34,256	10,650	75,771
Additions	1,075	837	2,769	461	5,142
Disposals	-	(541)	-	-	(541)
Transfers	2,754	-	170	(2,924)	-
Write offs	-	(12)	-	-	(12)
Reimbursement of advances	-	-	-	(8,187)	(8,187)
Translation difference	7	5	30	-	42
At 31 December 2013	32,750	2,240	37,225	-	72,215
Depreciation:					
At 1 January 2013	3,975	796	21,421	-	26,192
Charge for the year	507	196	2,851	-	3,554
Relating to disposals	-	(158)	-	-	(158)
Relating to write offs	-	(12)	-	-	(12)
Translation difference	4	3	21	-	28
At 31 December 2013	4,486	825	24,293	-	29,604
Net carrying amount:					
At 31 December 2013	28,264	1,415	12,932	-	42,611

11. ASSETS OBTAINED IN SETTLEMENT OF DEBT

In millions of LBP

	2014	2013
Net carrying amount:		
At 1 January	27,137	24,847
Acquisitions	1,362	4,733
Rehabilitation and formality fees	1,563	1,563
Disposals	(3,039)	(4,092)
Translation difference	(20)	86
At 31 December	27,003	27,137

12. OTHER ASSETS

In millions of LBP

	2014	2013
Deposits for auctions against assets to be obtained in settlement of debt	197	1,497
Prepayments	4,334	4,211
Due from National Social Security Fund	1,108	1,232
Others	311	194
	5,950	7,134

13. DUE TO CENTRAL BANK

Following the Central Bank of Lebanon basic decision no. 6116 related to basic circular no. 23 and intermediate circular no. 367 issued on 11 August 2014, the Central Bank of Lebanon offered the commercial banks facilities that are subject to an interest rate of 1% per annum payable on a yearly basis. These facilities were given subject to granting mainly housing loans back to clients at an average interest rate of 5.2%.

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

In millions of LBP

	2014	2013
Current accounts	4,708	20,791
Time deposits	44,318	61,135
Margin accounts	4,106	7,520
	53,132	89,446

15. CUSTOMERS' DEPOSITS AT AMORTIZED COST

In millions of LBP

	2013	2012
Sight deposits	295,481	276,312
Time deposits	695,861	525,259
Saving accounts	3,027,364	2,610,112
Credit accounts and deposits against debit accounts	160,235	126,718
Margins on letters of credit	35,424	10,873
	4,214,365	3,549,274

Customers' deposits include coded deposit accounts amounting to LBP 16,763 million as of 31 December 2014 (2013: LBP 19,860 million). These accounts were opened under the provisions of article 3 of the banking secrecy law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank is not permitted to disclose the identities of the coded deposit accounts to third parties including its auditors.

16. OTHER LIABILITIES

In millions of LBP

	2014	2013
National Institution for the Guarantee of Deposits	–	1,337
Sundry creditors	2,894	1,152
Due to National Social Security Fund	322	302
Accrued expenses and other regularization accounts	234	236
Taxes on profit	4,424	2,936
Other taxes	2,553	2,070
Other liabilities	68	70
	10,495	8,103

17. PROVISIONS FOR RISKS AND CHARGES

In millions of LBP

	2014	2013
Provision for employees' end of service benefits *	6,538	5,875
Net trading foreign exchange position	75	75
Structural exchange position	71	71
	6,684	6,021

*The movement in the provision for employees' end of service benefits during the year is as follows:

In millions of LBP

	2014	2013
Balance at 1 January	5,875	5,002
Charge for the year (note 10)	794	865
Benefits paid	(131)	(97)
Refunded contributions	–	105
Balance at 31 December	6,538	5,875

The provision for employees' end of service benefits amount recognized in the separate financial statements is not materially different from what could be required as per IAS 19 Employee Benefits.

18. SHARE CAPITAL AND SHARE PREMIUM

In millions of LBP

	2014		2013	
	Share capital	Share premium	Share capital	Income (expense)
Common shares – Authorized, issued and fully paid				
9,560,000 nominal shares at LBP 20,300 each (2013: 9,560,000 nominal shares at LBP 20,000 each)	194,068	–	191,200	–
Preferred shares – Authorized, issued and fully paid				
140,000 (2007 issue) of LBP 20,000 each	–	–	2,800	18,309
300,000 (2010 issue) of LBP 20,300 each (2013: LBP 20,000 each)	6,090	39,245	6,000	39,245
230,000 (2013 issue) of LBP 20,300 each (2013: LBP 20,000 each)	4,669	30,056	4,600	30,056
200,000 (2014 issue) of LBP 20,300 each	4,060	26,090	–	–
	14,819	95,391	13,400	87,610

According to the resolution of the extraordinary general assembly of shareholders held on 8 August 2014 and the approval of the Central Bank of Lebanon on 8 September 2014, and as a result of the redemption of 140,000 preferred shares (2007 issue at 105 USD per share), the Bank's capital was raised from LBP 204,600 million to LBP 204,827 million thus an increase of LBP 227 million through the increase of the par value of the share capital from LBP 20,000 to LBP 20,300. According to the resolution of the extraordinary general assembly of shareholders held on 19 September 2014 and the approval of the Central Bank of Lebanon on 5 November 2014, the Bank's capital was raised from LBP 204,827 million to LBP 208,887 million through the issuance of 200,000 preferred shares of LBP 20,300 each.

The table below summarizes all preferred shares series issued by the Bank and outstanding at 31 December 2013:

	2010 issue	2013 issue	2014 issue
Date of Extraordinary General Assembly Resolution	1 September 2010	26 October 2013	19 September 2014
Date of Central Bank of Lebanon approval	20 October 2010	20 November 2013	5 November 2014
Number of shares	300,000	230,000	200,000
Issue price	100 USD	100 USD	100 USD
Par value of issued shares (LBP 20,300 per share)	LBP 6,090 million	LBP 4,669 million	LBP 4,060 million
Premium calculated in USD as the difference between the issue price and the counter value of the nominal value per share based on the exchange rate at the subscription dates	(USD 26,033 thousands) LBP 39,245 million	(USD 19,938 thousands) LBP 30,056 million	(USD 17,307 thousands) LBP 26,090 million
Distributions (non-cumulative, subject to the approval of thegeneral assembly and the availability of distributable income) calculated on a pro rata basis in the year of issuance	7.5%	7%	7%
Call option redeemable, pursuant to the exercise of that option, 60 days after the annual general assembly dealing with the accounts for the years	2015 and any of the following years	2018 and any of the following years	2019 and any of the following years
Redemption price per share (no entitlement to dividend in the year of redemption)	104 USD	103.50 USD	103.50 USD

In the event of any liquidation, dissolution or winding-up of the Bank, the holders of any series of preferred shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders on a pro rata basis, before any payment shall be made to common shareholders.

19. NON DISTRIBUTABLE RESERVES

In millions of LBP

	Reserve for general banking risks	Other reserves	Legal reserve	Reserve for assets in settlement of debts	Reserve for redemption of preferred shares	Total
At 1 January 2013	21,437	2,684	8,981	5,378	27,135	65,615
Appropriation of 2012 profits	5,087	–	2,815	2,251	2,338	12,491
Transfer	–	22,494	–	–	(22,494)	–
Increase of capital	–	(23,274)	(11,796)	(2,576)	–	(37,646)
At 31 December 2013	**26,524**	**1,904**	**–**	**5,053**	**6,979**	**40,460**
Appropriation of 2013 profits	**5,367**	**–**	**3,412**	**2,375**	**1,562**	**12,716**
Increase of par value of share capital from LBP 20,000 to LBP 20,300	**–**	**–**	**–**	**–**	**(2,800)**	**(2,800)**
Redemption of preferred shares (2007 issue)	**–**	**–**	**–**	**–**	**(1,052)**	**(1,052)**
At 31 December 2014	**31,891**	**1,904**	**3,412**	**7,428**	**4,689**	**49,324**

Reserves for general banking risks
According to the Central Bank of Lebanon's regulations, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off statement of financial position accounts based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25 percent of these risks by the year 2017 and 2 percent by the year 2027. This reserve is part of the Bank's equity and cannot be distributed as dividends.

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

Reserve for redemption of preferred shares

In accordance with the resolutions of the Ordinary General Assembly of Shareholders of the Bank, held on 21 May 2014 (2013: 14 May 2013), an amount of LBP 1,562 million (2013: LBP 2,338 million) has been appropriated to the reserve for the redemption of preferred shares (issue 2010).

20. INTEREST AND SIMILAR INCOME

In millions of LBP

	2014	2013
Financial assets at amortized cost	111,658	92,930
Deposits and similar accounts with banks and financial institutions	22,682	20,681
Net loans and advances to customers at amorized cost	111,638	98,564
Net loans and advances to related parties at amorized cost	117	81
	246,095	212,256

21. INTEREST AND SIMILAR EXPENSE

In millions of LBP

	2014	2013
Deposits and similar accounts from banks and financial institutions	4,010	2,551
Customers' deposit at amortized cost	174,080	145,186
Related parties' deposits at amortized cost	625	753
	178,715	148,490

22. NET FEE AND COMMISSION INCOME

In millions of LBP

	2014	2013
Fee and commission income		
Credit related fees and commissions	8,474	7,449
Trade finance	8,303	3,965
General banking transactions	2,095	1,918
Electronic banking	818	835
Other services	49	49
	19,739	14,216
Fee and commission expense		
Correspondents' accounts	(711)	(388)
Net fee and commission income	**19,028**	**13,828**

23. NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THOUGH PROFIT OR LOSS

In millions of LBP

	2014	2013
Net gain from debt instruments at fair value through h profit or loss:		
Interest and similar income from debt instruments at fair value through profit or loss:		
Governmental debt securities	64	1,127
Unrealized gain (loss) from revaluation of governmental debt securities	81	(661)
Realized gain from disposal of governemntal debts securities	155	674
	236	13
Net gain from debt instruments at fair value through profit or loss	300	1,140
Net gain from equity instruments at fair value through profit or loss:		
-Unrealized gain from revaluation	1,680	1,198
-Unrealized loss from revaluation	(12)	–
-Dividend income	103	152
-Realized gain from disposal	882	–
Net gain from equity instruments at fair value through profit or loss	2,653	1,350
Foreign exchange income	2,955	2,249
	5,908	4,739

24. NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTIZED COST

Derecognition of financial assets at amortized cost were made during the year due to liquidity gap and yield management.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

In millions of LBP

			2014
	Gains	Losses	Net
Lebanese sovereign and Central Bank of Lebanon:			
Central Bank's certificates of deposits	888	-	888
Treasury bills	4,135	-	4,135
	5,023	-	5,023

In millions of LBP

			2013
	Gains	Losses	Net
Lebanese sovereign and Central Bank of Lebanon:			
Central Bank's certificates of deposits	5,521	(72)	5,449
Treasury bills	1,975	(3)	1,972
Eurobonds	2,150	-	2,150
	9,646	(75)	9,571

25. OTHER OPERATING INCOME

In millions of LBP

	2014	2013
Net gain from disposal of assets obtained in settlement of debt	1,375	1,447
Other income	1,931	1,798
	3,306	3,245

26. NET CREDIT LOSSES

In millions of LBP

	Note	2014	2013
Charges for the year:			
Provision for doubtful loans and advances	6	(6,529)	(16,958)
Bad debts directly written-off to income statement		–	(608)
Recoveries during the year:			
Write-back of provisions for loans and advances	6	9	3,499
Unrealized interest on loans and advances to customers	6	1,159	139
Write-back of provisions for commitments by signature		–	53
		(5,361)	(13,875)

27. PERSONNEL EXPENSES

In millions of LBP

	Note	2014	2013
Salaries and related charges		18,008	16,061
Social security contributions		2,560	2,355
Provision for end of service indemnity	17	794	865
Additional allowances paid		3,879	3,487
		25,241	22,768

28. OTHER OPERATING EXPENSES

In millions of LBP

	2014	2013
Fees for guarantee of deposits	1,543	1,337
Professional fees	1,343	1,220
Maintenance and repairs	1,803	1,388
Marketing and advertising	953	1,153
Postage and telecommunications	830	856
Travel expenses	1,060	850
Electricity and fuel	586	692
Rent and related charges	660	521
Board of directors' attendance fees	672	642
Stationery and printings	479	348
Donations	800	1,024
Taxes and fees	114	1,558
Insurance premiums	402	320
Subscriptions and fees	853	603
Others	2,984	2,177
	15,082	14,689

29. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2014 and 2013 are detailed as follows:

In millions of LBP

	2014	2013
Lebanon branches	7,966	5,864
Cyprus branch	29	12
Tax related to previous years	2,577	–
	10,572	5,876

The Bank's books and records were reviewed by the Department of Income Tax for the years 2009 to 2012. Accordingly, the Department of Income Tax imposed additional taxes and penalties amounting to LBP 2,577 million.

The Bank settled these taxes in 2015. The books and records of the Bank remain subject to review by the Department of Income Tax for the years 2013 and 2014.

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2014 and 2013 is as follows:

In millions of LBP

	2014	2013
Accounting profit before income tax – Lebanon branches	51,423	39,988
Add:		
Nondeductible collective provision	1,697	1,260
	53,120	41,248
Less:		
Share of profit on financial assets under equity method	(1,680)	(1,198)
Dividends received and previously subject to income tax	(103)	(152)
Taxable profit	51,337	39,898
Effective income tax rate	15.00%	15.00%
Income tax due	7,701	5,985

The components of income tax expense for the years ended 31 December 2014 and 2013 are detailed as follows:

In millions of LBP

	2014	2013
5% tax paid on interest revenue during the year	3,487	3,049
Income tax on profit for the year	4,423	2,936
5% tax on interest calculated in previous period	56	(121)
	7,966	5,864

30. DIVIDENDS DECLARED AND PAID

According to the Ordinary General Assembly of Shareholders held on 21 May 2014 (2013: 14 May 2013), dividends amounting to LBP 5,364 million were declared and paid to the preferred shareholders (2013: LBP 5,291 million).

31. CASH AND CASH EQUIVALENTS

In millions of LBP

	2014	2013
Cash and balances with central banks	52,475	107,246
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	354,296	347,609
	406,771	454,855
Less:		
Due to banks and financial institutions (whose original maturities are less than 3 months)	(29,663)	(61,266)
	377,108	393,589

32. CONTINGENT LIABILITIES AND COMMITMENTS

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Bank enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon any clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

The Bank has the following credit related commitments:

In millions of LBP

	2014	2013
Commitments issued to financial institutions	16,865	58,549
Commitments issued to customers	65,113	2,603
Guarantees issued to financial institutions	5,222	6,165
Guarantees issued to customers	133,191	98,416
Acceptances	53,193	44,505
Undrawn credit lines	47,082	52,249
Balance at 31 December	320,666	262,487

Commitments

Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Guarantees

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantees contracts. These include mainly performance and tender guarantees.

Undrawn credit lines and other commitments

Undrawn credit lines and other commitments to lend are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had several unresolved legal claims.
Based on advice from legal counsel, management believes that legal claims will not result in any material financial loss to the Bank.

Lease arrangements

The Bank does not have material capital expenditures and operating lease payments that were not provided for as of the separate statement of financial position date.

Other contingencies
The Bank's books for the year 2013 and 2014 are still subject to review by the tax authorities. The ultimate outcome of such reviews cannot be presently determined.

The Bank's books in Lebanon have not been reviewed by the National Social Security Fund (NSSF) since 1 November 2006. The ultimate outcome of any review by the NSSF on the Bank's books in Lebanon cannot be presently determined.

33. FAIR VALUE OF THE FINANCIAL INSTRUMENTS

The fair values in this note are stated at a specific date and may be different from the amounts which will actually be paid on the maturity or settlement dates of the instrument. In many cases, it would not be possible to realize immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these instruments to the Bank as a going concern.

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities.

In millions of LBP

				2014
	Valuation techniques			
	Quoted market price Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total
Assets measured at fair value:				
Financial assets at fair value through profit or loss:				
Unquoted equity securities	–	–	57,454	57,454
Assets for which fair values are disclosed:				
Cash and balances with Central Bank	16,979	704,228	–	721,207
Due from banks and financial institutions	–	354,318	–	354,318
Loans to banks and financial institutions	–	6,972	–	6,972
Net loans and advances to customers at amortized cost	–	1,920,738	–	1,920,738
Net loans and advances to related parties at amortized cost	–	3,171	–	3,171
Financial assets at amortized cost:	645,509	987,872	–	1,633,381
Governmental debt securities	645,509	782,302	–	1,427,811
Certificate of deposits – Central Bank	–	205,570	–	205,570
Liabilities for which fair values are disclosed:				
Due to Central Bank	–	31,713	–	31,713
Due to banks and financial institutions	–	53,132	–	53,132
Customers' deposits at amortized cost	–	4,214,365	–	4,214,365
Related parties' deposits at amortized cost	–	11,541	–	11,541

In millions of LBP

				2013
	Valuation techniques			
	Quoted market price Level 1	Observable inputs Level 2	Unobservable inputs Level 3	Total
Assets measured at fair value:				
Financial assets at fair value through profit or loss:	325	–	16,425	16,750
Quoted equity securities	325	–	–	325
Unquoted equity securities	–	–	16,425	16,425
Assets for which fair values are disclosed:			-	
Cash and balances with Central Bank	20,534	607,431	–	627,965
Due from banks and financial institutions	–	347,609	–	347,609
Loans to banks and financial institutions	–	8,026	–	8,026
Net loans and advances to customers at amortized cost	–	1,590,755	–	1,590,755
Net loans and advances to related parties at amortized cost	–	5,379	–	5,379
Financial assets at amortized cost:	519,616	864,736	–	1,384,352
Governmental debt securities	519,616	642,900	–	1,162,516
Certificate of deposits – Central Bank	–	221,836	–	221,836
Liabilities for which fair values are disclosed:				
Due to Central Bank	–	12,618	–	12,618
Due to banks and financial institutions	–	89,446	–	89,446
Customers' deposits at amortized cost	–	3,549,274	–	3,549,274
Related parties' deposits at amortized cost	–	15,046	–	15,046

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

Quoted market prices – Level 1
Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.
This category includes cash on hand and in transit and liquid governmental bonds actively traded through an exchange or clearing house.

Valuation technique using observable inputs – Level 2
Financial instruments classified as Level 2 have been valued using models whose most significant inputs are observable in an active market. Such valuation techniques and models incorporate assumptions about factors observable in an active market that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

This category includes liquid governmental bonds and certificates of deposit, less actively traded through an exchange or clearing house, balances with central bank, due from banks and financial institutions, net loans and advances to customers and related parties, loans and advances to banks and financial institutions, due to central bank, due to banks and financial institutions, customers and related parties' deposits.

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

This category includes unquoted equity securities.

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs – Level 2

Derivatives
The Bank uses foreign exchange contracts to manage some of its transaction exposures. These contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 24 months. Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Governmental bonds, certificates of deposits and other debt securities
The Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)

Deposits with banks and loans and advances to banks
For the purpose of this disclosure there is minimal difference between fair value and carrying amount of these financial assets as they are short-term in nature or have interest rates that re-price frequently. The fair value of deposits with longer maturities are estimated using discounted cash flows applying market rates for counterparties with similar credit quality.

Governmental bonds, certificates of deposits and other debt securities
The Bank values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest, implied volatilities, credit spreads and broker statements.

Deposits from banks and customers
In many cases, the fair value disclosed approximates carrying value because these financial liabilities are short-term in nature or have interest rates that re-price frequently. The fair value for deposits with long-term maturities, such as time deposits, are estimated using discounted cash flows, applying either market rates or current rates for deposits of similar remaining maturities.

Comparison of carrying and fair values for financial assets and liabilities not held at fair value
The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described above relate only to the fair value of the Bank's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimations, and therefore such fair value disclosures cannot necessarily be compared from one institution to another.

In millions of LBP

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with Central Banks	721,207	721,207	627,965	627,965
Due from banks and financial institutions	354,318	354,318	347,609	347,609
Loans to banks and financial institutions	6,972	6,972	8,026	8,026
Net loans and advances to customers at amortized cost	1,920,738	1,920,738	1,590,755	1,590,755
Net loans and advances to related parties at amortized cost	3,171	3,171	5,379	5,379
Financial assets at amortized cost	1,587,411	1,633,381	1,375,789	1,384,352
Governmental debt securities	1,387,275	1,427,811	1,159,627	1,162,516
Certificate of deposits – Central Bank	200,136	205,570	216,162	221,836
Financial liabilities				
Due to Central Bank	31,713	31,713	12,618	12,618
Due to banks and financial institutions	53,132	53,132	89,446	89,446
Customers' deposits at amortized cost	4,214,365	4,214,365	3,549,274	3,549,274
Related parties' deposits at amortized cost	11,541	11,541	15,046	15,046

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Bank's assets and liabilities as at 31 December 2014 is as follows:

In millions of LBP

	Amounts without contractual maturity	Less than one year	More than one year	2014 Total
ASSETS				
Cash and balances with central banks	16,979	157,554	546,674	721,207
Due from banks and financial institutions	–	354,318	–	354,318
Financial assets at fair value through profit and loss	57,454	–	–	57,454
Loans to banks and financial institutions	–	–	6,972	6,972
Net loans and advances to customers at amortized cost	–	1,185,700	735,038	1,920,738
Net loans and advances to related parties at amortized cost	–	809	2,362	3,171
Debtors by acceptances	–	53,193	–	53,193
Financial assets at amortized cost	–	118,153	1,469,258	1,587,411
Investment in subsidiary	6,320	–	–	6,320
Property and equipment	49,507	–	–	49,507
Assets obtained in settlement of debt	–	–	27,003	27,003
Other assets	5,950	–	–	5,950
TOTAL ASSETS	136,210	1,869,727	2,787,307	4,793,244
LIABILITIES				
Due to central bank	–	2,406	29,307	31,713
Due to banks and financial institutions	–	53,132	–	53,132
Customers' deposits at amortized cost	–	4,214,365	–	4,214,365
Related parties' deposits at amortized cost	–	11,541	–	11,541
Engagement by acceptances	–	53,193	–	53,193
Other liabilities	–	10,495	–	10,495
Provisions for risks and charges	6,684	–	–	6,684
TOTAL LIABILITIES	6,684	4,345,132	29,307	4,381,123
NET	129,526	(2,475,405)	2,758,000	412,121

The maturity profile of the Bank's assets and liabilities as at 31 December 2013 is as follows:

In millions of LBP

	Amounts without contractual maturity	Less than one year	More than one year	2013 Total
ASSETS				
Cash and balances with central banks	20,534	172,258	435,173	627,965
Due from banks and financial institutions	–	347,609	–	347,609
Financial assets at fair value through profit and loss	16,750	–	–	16,750
Loans to banks and financial institutions	–	–	8,026	8,026
Net loans and advances to customers at amortized cost	–	945,551	645,204	1,590,755
Net loans and advances to related parties at amortized cost	–	1,142	4,237	5,379
Debtors by acceptances	–	44,505	–	44,505
Financial assets at amortized cost	–	–	1,375,789	1,375,789
Property and equipment	42,611	–	–	42,611
Assets obtained in settlement of debt	–	–	27,137	27,137
Other assets	7,134	–	–	7,134
TOTAL ASSETS	87,029	1,511,065	2,495,566	4,093,660
LIABILITIES				
Due to central bank	–	741	11,877	12,618
Due to banks and financial institutions	–	89,446	–	89,446
Customers' deposits at amortized cost	–	3,548,696	578	3,549,274
Related parties' deposits at amortized cost	–	15,046	–	15,046
Engagement by acceptances	–	44,505	–	44,505
Other liabilities	–	8,103	–	8,103
Provisions for risks and charges	6,021	–	–	6,021
TOTAL LIABILITIES	6,021	3,706,537	12,455	3,725,013
NET	81,008	(2,195,472)	2,483,111	368,647

35. RISK MANAGEMENT

The Bank manages its business activities within risk management guidelines as set by the Bank's "Risk Management Policy" approved by the board of directors (the "Board"). The Bank recognizes the role of the board of directors and executive management in the Risk Management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective Risk Management practices and culture lies with the board of directors as does the setting up of Bank's risk appetite and tolerance levels. The board of directors delegates through its Risk Management committee the day–to–day responsibility for establishment and monitoring of Risk Management process across the Bank to the head of Risk Management, who is directly appointed by the board of directors, in coordination with executive management at the Bank.

The Bank is exposed to credit risk, liquidity risk, market risk and operational risk.

The Board's Risk Management committee has the mission to periodically (1) review and assess the exchange rate risk, (2) review the adequacy of the Bank's capital and its allocation within the Bank, and (3) review risk limits and reports and make recommendations to the Board.

The Risk Manager undertakes his responsibilities through the "Risk Management Department" overseeing and monitoring risk management activities throughout the Bank. The Risk Manager is responsible for establishing the function of Risk Management and its employees across the Bank.

Lebanon & Gulf Bank's Risk Management department aids executive management in controlling and actively managing the Bank's overall risk. The department mainly ensures that:

- Risk policies and methodologies are consistent with the Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank's "Risk Management Policy". Discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

The major objective of Risk Management is the implementation of sound risk management practices and the Basel II framework as well as all related regulatory requirements within the Bank. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of pillar I have been initiated. Risk Management is progressively complying with the requirements of pillars II and III of the Basel framework.

Excessive risk concentration
Concentrations arise when the Bank has significant exposure to one borrower or a group of related borrowers or to a number of counter parties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance developments affecting a particular industry or geographic location.
In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

35.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the creditworthiness of counter parties.

The Bank manages credit risk in line with the regulatory guidelines. The Bank has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Bank intends to deliver and the acceptable limits;
- The mechanism of the approval on credit-facilities;
- The mechanism for managing and following up credit-facilities; and
- The required actions for analyzing and organizing credit files.

Credit initiation and approval
Credit granting comprises the identification of suitable business to include in the portfolio and the best approaches to capture it. The process begins at the Board level by developing the Bank strategy. Once the strategy is approved, the Senior Management executes it. The Board does not interfere with the execution process, but observes and monitors the execution of the strategy to ensure its proper implementation, as per its guidelines.
The Bank is essentially split into two parts: (1) the one that generates the business, and (2) the one that monitors and ensures that this business is in line with the strategy of the Bank. And accordingly, the credit processing stage is governed by three major steps, namely:

a) Business Origination Unit: This centralized Unit is the generator of the business and includes all the relationship officers and analysts that liaise with clients. The main function of this Unit is to identify, analyze and recommend potential clients and the suitable facilities to these clients.

In essence, the Business Origination Unit is the engine of the Bank that creates the requisite business and manages it in a manner to ensure that sufficient profitability is attained to compensate the Bank for the operating expenses and risks taken. The Business Origination Unit benefits directly from risk adjusted profits generated from clients, as such, has a vested interest in ensuring that credits are passed and processed quickly.

For internal fraud avoidance, the Client Relationship and the Transaction Processing sides of the Business Origination Unit are managed and controlled separately with sufficient Chinese walls to allow the Business Origination Unit head to function efficiently.

b) Credit Control and Review Unit: For each recommended credit, a separate independent Unit called the Control and Review Unit will examine it to ensure that the analysis and recommendations are in line with the Bank's Policies and Procedures Guidelines. This Unit acts on behalf of the Credit Committee to guarantee the sanctity of the credit granting process.

c) Credit Committee: The credit is finally passed on to the Credit Committee, which approves or disapproves the credit based on various parameters. Should the credit be approved, the Credit Administration Unit, which acts as a separate clerical control function and custodian of the credit requisite documentation and limits, enters the credit's characteristics and features into the Bank's core system.

Any amendments to the granted credits, renewals, or any excess to the approved limit need a special approval based on a predefined credit grid. The grid assigns approval levels based primarily on the riskiness of the credit, nature of credit and the credit's risk exposure. The delegation of authority involves the allocation of such limits to designated credit functionaries within the Bank. Such functionaries hold independent positions, but caution is exercised to ensure that a functionary cannot recommend, approve and/or process credits singularly.

Loans follow up and monitoring
The Bank's Risk Management is designed to identify and set appropriate risk limits and to monitor the risk adherence to these limits. Actual exposures against the limits are monitored daily, monthly and periodically. Bank Risk Management is responsible for monitoring the risk profile of the Bank's loan portfolio by producing internal reports highlighting any exposure of concern in commercial and consumer lending. The Bank examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Bank monitors non-performing loans and takes the required provisions for these loans.
The Bank in the ordinary course of lending activities holds collaterals and guarantees as securities to mitigate credit risk from the loans and advances. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the recovery unit in the Bank dynamically manages and takes remedial actions for non-performing loans.

In compliance with credit best practices, and within the framework of the supervisory directives with regards to Basel implementation and more specifically the Central Bank of Lebanon Intermediary Circular 256 dated 27 April 2011, the Bank uses an Internal Risk Rating System to manage the credit risk of obligors in the Corporate and Middle market business.
For this purpose, and for the time being, the Bank will use two classification schemes; the first will be an internal rating system (that will be referred to as "The Internal Loan Grading System") purchased from Moody's and divided into ten grades, and the second will be a more subjective loan classification system (that will be referred to as "Supervisory Classification System"), divided into six grades, of which three grades relate to the performing portfolio

(regular credit facilities: risk ratings "OA" and special mention – watch list: risk rating "B1" and "B2"), one grade relates to substandard loans (risk rating "OC") and two grades relate to non-performing loans (risk ratings "OD" and "OE").

Credit cards, personal loans, car loans and housing loans are classified in compliance with Banking Control Commission Circular 280 dated 2 January 2015. Each individual borrower is classified based on an internally developed scoring model that evaluates risk based on financial and qualitative inputs. These scores are reviewed on an annual basis. In addition to that, the bank works in full compliance of the new supervisory circulars.

Non-performing loans are managed proactively by a dedicated collection unit. These loans are closely monitored and well provisioned, with appropriate corrective actions taken.

Impairment allowance
For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets.
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances, in compliance with Banking Central Commission Circular 280 dated 2 January 2015.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances and for debt investments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.
The Bank generally bases its analysis on historical experience. However, when there are significant market developments, regional and/or global, the Bank would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.
Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether any provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual loans assessments. The collective assessment takes into account data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). This approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Analysis to maximum exposure to credit risk and collateral and other credit enhancements
The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total loans collateralized against financial and non-financial assets and the net exposure to credit risk.

In millions of LBP

						2014
		Amounts of loans collateralized against:				
	Maximum exposure	Cash	Securities	Letters of credit / guarantees	Real estate	Net credit exposure
Balances with Central Banks	704,228	–	–	–	–	704,228
Due from banks and financial institutions	354,318	–	–	–	–	354,318
Loans to banks and financial institutions	6,972	–	–	–	–	6,972
Net loans and advances to customers at amortized cost:	1,920,738	258,626	24,305	4,710	1,061,641	571,456
Commercial loans	1,724,658	232,763	24,305	4,710	902,395	560,485
Consumer loans	196,080	25,863	–	–	159,246	10,971
Net loans and advances to related parties at amortized cost	3,171	–	–	–	–	3,171
Debtors by acceptances	53,193	32,548		–	–	20,645
Financial assets at amortized cost	1,587,411	–	–	–	–	1,587,411
	4,630,031	291,174	24,305	4,710	1,061,641	3,248,201
Guarantees	138,413	44,610	–	–	–	93,803
Documentary credits	16,865	2,877	–	–	–	13,988
Undrawn credit lines	47,082	–	–	–	–	47,082
	4,832,391	338,661	24,305	4,710	1,061,641	3,403,074

In millions of LBP

2013	Maximum exposure	Amounts of loans collateralized against: Cash	Securities	Letters of credit / guarantees	Real estate	Net credit exposure
Balances with Central Banks	607,431	–	–	–	–	**607,431**
Due from banks and financial institutions	347,609	–	–	–	–	**347,609**
Loans to banks and financial institutions	8,026	–	–	–	–	**8,026**
Net loans and advances to customers at amortized cost:	1,590,755	224,311	16,865	2,268	851,500	**495,811**
Commercial loans	1,426,878	201,880	16,865	2,268	724,932	**480,933**
Consumer loans	163,877	22,431	–	–	126,568	**14,878**
Net loans and advances to related parties at amortized cost	5,379	–	–	–	–	**5,379**
Debtors by acceptances	44,505	5,722	–	–	–	**38,783**
Financial assets at amortized cost	1,375,789	–	–	–	–	**1,375,789**
	3,979,494	230,033	16,865	2,268	851,500	**2,878,828**
Guarantees	104,581	23,660	–	–	–	**80,921**
Documentary credits	58,549	5,151	–	–	–	**53,398**
Undrawn credit lines	52,249	–	–	–	–	**52,249**
	4,194,873	258,844	16,865	2,268	851,500	**3,065,396**

Collateral and other credit enhancements:
The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, quoted shares, cash collateral and bank guarantees. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows;

Securities:
The balances shown above represent the fair value of the securities.

Letters of credit / guarantees:
The Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.

Real estate (commercial and residential):
The Bank holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

Other:
In addition to the above, the Bank also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal and external credit ratings. The table below shows the credit quality of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system and the relationship with external credit rating. The amounts presented are gross of impairment allowances.

In millions of LBP

2014	Neither past due nor impaired: High grade	Standard grade	Past due but not impaired	Individually impaired Non performing	Total
Balances with Central Banks	704,228	–	–	–	**704,228**
Due from banks and financial institutions	354,318	–	–	–	**354,318**
Loans to banks and financial institutions	6,972	–	–	–	**6,972**
Loans and advances to customers at amortized cost	1,202,274	686,628	7,888	103,651	**2,000,441**
Loans and advances to related parties at amortized cost	3,171	–	–	–	**3,171**
Debtors by acceptances	53,193	–	–	–	**53,193**
Financial assets at amortized cost	1,587,411	–	–	–	**1,587,411**
Total	3,911,567	686,628	7,888	103,651	**4,709,734**

In millions of LBP

2013	Neither past due nor impaired: High grade	Standard grade	Past due but not impaired	Individually impaired Non performing	Total
Balances with Central Banks	607,431	–	–	–	**607,431**
Due from banks and financial institutions	347,609	–	–	–	**347,609**
Loans to banks and financial institutions	8,026	–	–	–	**8,026**
Loans and advances to customers at amortized cost	917,668	622,101	5,147	120,330	**1,665,246**
Loans and advances to related parties at amortized cost	5,379	–	–	–	**5,379**
Debtors by acceptances	44,505	–	–	–	**44,505**
Financial assets at amortized cost	1,375,789	–	–	–	**1,375,789**
Total	3,306,407	622,101	5,147	120,330	**4,053,985**

Aging analysis of past due but not impaired loans per class of financial assets:

In millions of LBP

2014	Less than 90 days	91 to 180 days	More than 181 days	Total
Loans and advances to customers at amortized cost:				
- Commercial loans	4,621	170	2,963	7,754
- Consumer loans	45	16	73	134
	4,666	186	3,036	7,888

In millions of LBP

2013	Less than 90 days	91 to 180 days	More than 181 days	Total
Loans and advances to customers at amortized cost:				
- Commercial loans	1,856	353	2,296	4,505
- Consumer loans	108	37	497	642
	1,964	390	2,793	5,147

The classification of loans and advances to customers and related parties at amortized cost as in accordance with the ratings of Central Bank of Lebanon circular 58 are as follows:

In millions of LBP

2014	Gross Balance	Unrealised interest	Impairment allowances	Net balance
Regular	1,196,577	–	–	1,196,577
Follow up	624,147	–	–	624,147
Follow up and regularization	76,066	–	–	76,066
Substandard	13,788	(2,390)	–	11,398
Doubtful	79,519	(2,452)	(53,869)	23,198
Bad	10,344	(921)	(9,348)	75
	2,000,441	(5,763)	(63,217)	1,931,461
Collective impairment	–	–	(10,723)	(10,723)
	2,000,441	(5,763)	(73,940)	1,920,738

In millions of LBP

2013	Gross Balance	Unrealised interest	Impairment allowances	Net balance
Regular	919,007	–	–	919,007
Follow up	529,539	–	–	529,539
Follow up and regularization	96,370	–	–	96,370
Substandard	30,349	(3,446)	–	26,903
Doubtful	79,536	(2,203)	(49,409)	27,924
Bad	10,445	(922)	(9,451)	72
	1,665,246	(6,571)	(58,860)	1,599,815
Collective impairment	–	–	(9,060)	(9,060)
	1,665,246	(6,571)	(67,920)	1,590,755

Renegotiated Loans

Restructuring activity aims to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility. As of 31 December 2014, renegotiated loans amounted to LBP 11,413 million (2013: LBP 10,894 million).

Analysis of risk concentration

The Bank's concentrations of risk are managed on a client or counterparty basis, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2014 amounted to LBP 61,986 million (2013: LBP 57,826 million) before taking account of collateral or other credit enhancements and LBP 38,971 million (2013: LBP 43,836 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the separate statement of financial position by geography of counterparty and by industry before the effect of mitigation through the use of netting and collateral agreements.

Industry analysis

An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

In millions of LBP

2014	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Governmental	Other	Total
Balances with Central Banks	–	–	–	–	–	–	–	704,228	–	**704,228**
Due from banks and financial institutions	–	–	–	–	354,318	–	–	–	–	**354,318**
Current accounts	–	–	–	–	222,209	–	–	–	–	**222,209**
Time deposits	–	–	–	–	132,109	–	–	–	–	**132,109**
Loans to banks and financial institutions	–	–	–	–	6,972	–	–	–	–	**6,972**
Net loans and advances to customers at amortized cost	844,246	160,565	17,327	102,634	–	530,107	184,882	–	80,977	**2,084,985**
Commercial loans	752,497	152,977	15,619	80,473	–	486,193	164,247	–	72,652	**1,724,658**
Consumer loans	91,749	7,588	1,708	22,161	–	43,914	20,635	–	8,325	**196,080**
Net loans and advances to related parties at amortized cost	–	–	–	–	–	–	3,171	–	–	**3,171**
Commercial loans	–	–	–	–	–	–	63	–	–	**63**
Consumer loans	–	–	–	–	–	–	3,108	–	–	**3,108**
Debtors by acceptances	17,602	34,998	–	586	–	7	–	–	–	**53,193**
Financial assets at amortized cost:	–	–	–	–	–	–	–	1,587,411	–	**1,587,411**
Lebanese governmental bonds	–	–	–	–	–	–	–	1,387,275	–	**1,387,275**
Certificates of deposit issued by the Central Bank of Lebanon	–	–	–	–	–	–	–	200,136	–	**200,136**
	861,848	195,563	17,327	103,220	361,290	530,114	188,053	2,291,639	80,977	**4,630,031**

In millions of LBP

2013	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Governmental	Other	Total
Balances with Central Banks	–	–	–	–	–	–	–	607,431	–	**607,431**
Due from banks and financial institutions	–	–	–	–	347,609	–	–	–	–	**347,609**
Current accounts	–	–	–	–	167,718	–	–	–	–	**167,718**
Time deposits	–	–	–	–	179,891	–	–	–	–	**179,891**
Loans to banks and financial institutions	–	–	–	–	8,026	–	–	–	–	**8,026**
Net loans and advances to customers at amortized cost	718,594	118,640	12,402	62,245	–	395,803	232,686	–	50,385	**1,590,755**
Commercial loans	712,200	117,089	12,279	52,358	–	391,615	95,658	–	45,679	**1,426,878**
Consumer loans	6,394	1,551	123	9,887	–	4,188	137,028	–	4,706	**163,877**
Net loans and advances to related parties at amortized cost	–	–	–	–	–	–	5,379	–	–	**5,379**
Debtors by acceptances	31,192	13,296	–	–	–	17	–	–	–	**44,505**
Financial assets at amortized cost:	–	–	–	–	–	–	–	1,375,789	–	**1,375,789**
Lebanese governmental bonds	–	–	–	–	–	–	–	1,159,627	–	**1,159,627**
Certificates of deposit issued by the Central Bank of Lebanon	–	–	–	–	–	–	–	216,162	–	**216,162**
	749,786	131,936	12,402	62,245	355,635	395,820	238,065	1,983,220	50,385	**3,979,494**

Geographic analysis

The following table shows the maximum exposure to credit risk for the components of the separate statement of financial position by geography of counterparty before the effect of mitigation through the use of master netting agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

In millions of LBP

			2014
	Domestic	Others	Total
Financial assets			
Balances with Central Banks	704,217	11	**704,228**
Due from banks and financial institutions	87,630	266,688	**354,318**
Current accounts	29,734	192,475	**222,209**
Time deposits	57,896	74,213	**132,109**
Loans to banks and financial institutions	6,972	–	**6,972**
Net loans and advances to customers at amortized cost	1,773,927	146,811	**1,920,738**
Commercial loans	1,621,416	103,242	**1,724,658**
Consumer loans	152,511	43,569	**196,080**
Net loans and advances to related parties at amortized cost	3,171	–	**3,171**
Commercial loans	63	–	**63**
Consumer loans	3,108	–	**3,108**
Debtors by acceptances	20,602	32,591	**53,193**
Financial assets at amortized cost:	1,587,411	–	**1,587,411**
Lebanese governmental bonds	1,387,275	–	**1,387,275**
Certificates of deposit issued by the Central Bank of Lebanon	200,136	–	**200,136**
Total credit exposure	4,183,930	446,101	**4,630,031**

In millions of LBP

			2013
	Domestic	Others	Total
Financial assets			
Balances with Central Banks	607,387	44	**607,431**
Due from banks and financial institutions	124,328	223,281	**347,609**
Current accounts	42,568	125,150	**167,718**
Time deposits	81,760	98,131	**179,891**
Loans to banks and financial institutions	8,026	–	**8,026**
Net loans and advances to customers at amortized cost	1,506,170	84,585	**1,590,755**
Commercial loans	1,343,756	83,122	**1,426,878**
Consumer loans	162,414	1,463	**163,877**
Net loans and advances to related parties at amortized cost	5,379	–	**5,379**
Debtors by acceptances	31,017	13,488	**44,505**
Financial assets at amortized cost:	1,375,789	–	**1,375,789**
Lebanese governmental bonds	1,159,627	–	**1,159,627**
Certificates of deposit issued by the Central Bank of Lebanon	216,162	–	**216,162**
Total credit exposure	3,658,096	321,398	**3,979,494**

35.2 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

Regulatory ratios and limits

In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Bank and loans from the public sector that mature within one year.

The Bank stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers and related parties as a percentage of client's deposits.

	Loans to deposits 2014	2013
	%	%
Year-end	45.50	44.78

35.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as of 31 December based on their contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay.

The table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In millions of LBP

2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with Central Banks	174,533	–	402,300	144,374	721,207
Due from banks and financial institutions	353,894	424	–	–	354,318
Loans to banks and financial institutions	–	–	1,361	5,611	6,972
Net loans and advances to customers at amortized cost	579,927	605,773	369,602	365,436	1,920,738
Net loans and advances to related parties at amortized cost	809	–	–	2,362	3,171
Debtors by acceptances	18,424	34,769	–	–	53,193
Financial assets at amortized cost	27,276	90,877	429,903	1,039,355	1,587,411
Total undiscounted financial assets	1,154,863	731,843	1,203,166	1,557,138	4,647,010
Financial liabilities					
Due to Central Bank	961	1,445	7,793	21,514	31,713
Due to banks and financial institutions	51,382	1,750	–	–	53,132
Customers' deposits at amortized cost	3,525,721	688,644	–	–	4,214,365
Related parties' deposits at amortized cost	11,541	–	–	–	11,541
Engagements by acceptances	18,424	34,769	–	–	53,193
Total undiscounted financial liabilities	3,608,029	726,608	7,793	21,514	4,363,944
Net undiscounted financial assets / (liabilities)	(2,453,166)	5,235	1,195,373	1,535,624	283,066

In millions of LBP

2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with Central Banks	100,246	92,546	283,827	151,346	627,965
Due from banks and financial institutions	347,609	–	–	–	347,609
Loans to banks and financial institutions	–	–	203	7,823	8,026
Net loans and advances to customers at amortized cost	519,263	426,288	277,218	367,986	1,590,755
Net loans and advances to related parties at amortized cost	1,142	–	–	4,237	5,379
Debtors by acceptances	32,450	12,055	–	–	44,505
Financial assets at amortized cost	–	–	533,918	841,871	1,375,789
Total undiscounted financial assets	1,000,710	530,889	1,095,166	1,373,263	4,000,028
Financial liabilities					
Due to Central Bank	175	566	3,011	8,866	12,618
Due to banks and financial institutions	61,266	28,180	–	–	89,446
Customers' deposits at amortized cost	2,947,953	600,743	578	–	3,549,274
Related parties' deposits at amortized cost	15,046	–	–	–	15,046
Engagements by acceptances	32,450	12,055	–	–	44,505
Total undiscounted financial liabilities	3,056,890	641,544	3,589	8,866	3,710,889
Net undiscounted financial assets / (liabilities)	(2,056,180)	(110,655)	1,091,577	1,364,397	289,139

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

In millions of LBP

2014	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial guarantees	51,353	79,913	7,147	–	138,413
Documentary credits	11,943	4,689	233	–	16,865
Undrawn credit lines	6,093	24,743	16,246	–	47,082
	69,389	109,345	23,626	–	202,360

In millions of LBP

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	2013 Total
Financial guarantees	47,696	48,995	7,890	–	104,581
Documentary credits	27,546	31,003	-	–	58,549
Undrawn credit lines	1,243	50,845	161	–	52,249
	76,485	130,843	8,051	–	215,379

The Bank expects that not all of the contingent liabilities or commitments will be demanded before maturity.

35.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

Risk Management is responsible for generating internal reports quantifying the Bank's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management on a monthly basis. The Bank's Asset and Liability Management policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of the Bank. Risk Management is responsible for monitoring compliance with all limits set in the policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

35.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

The following table analyses the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at the year end, including the effect of hedging instruments.

In millions of LBP

Currency	Increase in basis points	2014 Sensitivity of net interest income
Lebanese Pound	200	(12,991)
United States Dollar	100	(5,493)
Euro	50	(94)

In millions of LBP

Currency	Increase in basis points	Sensitivity of net interest income
Lebanese Pound	200	(11,600)
United States Dollar	100	(4,290)
Euro	50	(92)

A decrease in basis points will have an opposite effect on net interest income.

Interest sensitivity gap

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

In millions of LBP

2014	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	14,053	36,180	–	–	401,749	140,075	129,150	721,207
Due from banks and financial institutions	72,912	58,661	423	–	–	–	222,322	354,318
Financial assets at fair value through profit or loss	–	–	–	–	–	–	57,454	57,454
Loans to banks and financial institutions	–	–	–	100	1,250	5,600	22	6,972
Loans and advances to customers at amortized cost	493,031	509,038	684,415	159,603	36,890	3,089	34,672	1,920,738
Loans and advances to related parties at amortized cost	3,171	–	–	–	–	–	–	3,171
Debtor by acceptances	–	–	–	–	–	–	53,193	53,193
Financial assets at amortized cost	21,248	5,150	89,356	142,132	281,775	1,027,920	19,830	1,587,411
Investment in subsidiary	–	–	–	–	–	–	6,320	6,320
Total	604,415	609,029	774,194	301,835	721,664	1,176,684	522,963	4,710,784
LIABILITIES								
Due to Central Bank	651	311	1,445	1,911	5,881	21,514	–	31,713
Due to banks and financial institutions	22,879	23,031	800	901	–	–	5,521	53,132
Customers' deposits at amortized cost	2,422,412	814,713	430,270	261,352	49	–	285,569	4,214,365
Related parties' deposits at amortized cost	11,541	–	–	–	–	–	–	11,541
Engagements by acceptances	–	–	–	–	–	–	53,193	53,193
TOTAL	2,457,483	838,055	432,515	264,164	5,930	21,514	344,283	4,363,944
Total interest rate sensitivity gap	(1,853,068)	(229,026)	341,679	37,671	715,734	1,155,170	178,680	346,840

In millions of LBP

2013	Up to 1 month	1 to 3 months	3 months to 1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with Central Banks	–	16,584	80,650	46,732	236,678	147,075	100,246	627,965
Due from banks and financial institutions	–	179,637	–	–	–	–	167,972	347,609
Financial assets at fair value through profit or loss	–	–	–	–	–	–	16,750	16,750
Loans to banks and financial institutions	–	–	–	–	200	7,800	26	8,026
Net loans and advances to customers at amortized cost	347,918	400,403	636,374	117,329	31,967	1,866	54,898	1,590,755
Net loans and advances to related parties at amortized cost	5,379	–	–	–	–	–	-	5,379
Debtors by acceptances	–	–	–	–	–	–	44,505	44,505
Financial assets at amortized cost	–	–	–	138,807	386,088	832,136	18,758	1,375,789
TOTAL	353,297	596,624	717,024	302,868	654,933	988,877	403,155	4,016,778
LIABILITIES								
Due to Central Bank	121	54	566	850	2,161	8,866	–	12,618
Due to banks and financial institutions	33,109	21,079	13,725	–	–	–	21,533	89,446
Customers' deposits at amortized cost	1,946,601	733,100	598,733	497	–	–	270,343	3,549,274
Related parties' deposits at amortized cost	15,046	–	–	–	–	–	–	15,046
Engagements by acceptances	–	–	–	–	–	–	44,505	44,505
TOTAL	1,994,877	754,233	613,024	1,347	2,161	8,866	336,381	3,710,889
Total interest rate sensitivity gap	(1,641,580)	(157,609)	104,000	301,521	652,772	980,011	66,774	305,889

35.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.

The Bank is allowed to maintain a net trading position not to exceed 1 percent of its net Tier 1 equity, as long as the global foreign position does not exceed, at the same time, 40 percent of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

The tables below indicate the separate statement of financial position detailed in Lebanese Pound (LBP) and foreign currencies, translated into LBP.

In millions of LBP — 31 December 2014

		Foreign currencies in Lebanese Pounds				
	Lebanese Pound	US Dollars in	Euro in	Other foreign currencies	Total foreign currencies	Total
ASSETS						
Cash and balances with central banks	211,803	498,469	8,552	2,383	509,404	721,207
Due from banks and financial institutions	4,518	253,790	78,458	17,552	349,800	354,318
Financial assets at fair value through profit or loss	54,439	3,015	–	–	3,015	57,454
Loans to banks and financial institutions	6,972	–	–	–	–	6,972
Net loans and advances to customers at amortized cost	343,757	1,528,168	39,773	9,040	1,576,981	1,920,738
Net loans and advances to related parties at amortized cost	2,552	602	12	5	619	3,171
Debtor by acceptances	–	50,509	2,581	103	53,193	53,193
Financial assets at amortized cost	871,551	695,986	19,874	–	715,860	1,587,411
Investment in subsidiary	–	–	–	6,320	6,320	6,320
Property and equipment	49,311	–	196	–	196	49,507
Assets obtained in settlement of debt	494	26,509	–	–	26,509	27,003
Other assets	4,649	1,192	51	58	1,301	5,950
TOTAL ASSETS	1,550,046	3,058,240	149,497	35,461	3,243,198	4,793,244
LIABILITIES						
Due to Central Bank	31,713	–	–	–	–	31,713
Due to banks and financial institutions	12,882	33,782	6,460	8	40,250	53,132
Customers' deposits at amortized cost	1,231,985	2,813,734	140,025	28,621	2,982,380	4,214,365
Related parties' deposits at amortized cost	7,169	4,100	241	31	4,372	11,541
Engagements by acceptances	–	50,509	2,581	103	53,193	53,193
Other liabilities	9,218	1,260	17	–	1,277	10,495
Provisions for risks and charges	6,684	–	–	–	–	6,684
Total liabilities	1,299,651	2,903,385	149,324	28,763	3,081,472	4,381,123
NET EXPOSURE	250,395	154,855	173	6,698	161,726	412,121

In millions of LBP — 31 December 2013

		Foreign currencies in Lebanese Pounds				
	Lebanese Pound	US Dollars in	Euro in	Other foreign currencies	Total foreign currencies	Total
ASSETS						
Cash and balances with Central Banks	211,529	412,366	3,392	678	416,436	627,965
Due from banks and financial institutions	4,941	317,197	8,255	17,216	342,668	347,609
Financial assets at fair value through profit or loss	13,410	3,340	–	–	3,340	16,750
Loans to banks and financial institutions	8,026	–	–	–	–	8,026
Net loans and advances to customers at amortized cost	301,476	1,216,958	64,623	7,698	1,289,279	1,590,755
Net loans and advances to related parties at amortized cost	2,621	2,703	55	–	2,758	5,379
Debtors by acceptances	–	40,918	3,302	285	44,505	44,505
Financial assets at amortized cost	742,308	611,000	22,481	–	633,481	1,375,789
Property and equipment	42,341	–	270	–	270	42,611
Assets obtained in settlement of debt	494	24,531	2,112	–	26,643	27,137
Other assets	4,353	2,768	13	–	2,781	7,134
TOTAL ASSETS	1,331,499	2,631,781	104,503	25,877	2,762,161	4,093,660
LIABILITIES						
Due to Central Bank	12,618	–	–	–	–	12,618
Due to banks and financial institutions	25,534	46,756	11,016	6,140	63,912	89,446
Customers' deposits at amortized cost	1,061,453	2,364,724	97,162	25,935	2,487,821	3,549,274
Related parties' deposits at amortized cost	6,697	8,162	169	18	8,349	15,046
Engagements by acceptances	–	40,918	3,302	285	44,505	44,505
Other liabilities	7,088	983	32	–	1,015	8,103
Provisions for risks and charges	6,021	–	–	–	–	6,021
Total liabilities	1,119,411	2,461,543	111,681	32,378	2,605,602	3,725,013
NET EXPOSURE	212,088	170,238	(7,178)	(6,501)	156,559	368,647

Bank's sensitivity to currency exchange rates
The table below shows the currencies to which the Bank has significant exposure at 31 December 2014 and 2013 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities) . A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

		2014	2013
Currency	**Change in currency rate %**	**Effect on profit before tax**	Effect on profit before tax
US Dollar	+5	**7,743**	8,512
Euro	+5	**9**	(359)
Other currencies	+5	**335**	(325)

Prepayment risk
Prepayment risk is the risk that the Bank incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall. The fixed rate assets of the Bank are not significant compared to the total assets. Moreover, other market conditions causing prepayment are not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income as not material after taking into account the effect of any prepayment penalties.

35.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff awareness and assessment of processes, including the use of internal audit.

36. CAPITAL MANAGEMENT

By maintaining an actively managed capital base, the Bank's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44 and related amendments (latest in March 2014). These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk. To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining a ratio of total regulatory capital to risk-weighted assets at or above 12% to be achieved in 2015. The limit of the Common Equity tier 1 Ratio is expected to increase to 8%, the Tier 1 ratio to 10% and the Total Capital Ratio to 12% by the end of 2015.

In millions of LBP

	2014	2013
Risk weighted assets:		
Credit risk	**2,830,583**	2,503,921
Market risk	**67,428**	51,188
Operational risk	**151,362**	128,322
Total risk weighted assets	**3,049,373**	2,683,431

The capital base as per Basel III requirements as of 31 December is as follows:

In millions of LBP

	Excluding net income for the year		Including net income for the year less proposed dividends	
	2014	2013	2014	2013
Tier 1 Capital	**335,767**	327,565	**369,499**	353,951
Tier 2 Capital	**1,904**	1,904	**1,904**	1,904
Total Capital	**337,671**	329,469	**371,403**	355,855

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

The capital adequacy ratio as of 31 December is as follows:

In millions of LBP

	Excluding net income for the year		Including net income for the year less proposed dividends	
	2014	2013	2014	2013
Capital adequacy – Tier 1	**11.01%**	12.21%	**12.12%**	13.19%
Capital adequacy – Total Capital	**11.07%**	12.28%	**12.18%**	13.26%

LIST OF MAJOR CORRESPONDENTS

NORTH AMERICA

United States of America
. The Bank of New York Mellon
. Standard Chartered Bank

Canada
. Bank of Montreal

SOUTH AMERICA

Brazil
. Banco Safra SA
. Banco Santander (Brasil) SA

EUROPE

Austria
. Unicredit Bank Austria AG

United Kingdom
. Barclays Bank PLC
. Standard Chartered Bank

Germany
. Commerzbank AG
. Deutsche Bank AG

France
. Natixis
. Banque Fédérative du Crédit Mutuel-CIC

Switzerland
. Banque de Commerce et de Placements SA

Belgium
. KBC Bank N.V

Italy
. Intesa Sanpaolo SPA
. Unicredit SpA
. Banca UBAE SPA

Spain
. Banco de Sabadell S.A.
. CaixaBank

Denmark
. Danske Bank A/S

Sweden
. Skandinaviska Enskilda Banken AB

Finland
. Danske Bank PLC
. Skandinaviska Enskilda Banken AB (Publ)

Greece
. National Bank of Greece SA

Cyprus
. National Bank of Greece (Cyprus) Ltd

Turkey
. Turkiye Is Bankasi AS
. A&T Bank
. Turkiye Finans Katilim Bankasi

AUSTRALIA

Australia
. Westpac Banking Corporation
. Bank of Sydney

ASIA

Japan
. Sumitomo Mitsui Banking Corporation

China
. Bank of China Limited
. Industrial & Commercial Bank of China LTD

Pakistan
. Habib Bank Limited

Philippines
. Philippines National Bank

India
. Indian Overseas Bank
. Canara Bank

Korea
. Korea Exchange Bank

Sri lanka
. Bank of Ceylon

Malaysia
. Malayan Banking Berhad

Taiwan
. Mega International Commercial Bank Co Ltd

Thailand
. Export-Import Bank of Thailand

U.A.E.
. Mashreqbank PSC
. Emirates NBD
. Al Khaliji France SA
. National Bank of Abu Dhabi

Bahrain
. Ahli United Bank BSC

Jordan
. The Housing Bank for Trade & Finance

Kuwait
. Burgan Bank SAK

Qatar
. Doha Bank
. Qatar National Bank SAQ

Saudi Arabia
. The National Commercial Bank

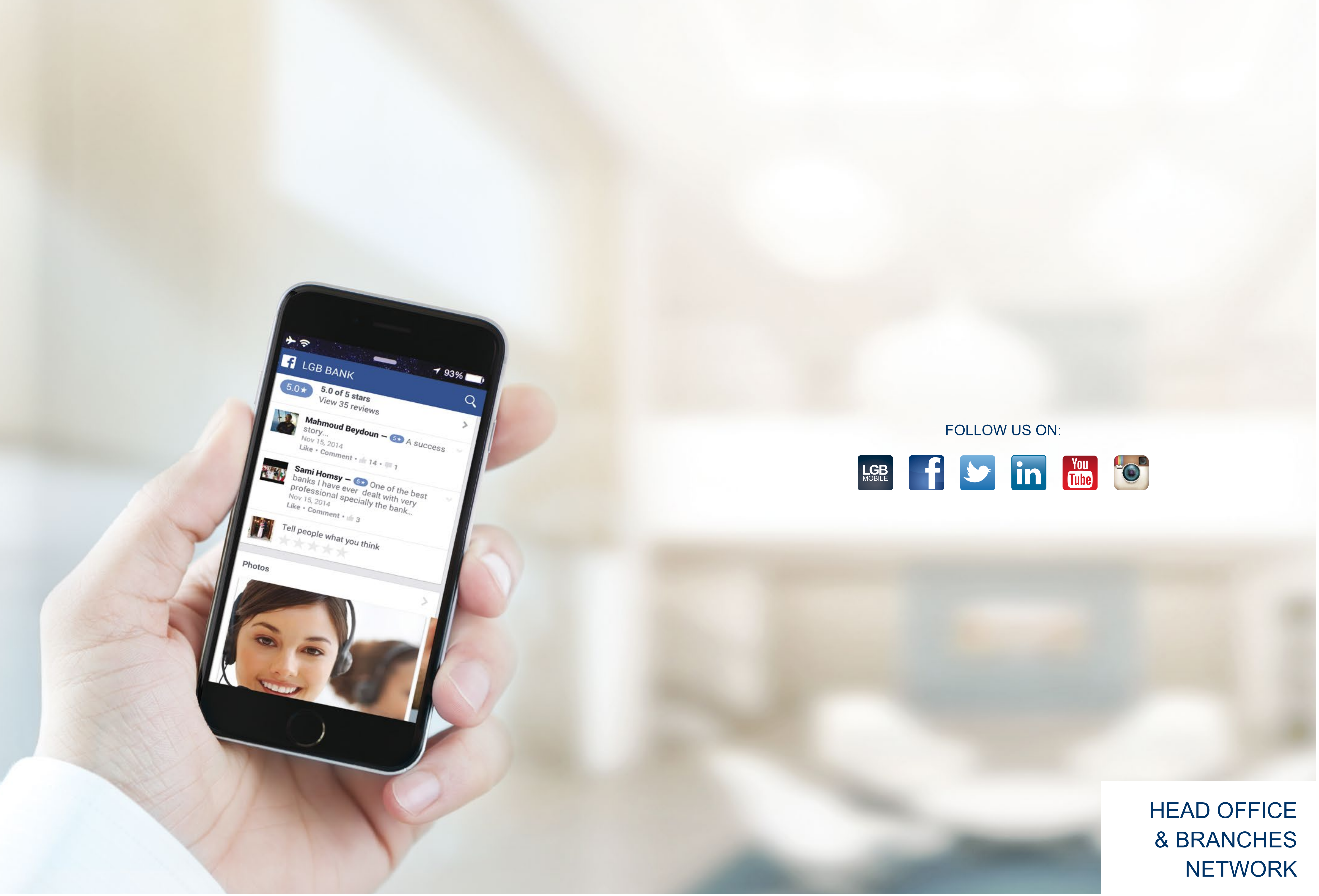
AFRICA

Ethiopia
. Dashen Bank SC

Morocco
. Attijariwafa

Tunisia
. Banque de Tunisie SA
. Banque Internationale Arabe de Tunisie SA

Egypt
. National Bank of Egypt



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