CEDRUS INVEST BANK SAL

FINANCIAL STATEMENTS

31 DECEMBER 2014

EY
Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CEDRUS INVEST BANK SAL

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

PricewaterhouseCoopers

4 May 2015
Beirut, Lebanon

Cedrus Invest Bank SAL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	***2014*** ***LL (000)***	*2013* *LL (000)*
Interest and similar income	3	**5,642,964**	4,936,801
Interest and similar expense	4	**(850,688)**	(547,418)
Net interest income		**4,792,276**	4,389,383
Fee and commission income	5	**6,147,946**	5,441,650
Fee and commission expense	6	**(567,706)**	(625,246)
Net fee and commission income		**5,580,240**	4,816,404
Net gain from financial assets at fair value through profit or loss	7	**3,351,942**	1,561,004
Gain from sale of financial assets at amortized cost	8	**280,821**	-
Revenue		**14,005,279**	10,766,791
Personnel expenses	9	**(3,203,999)**	(2,649,579)
Depreciation of property and equipment	18	**(235,894)**	(230,375)
Amortization of intangible assets	19	**(89,074)**	(61,374)
Other operating expenses	10	**(4,437,423)**	(2,990,655)
Total operating expenses		**(7,966,390)**	(5,931,983)
Profit for the year		**6,038,889**	4,834,808
Other comprehensive income		**-**	-
Total comprehensive income for the year		**6,038,889**	4,834,808

The accompanying notes 1 to 36 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	***2014 LL (000)***	*2013 LL (000)*
Assets			
Cash and balances with the Central Bank of Lebanon	12	**6,626,672**	5,584,078
Restricted balance with the Central Bank of Lebanon	23	**60,311,082**	-
Due from banks and financial institutions	13	**68,668,487**	62,026,306
Financial assets at fair value through profit or loss	14	**21,234,325**	21,280,218
Loans and advances to customers at amortized cost	15	**27,400,134**	12,413,802
Financial assets at amortized cost	16	**18,332,786**	21,507,576
Investment in a subsidiary	17	**23,970**	-
Property and equipment	18	**700,128**	898,369
Intangible assets	19	**351,574**	234,719
Other assets	20	**9,589,510**	4,742,578
Total assets		**213,238,668**	128,687,646
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	21	**41,323,267**	29,381,448
Customers' deposits at amortized cost	22	**11,614,654**	7,138,315
Restricted accounts for capital increase	23	**57,031,672**	-
Deposits from related parties at amortized cost	24	**7,363,530**	3,673,583
Other liabilities	25	**3,498,978**	2,126,622
Total liabilities		**120,832,101**	42,319,968
Equity			
Share capital	26	**77,998,626**	77,998,626
Non-distributable reserves	27	**1,141,382**	503,016
Distributable reserves	27	**3,031,228**	3,031,228
Reserve for capital increase	27	**3,279,410**	-
Retained earnings		**917,032**	-
Profit for the year		**6,038,889**	4,834,808
Total equity		**92,406,567**	86,367,678
Total liabilities and equity		**213,238,668**	128,687,646
Off-balance sheet accounts:			
Assets under management and administration			
- Assets under management	29	**208,088,452**	163,334,506
- Assets under External Asset Manager Services	29	**174,905,728**	153,871,832
- Assets under custody	29	**80,781,910**	68,573,750
- Fiduciary deposits	29	**50,753,577**	31,773,569
		514,529,667	417,553,657

The financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 4 May 2015.

Cedrus Invest Bank SAL

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Share capital LL (000)	*Non-distributable reserves LL (000)*	*Distributable reserves LL (000)*	*Reserve for capital increase LL (000)*	*Retained earnings LL (000)*	*Profit for the year LL (000)*	*Total LL (000)*
Balance at 1 January 2013	77,998,626	-	-	-	-	3,534,244	81,532,870
Appropriation of profits (note 27)	-	503,016	3,031,228	-	-	(3,534,244)	-
Total comprehensive income for the year	-	-	-	-	-	4,834,808	4,834,808
Balance at 31 December 2013	77,998,626	503,016	3,031,228	-	-	4,834,808	86,367,678
Appropriation of profits (note 27)	-	638,366	-	-	4,196,442	(4,834,808)	-
Transfer to reserve for capital increase (note 27)	-	-	-	3,279,410	(3,279,410)	-	-
Total comprehensive income for the year	-	-	-	-	-	6,038,889	6,038,889
Balance at 31 December 2014	**77,998,626**	**1,141,382**	**3,031,228**	**3,279,410**	**917,032**	**6,038,889**	**92,406,567**

The accompanying notes 1 to 36 form part of these financial statements.

STATEMENT OF CASH FLOWS

31 December 2014

	Notes	2014 LL (000)	2013 LL (000)
OPERATING ACTIVITIES			
Profit for the year		**6,038,889**	4,834,808
Adjustments for:			
Depreciation of property and equipment	18	**235,894**	230,375
Amortization of intangible assets	19	**89,074**	61,374
Loss on disposal of property and equipment		**179**	-
Gain from sale of financial assets at amortized cost	8	**(280,821)**	-
Net gain from financial assets at fair value through profit or loss		**(2,099,557)**	(1,561,004)
		3,983,658	3,565,553
Changes in operating assets and liabilities:			
Balances with Central Bank		**4,675,543**	(2,715,150)
Loans and advances to customers at amortized cost		**(14,986,332)**	(1,991,491)
Loans and advances to related parties at amortized cost		**-**	442
Financial assets at amortized cost		**3,455,611**	(10,435,051)
Financial assets at fair value through profit or loss		**2,145,450**	3,987,391
Customers' deposits at amortized cost		**4,476,339**	(964,965)
Deposits from related parties at amortized cost		**3,689,947**	(5,767,433)
Due from banks and financial institutions		**27,421,374**	1,737,879
Due to banks and financial institutions		**11,941,819**	3,734,236
Other assets		**(2,254,032)**	(55,231)
Other liabilities		**1,372,356**	440,759
Net cash from (used in) operating activities		**45,921,733**	(8,463,061)
INVESTING ACTIVITIES			
Purchase of property and equipment	18	**(37,832)**	(56,391)
Purchase of intangible assets	19	**(205,929)**	(81,929)
Investment in a subsidiary		**(23,970)**	-
Restricted cash with Central Bank		**(60,311,082)**	-
Advance on purchase of investment		**(2,592,900)**	-
Net cash used in investing activities		**(63,171,713)**	(138,320)
FINANCING ACTIVITIES			
Restricted accounts for capital increase	23	**57,031,672**	-
Net cash from financing activities		**57,031,672**	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**39,781,692**	(8,601,381)
Cash and cash equivalents at beginning of year		**8,046,650**	16,648,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	31	**47,828,342**	8,046,650

The accompanying notes 1 to 36 form part of these financial statements.

1 CORPORATE INFORMATION

Cedrus Invest Bank SAL (the Bank) is a Lebanese joint stock company (specialized bank) registered at the Commercial Register in Beirut under number 1013830 on 14 June 2011. The Bank is under number 137 in the list of Banks of the Central Bank of Lebanon. The Bank is located in Achrafieh, Sofil Center, Beirut – Lebanon.

The Bank provides all types of allowable financial services in reference to legislative decree No. 50 (dated 7 July 1983) subject to the Lebanese regulations especially the Code of Commerce, Code of Money and Credit and the Laws and Circulars of the Central Bank of Lebanon and the Banking Control Commission.

Accordingly, the Bank's financial services could be summarized as follows:

- The Bank provides Multi-family office services in which it offers comprehensive oversight of various financial assets through consolidated performance reporting, fee negotiation, documentation, record keeping, accountability detection and investment advisory including asset allocation and security selection. The Bank charges clients a quarterly fee as a percentage of the total assets under this service.

- The Bank offers its clients advisory and discretionary portfolio management services on their accounts at external banks and financial institutions. The Bank obtains rebates on the fees charged by the external banks and financial institutions to the clients.

- The Bank provides brokerage services enabling clients' access to international financial markets and trade execution services.

The Bank is exempt from income taxes on profits as per the provisions of legislative decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with IFRS as issued by IASB. The financial statements of the Bank have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.4.

The Bank's subsidiary is a real estate management company incorporated in Lebanon. The subsidiary's sole role is to only manage the real estate projects promoted by the Bank. The subsidiary's financial statements were not consolidated in these financial statements because they are considered to be immaterial to the Bank's financial statements taken as a whole.

The financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL (000)) except when otherwise indicated.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 34 to the financial statements

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Bank

The following standards have been adopted by the Bank for the financial year beginning on 1 January 2014 and do not have a material impact on the Bank.

Asset and liability offsetting (Amendment to IAS 32, 'Financial instruments: Presentation')
These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

Disclosures on recoverable amounts (Amendment to IAS 36, 'Impairment of assets')
This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

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 and is applied retrospectively.

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 and retrospective application is required.

(b) Standards, amendments and interpretations issued but not yet effective

The standards and interpretations that are issued but not effective for periods starting 1 January 2014 but will be effective for later periods. Where applicable, the Bank intends to adopt these standards when they become effective.

IFRS 9 (2014) Financial Instruments (effective for annual periods beginning on or after 1 January 2018, with early application permitted)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 (2014)) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years the Bank has early adopted IFRS 9 (2011) which includes the requirements for the classification and measurement. Retrospective application is required, but comparative information is not compulsory. IFRS 9 (2014) relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The adoption of IFRS 9 (2014) will have an effect on measuring impairment allowances based on a new expected credit loss model and on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank is currently assessing the impact of IFRS 9 (2014) and plans to adopt the new standard on the required effective date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) New and amended standards adopted by the Bank (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. It is not expected that this amendment would be relevant to the Bank since it does not have any defined benefit plans with contributions independent of years of service.

Amendments to IAS 27: Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016, with early adoption permitted)

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

2.3 Summary of significant accounting policies

(1) Foreign 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 retranslated at the functional currency rate of exchange at the statement of financial position date. Revaluation differences are recorded under "other operating expenses" in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions.

(2) Financial assets and financial liabilities

(i) Recognition and initial measurement
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification
At inception a financial asset is classified as measured at amortized cost or fair value.

Amortized cost
A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Bank makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

The Bank classifies its financial liabilities as measured at amortized cost. Financial liabilities include "Due to Banks and financial institutions", "deposits from customers and related parties" and "other liabilities".

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Gain or loss on financial assets at fair value through profit or loss". Interest earned or incurred is accrued within the same caption using the effective interest rate, while dividend income is recorded in the same caption when the right to the payment has been established.

(iii) Reclassification

Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except when the Bank changes its business model for managing financial assets.

The Bank shall not reclassify any financial liability.

(iv) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from, the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(v) Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis to realize the asset and settle the liability simultaneously.

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

(vi) Amortized cost measurement
The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vii) 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 debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructuring 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. If such evidence exists, any impairment loss is recognized in the income statement.

(i) Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not 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 asset's 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 "Credit loss expense".

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(vii) Impairment of financial assets (continued)

(i) Financial assets carried at amortized cost (continued)
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. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. 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 for obtaining and selling the collateral, whether or not foreclosure is probable.

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 group. 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's 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.

(viii) Fair value measurement

The Bank measures financial instruments, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised 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

The principal or the most advantageous market must be accessible to 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.

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 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 or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(viii) Fair value measurement (continued)

For assets and liabilities that are recognised in the 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.

At each reporting date, the 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 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.

(3) 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 expenses

Interest income or expense is recorded using the effective interest rate, 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.

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

Fees and commission income (include account servicing fees, investment management, sales commission, placement fees, etc.) are recognized as the related services are performed.
Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are rendered.

(iii) Dividend income

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments are presented within "net gains on financial assets at fair value through profit or loss".

(4) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise balances with original maturities of a period of three months or less including: cash and balances with the Central Bank and deposits with banks and financial institutions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(5) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Replacements or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Leasehold improvements	5 to 12.5 years
Office furniture and equipment	12.5 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial period and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the income statement as an expense.

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 the statement of comprehensive income in the year the asset is derecognized, within "other income" or "other expenses".

If significant parts of an item of property and equipment have different useful lives, then they are accounted as separate items (major component) of property and equipment.

Subsequent expenditure is capitalized only when it is probable that the future economic benefit s of the expenditure will follow to the Group. Ongoing repairs and maintenance are expensed.

(6) Intangible assets

Intangible assets consist of computer software licenses. These are measured at amortized cost less accumulated amortization and any impairment loss (es). Subsequent costs are capitalized only when it can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. All other expenditure is expensed as incurred.

The useful life of these intangible assets is assessed to be finite and is amortized over their useful economic life. These intangible assets are amortized over a period of five years using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, subject to impairment testing.

(7) Investments in subsidiary

Investment in subsidiary is accounted for under the cost method where the investments are recorded at cost and the statement of comprehensive income reflects income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee. The cost of investments is reduced to recognize any permanent impairment in value.

(8) Asset management

The Bank provides advisory and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity and under management (discretionary and/or non-discretionary) are not reported in the financial statements, as they are not the assets of the Bank; they are recorded as off-balance sheet items.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(9) Retirement benefits obligation
The Bank is subscribed to the compulsory defined benefit plan of the National Social Security Fund.

IAS 19 'Employee benefits' requirements:
A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

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

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

(10) Provision for risks and charges
Provisions are recognised 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. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

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

(12) Share capital
(a) Share issue costs
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.
Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

(13) Cash and cash equivalents
Cash and cash equivalents comprise balances with maturities of a period of three months including cash and balances with the Central Banks, deposits held at call with Banks and financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2.4 Significant accounting judgments and estimates

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Significant accounting judgments and estimates

Business model (in reference to IFRS 9 – Phase I)
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 Group 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 (In reference to IFRS 9 – Phase I)
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 amortised 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.

3 INTEREST AND SIMILAR INCOME

	2014	*2013*
	LL (000)	*LL (000)*
Banks and financial institutions	**3,584,721**	3,347,152
Debt instruments at amortized cost	**1,026,413**	1,069,140
Loans and advances to customers	**1,024,605**	512,648
Central Bank of Lebanon	**7,225**	7,861
	5,642,964	4,936,801

4 INTEREST AND SIMILAR EXPENSE

	2014	*2013*
	LL (000)	*LL (000)*
Deposits and accounts held with banks and financial institutions	**796,885**	507,299
Deposits from customers	**53,803**	40,119
	850,688	547,418

5 FEE AND COMMISSION INCOME

	2014 LL (000)	2013 LL (000)
Brokerage	**2,958,797**	2,550,681
Advisory and management	**1,449,399**	1,335,611
Multi-family office services	**1,062,876**	1,090,008
Custody services	**397,940**	465,003
Management fee on real estate project (note 30)	**180,900**	-
Other commissions	**98,034**	347
	6,147,946	5,441,650

6 FEE AND COMMISSION EXPENSE

	2014 LL (000)	2013 LL (000)
Multi-family office fees	**159,264**	246,871
Bank charges	**102,158**	200,292
Brokerage fees and other commissions paid	**117,033**	36,219
Custody fees	**189,251**	141,864
	567,706	625,246

7 NET GAIN FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 LL (000)	2013 LL (000)
Debt instruments:		
- Interest and similar income	**1,253,979**	1,000,180
- Net gain on sale	**1,455,006**	669,452
- Net gain (loss) on revaluation	**571,298**	(272,379)
	3,280,283	1,397,253
Equity instruments:		
- Dividends income	**-**	207,583
- Net gain on sale	**73,253**	25,628
- Net loss on revaluation	**(1,594)**	(69,460)
	71,659	163,751
	3,351,942	1,561,004

8 GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

In 2014, and as part of its credit risk management, the Bank sold debt securities with a carrying value of LL (000) 1,982,690 for a total consideration of LL (000) 2,263,511 resulting in a gain of LL (000) 280,821.

9 PERSONNEL EXPENSES

	2014	*2013*
	LL (000)	*LL (000)*
Salaries and wages	**1,994,584**	1,787,802
Bonuses	**283,125**	416,425
Commissions to employees	**346,311**	30,491
Social security costs	**221,185**	146,547
Representation fees (note 30)	**145,733**	97,988
Insurance expenses	**74,585**	59,132
Transportation allowance	**46,250**	37,089
Scholarship allowance	**23,000**	22,250
Pension costs – defined benefit plan	**12,007**	8,089
Other employee benefits	**57,219**	43,766
	3,203,999	2,649,579

10 OTHER OPERATING EXPENSES

	2014	*2013*
	LL (000)	*LL (000)*
Board of Directors remuneration	**1,509,722**	1,208,702
Taxes and other related charges	**506,784**	100,208
Legal fees	**452,552**	248,754
Professional fees	**413,490**	306,475
Subscription fees	**312,517**	154,341
Rent expense	**203,662**	203,662
Board of Directors attendance fees (note 30)	**149,111**	85,928
Travel expenses	**118,529**	73,727
Maintenance and repairs (including IT support)	**109,758**	146,284
Communication fees	**98,021**	91,940
Entertainment and hospitality expenses	**67,678**	50,475
Printing and stationery fees	**34,780**	77,328
Advertising expenses	**20,455**	40,375
Training expenses	**18,895**	26,460
Net realized losses (gains) on foreign exchange	**85,716**	(48,125)
Other expenses	**335,753**	224,121
	4,437,423	2,990,655

11 INCOME TAX

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank is exempt from income taxes on profits stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years starting from the date of its establishment.

12 CASH AND BALANCES WITH THE CENTRAL BANK OF LEBANON

	2014 *LL (000)*	*2013* *LL (000)*
Cash on hand	**11,880**	2,771
Central Bank of Lebanon:		
- Current accounts	**506,932**	905,764
- Term deposits	**6,107,860**	4,675,543
	6,626,672	5,584,078

Term deposits are denominated in US Dollars at an annual interest rate ranging from 0.125% to 0.1875% to cover the regulatory reserve required by the Central Bank of Lebanon and amounting to 15% of deposits (2013: interest rate ranging from 0.125% to 0.15625%).

13 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2014 *LL (000)*	*2013* *LL (000)*
Current accounts	**307,685**	764,979
Term placements	**68,360,802**	61,261,327
	68,668,487	62,026,306

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 *LL (000)*	*2013* *LL (000)*
Lebanese Government Bonds	**18,829,001**	14,389,837
Debt securities:		
- Bonds	**1,609,124**	3,264,529
- Money market funds	**456**	3,082,275
Equities (listed)	**795,744**	543,577
	21,234,325	21,280,218

15 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2014 *LL (000)*	*2013* *LL (000)*
Loans against mortgages	**2,714,103**	-
Loans against securities	**11,094,984**	2,407,033
Long term loan to customer	**142,391**	383,137
Shareholders' loans against securities	**13,392,375**	9,606,939
Other loans	**70,128**	16,693
Collective provision	**(13,847)**	-
	27,400,134	12,413,802

16 FINANCIAL ASSETS AT AMORTIZED COST

	2014 *LL (000)*	*2013* *LL (000)*
Certificates of deposits (Central Bank of Lebanon)	**12,588,011**	12,870,933
Asset-backed securities	**1,938,641**	4,822,158
Lebanese Government Eurobonds	**3,806,134**	3,814,485
	18,332,786	21,507,576

17 INVESTMENT IN SUBSIDIARY

During 2014, the Bank established Cedrus Real Estate Management Company SAL (CREM) in which the Bank holds 799 shares representing 79.9% of its capital and contributed the amount of LL (000) 23,970.

18 PROPERTY AND EQUIPMENT

	Leasehold improvements *LL (000)*	*Office furniture and equipment* *LL (000)*	*Total* *LL (000)*
Cost :			
At 1 January 2014	595,869	749,293	1,345,162
Additions	8,542	29,290	37,832
Disposals	-	(332)	(332)
At 31 December 2014	604,411	778,251	1,382,662
Depreciation:			
At 1 January 2014	235,372	211,421	446,793
Charge for the year	119,273	116,621	235,894
Related to disposals	-	(153)	(153)
At 31 December 2014	354,645	327,889	682,534
Net carrying amount:			
At 31 December 2014	**249,766**	**450,362**	**700,128**

	Leasehold improvements *LL (000)*	*Office furniture and equipment* *LL (000)*	*Total* *LL (000)*
Cost :			
At 1 January 2013	595,869	692,902	1,288,771
Additions	-	56,391	56,391
At 31 December 2013	595,869	749,293	1,345,162
Depreciation:			
At 1 January 2013	116,198	100,220	216,418
Charge for the year	119,174	111,201	230,375
At 31 December 2013	235,372	211,421	446,793
Net carrying amount:			
At 31 December 2013	360,497	537,872	898,369

19 INTANGIBLE ASSETS

	Software	
	2014	*2013*
	LL (000)	*LL (000)*
Cost:		
At 1 January	**347,254**	265,325
Additions during the year	**205,929**	81,929
At 31 December	**553,183**	347,254
Amortization:		
At 1 January	**112,535**	51,161
Charge for the year	**89,074**	61,374
At 31 December	**201,609**	112,535
Net carrying amount:		
At 31 December	**351,574**	234,719

20 OTHER ASSETS

	2014	*2013*
	LL (000)	*LL (000)*
Mandatory deposit with the Lebanese Treasury (a)	**4,500,000**	4,500,000
Advance paid on acquisition of a resident bank (b)	**2,592,900**	-
Accrued Income	**867,140**	-
Prepaid expenses	**159,483**	127,656
Revaluation loss on fixed position	**29,509**	-
Other debit balances (b)	**1,440,478**	114,922
	9,589,510	4,742,578

(a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution (according to paragraph b of Article 132 of the Code of Money and Credit) recovered without interest upon the Bank's liquidation.

(b) During 2014, the Bank signed a sales and purchase agreement (SPA) to acquire the shares of a resident bank and paid an advance of LL (000) 2,592,900 and provided financing in the amount of LL (000) 1,317,101 (through a current account recorded under other debit balances). In February 2015, the Bank completed the acquisition and settled the remaining balance of the agreed consideration.

21 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2014	*2013*
	LL (000)	*LL (000)*
Term borrowings	**41,323,267**	29,381,448

Term borrowings are subject to an annual interest rate ranging from 0.92% to 3.15% as at 31 December 2014 (2013: 0.92% to 2.17%)

22 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2014 LL (000)	2013 LL (000)
Pledged accounts	**229,617**	-
Margin accounts against operations in financial markets (futures and options)	**11,385,037**	6,221,430
Term deposits	-	916,885
	11,614,654	7,138,315

The Bank provides facilities to its customers (third parties and shareholders) to finance the acquisition of approved financial securities and within authorized thresholds as defined by the Central Bank of Lebanon (basic circular no. 51 dated 22 October 1998).

23 RESTRICTED BALANCES WITH THE CENTRAL BANK OF LEBANON FOR CAPITAL INCREASE

As of 31 December 2014, the balance was deposited at the Central Bank of Lebanon in a restricted account for the capital increase. This balance represents shareholders' cash injection in the amount of LL 57,031,672 and the reserve constituted for the capital increase in the amount of LL (000) 3,279,410.

24 DEPOSITS FROM RELATED PARTIES AT AMORTIZED COST

	2014 LL (000)	2013 LL (000)
Shareholders' accounts	**7,363,530**	3,673,583

25 OTHER LIABILITIES

	2014 LL (000)	2013 LL (000)
Accrued Board of Directors members' remuneration	**1,509,722**	1,208,702
Accrued expenses	**632,670**	316,493
Revaluation gain on foreign currency fixed position	**81,621**	52,112
Due to the National Social Security Fund	**13,223**	20,075
Due to the Ministry of Finance	**865,059**	295,874
Sundry creditors	**396,683**	233,366
	3,498,978	2,126,622

26 SHARE CAPITAL

At 31 December 2014, share capital comprised 70,160 shares at LL 1,111,725 per share (2013: the same), authorized and fully paid.

27 RESERVES

Non-Distributable reserves

	2014 *LL (000)*	*2013* *LL (000)*
Reserve for unidentified banking risks (a):		
Opening balance	**149,592**	-
Appropriation from prior year results	**154,885**	149,592
Ending balance	**304,477**	149,592
Legal reserve (b):		
Opening balance	**353,424**	-
Appropriation from prior year results	**483,481**	353,424
Ending balance	**836,905**	353,424
Non-distributable reserves	**1,141,382**	503,016

a) Reserve for unidentified banking risks

In compliance with the BDL basic circular no. 50, banks are required to appropriate from annual profits an amount ranging between 2 per mil and 3 per mil of the total risk-weighted assets (on and off balance sheet) ("RWA") as a reserve for unidentified banking risks. The said reserve should reach 1.25 percent of RWA by the year 2020 and 2 percent by the year 2030. This reserve is considered part of Tier I capital, but is not available for distribution.

b) Legal reserve

In compliance with the requirements of the Code of Money and Credit (article no. 132), banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution to the shareholders.

Distributable reserve

c) General reserve

In accordance with the General Assembly decisions, the net outstanding balance pertaining to the net profits for years 2012 and 2011 (i.e. after deducting appropriation to legal and unidentified banking risks) were appropriated to a general reserve. This reserve is considered part of Tier I capital and is available for distribution.

Retained earnings and reserve for capital increase

On 9 September 2014, the General Assembly decided to keep the net outstanding balance pertaining to the net profits for the year 2013 (i.e. after deducting appropriation to legal and unidentified banking risks) as available for distribution. On 19 December 2014 and following the decision taken by the Board of Directors an amount of LL (000) 3,279,410 was appropriated from retained earnings to reserve for capital increase.

28 CONTINGENT LIABILITIES AND COMMITMENTS

- *Operating lease arrangement*

Future minimum lease payments under operating leases as at 31 December are as follows:

	2014 *LL (000)*	*2013* *LL (000)*
Within one year	**104,884**	173,363
After one year but not more than five years	**440,514**	190,698
	545,398	364,061

- *Tax contingencies*

Lebanese tax legislation is subject to varying interpretations when being applied to financial transactions and activities. Fiscal years from 2011 to 2014 remain open to review by the authorities.

- Acquisition of a resident bank

In reference to the SPA (note 20), the acquisition was finalized in February 2015 and the Bank settled the remaining balance of the agreed consideration. The Bank is expecting to increase the capital of the new subsidiary by approximately LL 70 billion prior to the financial year ending 31 December 2015.

29 ASSETS UNDER MANAGEMENT AND ADMINISTRATION

	2014 *LL (000)*	*2013* *LL (000)*
Assets held on behalf of customers (on non-discretionary basis)		
Deposits with banks	**38,559,569**	10,261,167
Financial instruments	**169,528,883**	153,073,339
Fiduciary deposits	**50,753,577**	31,773,569
	258,842,029	195,108,075
Assets managed on discretionary basis (i)	**174,905,728**	153,871,832
Assets under custody	**80,781,910**	68,573,750
	514,529,667	417,553,657

(i) Those assets are held with non-resident banks and financial institutions and are directly owned by the clients but are managed by the Bank through a power of attorney.

30 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled or significantly influenced by such parties.

Transactions with related parties included in the income statement are as follows:

	2014 LL (000)	2013 LL (000)
Key management compensation		
Board of Directors members' remuneration	**1,622,785**	1,208,702
Remuneration of key management personnel	**762,387**	953,698
Representation fees for key management personnel	**149,111**	85,928
Board of Directors attendance fees	**145,733**	97,988
Key shareholders (i)		
Interest expense	**-**	797
Commissions income – brokerage	**504,947**	429,390
Accounts management income	**202,632**	198,188
Management fees on real estate project (CREM) – note 17	**180,900**	-

(i) These represents shareholders with ownership exceeding 5%

Balances with related parties are included in notes 17 and 24 to the financial statements.

Related party balances reported in the off-balance sheet as at 31 December are as follows:

	2014 LL (000)	2013 LL (000)
Assets under management	**59,631,390**	37,176,837
Assets under External Asset Manager Services	**103,867,608**	74,661,939
Assets under custody	**54,411,419**	46,169,998
Fiduciary deposits	**7,887,972**	9,514,661
	225,798,389	167,523,435

31 CASH AND CASH EQUIVALENTS

	2014 LL (000)	2013 LL (000)
Cash and balances with the Central Bank	**6,626,672**	908,535
Due from banks and financial institutions	**41,201,670**	7,138,115
	47,828,342	8,046,650

32 EVENTS AFTER THE BALANCE SHEET DATE

On 21 July 2014, the Extraordinary General Assembly resolved to increase the Bank's share capital from LL (000) 77,998,626 to LL (000) 138,309,707 through the issuance of 54,250 share with a par value of LL (000) 1,112 each.

On 29 September 2014, the Bank received the preliminary approval on the suggested capital increase.

As at 31 December 2014, the shareholders' subscription in the capital increase were fully settled to the Bank and deposited at the Central Bank of Lebanon under a restricted account for the capital increase (note 23). The premium on issuance of new shares amounted to LL (000) 11,293,234.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 in section "valuation models" below.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2014			
	Level 1 LL (000)	***Level 2 LL (000)***	***Level 3 LL (000)***	***Total LL (000)***
Financials assets at fair value through profit or loss:				
Lebanese Government Bonds	**18,829,001**	**-**	**-**	**18,829,001**
Debt securities	**-**	**1,609,124**	**-**	**1,609,124**
Funds	**456**	**-**	**-**	**456**
Equities	**795,744**	**-**	**-**	**795,744**
	19,625,201	**1,609,124**	**-**	**21,234,325**

	2013			
	Level 1 LL (000)	*Level 2 LL (000)*	*Level 3 LL (000)*	*Total LL (000)*
Financials assets at fair value through profit or loss:				
Lebanese Government Eurobonds	14,389,837	-	-	14,389,837
Debt securities	-	3,264,529	-	3,264,529
Funds	3,082,275	-	-	3,082,275
Equities	543,577	-	-	543,577
	18,015,689	3,264,529	-	21,280,218

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments not carried at fair value by the level of fair value hierarchy:

	2014				
	Level 1 LL (000)	***Level 2 LL (000)***	***Level 3 LL (000)***	***Total fair value LL (000)***	***Book value LL(000)***
Assets for which fair values are disclosed:					
Cash and balances with Central Bank	**11,880**	**6,614,792**	**-**	**6,626,672**	**6,626,672**
Due from banks and financial institutions	**-**	**68,668,487**	**-**	**68,668,487**	**68,668,487**
Financial assets at amortized cost	**16,583,584**	**1,938,641**	**-**	**18,522,225**	**18,332,786**
Loans and advances to customers at amortized cost	**-**	**27,400,134**	**-**	**27,400,134**	**27,400,134**
Liabilities for which fair values are disclosed:					
Due to banks and financial institutions	**-**	**41,323,267**	**-**	**41,323,267**	**41,323,267**
Customers' deposits at amortized cost	**-**	**11,614,654**	**-**	**11,614,654**	**11,614,654**
Deposits from related parties at amortized cost	**-**	**7,363,530**	**-**	**7,363,530**	**7,363,530**

	2013				
	Level 1 LL (000)	*Level 2 LL (000)*	*Level 3 LL (000)*	*Total fair value LL (000)*	*Book value LL(000)*
Assets for which fair values are disclosed:					
Cash and balances with Central Bank	2,771	5,581,307	-	5,584,078	5,584,078
Due from banks and financial institutions	-	62,026,306	-	62,026,306	62,026,306
Financial assets at amortized cost	16,556,832	4,981,184	-	21,538,016	21,507,576
Loans and advances to customers at amortized cost	-	12,413,802	-	12,413,802	12,413,802
Liabilities for which fair values are disclosed:					
Due to banks and financial institutions	-	29,381,448	-	29,381,448	29,381,448
Customers' deposits at amortized cost	-	7,138,315	-	7,138,315	7,138,315
Deposits from related parties at amortized cost	-	3,673,583	-	3,673,583	3,673,583

There were no transfers between levels during 2014 (2013: the same).

Valuation models
The Bank measures fair value using the following fair value hierarchy, which reflects the significance of the market inputs used in making these measurements:

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

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.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

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

The Bank values these 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)

Due from banks and financial institutions and loans to customers
The fair value of these is determined using valuation models which incorporate a range of assumptions. These are grouped, as far as possible, into homogeneous groups and stratified by groups with similar characteristics to improve the accuracy of valuation outputs.

Due to banks and financial institutions and customers' and related parties accounts
For the purpose of estimating fair value, these are grouped by remaining contractual maturity. Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the financial position date.

Assets and liabilities not carried at fair value, for which fair value approximates carrying value
For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

34 RISK MANAGEMENT

34.1 Introduction
Risk is inherent in the Bank's activities. The Bank is exposed to credit risk, liquidity risk, prepayment risk, operating risk and market risk, the latter being subdivided into trading and non-trading risks. The Board of Directors is ultimately responsible for identifying and controlling risks.

34.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties.

Credit quality per class of financial assets
The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties. The Bank seeks to manage its credit risk exposure through diversification to avoid undue concentrations of risks with counter parties in specific locations or businesses.

Risk concentrations, maximum exposure to credit risk without taking account of any collateral and other credit enhancements

As at 31 December 2014, loans and advances to customers include a balance of LL (000) 11,952,646 granted to a minority shareholder thereby constituting 37% of the total loans and advances. The balance is fully covered by securities (2013: LL (000) 9,508,655 constituting 77% of total loans and advances and is fully covered by securities).

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Risk concentrations, maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

The following table shows the maximum exposure to credit risk for the component of the statement of financial position by resident and non-resident.

	2014		
	Resident LL (000)	***Non resident LL (000)***	***Gross maximum Exposure LL (000)***
Balances with the Central Bank	**66,937,754**	**-**	**66,937,754**
Due from banks and financial institutions	**58,950,444**	**9,718,043**	**68,668,487**
Financial assets at fair value through profit or loss	**21,234,325**	**-**	**21,234,325**
Loans and advances to customers at amortized cost	**7,720,290**	**19,679,844**	**27,400,134**
Financial assets at amortized cost	**18,332,786**	**-**	**18,332,786**
Total credit exposure	**173,175,599**	**29,397,887**	**202,573,486**

	2013		
	Resident LL (000)	*Non resident LL (000)*	*Gross maximum Exposure LL (000)*
Balances with the Central Bank	5,584,078	-	5,584,078
Due from banks and financial institutions	57,588,560	4,437,746	62,026,306
Financial assets at fair value through profit or loss	19,624,812	1,655,406	21,280,218
Loans and advances to customers at amortized cost	2,587,386	9,826,416	12,413,802
Financial assets at amortized cost	19,486,508	2,021,068	21,507,576
Total credit exposure	104,871,344	17,940,636	122,811,980

Analysis to maximum exposure to credit risk and collateral

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

	2014			
	Maximum exposure LL (000)	***Cash LL (000)***	***Securities LL (000)***	***Net exposure LL (000)***
Balances with the Central Bank	**66,937,754**	**-**	**-**	**66,937,754**
Due from banks and financial institutions	**68,668,487**	**-**	**-**	**68,668,487**
Financial assets at fair value through profit or loss	**21,234,325**	**-**	**-**	**21,234,325**
Loans and advances to customers at amortized cost	**27,400,134**	**2,911,367**	**61,807,380**	**-**
Financial assets at amortized cost	**18,332,786**	**-**	**-**	**18,332,786**
	202,573,486	**2,911,367**	**61,807,380**	**175,173,352**

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Analysis to maximum exposure to credit risk and collateral (continued)

	2013			
	Maximum exposure LL (000)	*Cash LL (000)*	*Securities LL (000)*	*Net exposure LL (000)*
Balances with the Central Bank	5,581,307	-	-	5,581,307
Due from banks and financial institutions	62,026,306		-	62,026,306
Financial assets at fair value through profit or loss	21,280,218	-	-	21,280,218
Loans and advances to customers at amortized cost	12,413,802	376,875	41,199,779	-
Financial assets at amortized cost	21,507,576	-	-	21,507,576
	122,809,209	376,875	41,199,779	110,395,407

The main of collateral obtained are as follows:

Cash
Cash is obtained from customers and shareholders in the form of pledged deposits against loans granted to formers.

Securities
The balances shown above represent the fair value of securities pledged by the clients and shareholders against loans obtained from the Bank.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings.

	2014				
	Neither past due nor impaired				
	High grade LL (000)	*Standard grade LL (000)*	*Past due but not impaired LL (000)*	*Individually impaired LL (000)*	*Total LL (000)*
Balances with the Central Bank	66,937,754	-	-	-	66,937,754
Financial assets at fair value through profit or loss	21,234,325	-	-	-	21,234,325
Financial assets at amortized cost	18,332,786	-	-	-	18,332,786
	39,567,111	-	-	-	39,567,111
Due from banks and financial institutions	68,668,487	-	-	-	68,668,487
Loans and advances to customers at amortized cost	27,400,134	-	-	-	27,400,134
	202,573,486	-	-	-	202,573,486

	2013				
	Neither past due nor impaired				
	High grade LL (000)	*Standard grade LL (000)*	*Past due but not impaired LL (000)*	*Individually impaired LL (000)*	*Total LL (000)*
Balances with the Central Bank	5,581,307	-	-	-	5,581,307
Financial assets at fair value through profit or loss	21,280,218	-	-	-	21,280,218
Financial assets at amortized cost	21,507,576	-		-	21,507,576
	42,787,794	-		-	42,787,794
Due from banks and financial institutions	62,026,306	-	-	-	62,026,306
Loans and advances to customers at amortized cost	12,413,802	-	-	-	12,413,802
	122,809,209	-	-	-	122,809,209

34 RISK MANAGEMENT (continued)

34.2 CREDIT RISK (continued)

Credit quality by class of financial assets (continued)

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the counterparty;
- A breach of contract such as a default of payment;
- It becomes probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows from the asset.

Individually assessed allowances

The Bank determines the allowance 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 realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

34.3 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 capital base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.
The Bank maintains a portfolio of highly marketable and diverse assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance, with the Central Bank of Lebanon circular no. 73, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Liras should not be less than 10% and 40%, respectively.

The ratios during the year were as follows:

Liquidity ratio	***2014***	*2013*
	%	%
Foreign currencies	**53.51%**	124.98%
Lebanese Lira	**51.12%**	64.02%

Analysis of Financial Assets and Liabilities by Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities as at 31 December.

	31 December 2014				
	Up to 3 months LL (000)	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets					
Cash and balances with the Central Bank	63,922,754	3,015,000	-	-	66,937,754
Due from banks and financial institutions	40,546,860	28,121,627	-	-	68,668,487
Financial assets at fair value through profit or loss	128,455	184,127	6,154,188	14,767,555	21,234,325
Loans and advances to customers at amortized cost	4,700,493	5,579,992	11,410,878	5,708,771	27,400,134
Financial assets at amortized cost	235,868	4,874,524	3,780,981	9,441,413	18,332,786
Total financial assets	109,534,430	41,775,270	21,346,047	29,917,739	202,573,486
Financial liabilities					
Due to banks and financial institutions	10,837,434	2,935,047	27,550,786	-	41,323,267
Customers and related parties deposits at amortized cost	18,752,059	226,125	-	-	18,978,184
Total financial liabilities	29,589,493	3,161,172	27,550,786	-	60,301,451
Net financial assets	79,944,937	38,614,098	(6,204,739)	29,917,739	142,272,035

34 RISK MANAGEMENT (continued)

34.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of Financial Assets and Liabilities by Contractual Maturities (continued)

	31 December 2013				
	Up to 3 months LL (000)	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets					
Cash and balances with the Central Bank	4,001,203	1,582,875	-	-	5,584,078
Due from banks and financial institutions	39,404,877	22,621,429	-	-	62,026,306
Financial assets at fair value through profit or loss	161,664	163,043	4,496,119	16,459,392	21,280,218
Loans and advances to customers at amortized cost	2,729,429	9,684,373	-	-	12,413,802
Financial assets at amortized cost	291,190	112,452	6,217,789	14,886,145	21,507,576
Total financial assets	46,588,363	34,164,172	10,713,908	31,345,537	122,811,980
Financial liabilities					
Due to banks and financial institutions	1,944,948	-	27,436,500	-	29,381,448
Customers and related parties deposits at amortized cost	9,895,013	916,885	-	-	10,811,898
Total financial liabilities	11,839,961	916,885	27,436,500	-	40,193,346
Net financial assets	34,748,402	33,247,287	(16,722,592)	31,345,537	82,618,634

34.4 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.

(a) Interest rate risk

The Bank's interest sensitivity gap based on the earlier of contractual re-pricing or maturity date at 31 December was as follows:

	2014					
	Up to 3 months LL (000)	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*More than 5 years LL (000)*	*Non-interest sensitive LL (000)*	*Total LL (000)*
Financial assets						
Cash and balances with the Central Bank	63,922,754	3,015,000	-	-	-	66,937,754
Due from banks and financial institutions	30,518,771	28,121,627	-	-	10,028,089	68,668,487
Financial assets at fair value through profit or loss	128,455	184,127	6,154,188	13,971,355	796,200	21,234,325
Loans and advances to customers at amortized cost	4,700,493	5,579,992	11,410,878	5,708,771	-	27,400,134
Financial assets at amortized cost	235,868	4,874,524	3,780,981	9,441,413	-	18,332,786
Total financial assets	99,506,341	41,775,270	21,346,047	29,121,539	10,824,289	202,573,486
Financial liabilities						
Due to banks and financial institutions	2,320,878	2,935,047	27,550,786	-	8,516,556	41,323,267
Customers deposits and related parties at amortized cost	18,752,059	226,125	-	-	-	18,978,184
Total financial liabilities	21,072,937	3,161,172	27,550,786	-	8,516,556	60,301,451
Net financial assets	78,433,404	38,614,098	(6,204,739)	29,121,539	2,307,733	142,272,035

34 RISK MANAGEMENT (continued)

34.4 MARKET RISK (continued)

(a) Interest rate risk (continued)

	2013					
	Up to 3 months LL (000)	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*More than 5 years LL (000)*	*Non-interest sensitive LL (000)*	*Total LL (000)*
Financial assets						
Cash and balances with the Central Bank	3,093,168	1,582,375	-	-	908,535	5,584,078
Due from banks and financial institutions	39,404,877	22,621,429	-	-	-	62,026,306
Financial assets at fair value through profit or loss	162,030	163,043	4,496,119	15,915,499	543,527	21,280,218
Loans and advances to customers at amortized cost	2,729,429	9,684,373	-	-	-	12,413,802
Financial assets at amortized cost	291,190	112,452	6,217,789	14,886,145	-	21,507,576
Total financial assets	45,680,694	34,163,672	10,713,908	30,801,644	1,452,062	122,811,980
Financial liabilities						
Due to banks and financial institutions	1,944,948	-	27,436,500	-	-	29,381,448
Customers deposits and related parties at amortized cost	9,895,013	916,885	-	-	-	10,811,898
Total financial liabilities	11,839,961	916,885	27,436,500	-	-	40,193,346
Net financial assets	33,840,733	33,246,787	(16,722,592)	30,801,644	1,452,062	82,618,634

(b) Currency risk

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

Breakdown of assets and liabilities by currency as at 31 December:

	2014			
	LL LL (000)	***USD LL (000)***	***Other LL(000)***	***Total LL (000)***
Assets				
Cash and balances with the Central Bank	**60,526,502**	**6,113,239**	**298,013**	**66,937,754**
Due from banks and financial institutions	**38,591,945**	**29,379,630**	**696,912**	**68,668,487**
Financial assets at fair value through profit or loss	**4,006,411**	**17,227,914**	**-**	**21,234,325**
Loans and advances to customers at amortized cost	**10,472**	**20,845,574**	**6,544,088**	**27,400,134**
Financial assets at amortized cost	**3,100,112**	**15,232,674**	**-**	**18,332,786**
Other assets	**5,615,410**	**3,974,100**	**-**	**9,589,510**
Total assets	**111,850,852**	**92,773,131**	**7,539,013**	**212,162,996**
Liabilities and equity				
Liabilities				
Customers' and related parties' deposits at amortized cost	**-**	**18,015,509**	**962,675**	**18,978,184**
Other liabilities	**2,258,323**	**1,240,655**	**-**	**3,498,978**
Total liabilities	**2,258,323**	**19,256,164**	**962,675**	**22,477,162**
Net exposure	**109,592,529**	**73,516,967**	**6,576,338**	**189,685,834**

34 RISK MANAGEMENT (continued)

34.4 MARKET RISK (continued)

(b) Currency risk (continued)

	2013			
	LL *LL (000)*	*USD* *LL (000)*	*Other* *LL(000)*	*Total* *LL (000)*
Assets				
Cash and balances with the Central Bank	346,138	5,140,667	97,273	5,584,078
Due from banks and financial institutions	55,289,255	6,500,477	236,574	62,026,306
Financial assets at fair value through profit or loss	-	21,280,218	-	21,280,218
Loans and advances to customers at amortized cost	9,073	12,240,099	164,630	12,413,802
Financial assets at amortized cost	3,100,928	18,406,648	-	21,507,576
Other assets	4,439,553	303,025	-	4,742,578
Total assets	63,184,947	63,871,134	498,477	127,554,558
Liabilities and equity				
Liabilities				
Due to banks and financial institutions	-	29,381,448	-	29,381,448
Customers' and related parties' deposits at amortized cost	916,886	9,880,516	-	10,811,898
Other liabilities	1,772,231	352,343	-	2,126,619
Total liabilities	2,689,117	39,614,307	-	42,319,965
Net exposure	60,495,830	24,256,827	498,477	85,234,593

The Bank's exposure to currency risk

As part of the management of the currency exposure, the Bank holds a fixed position with the Central Bank of Lebanon in US Dollars amounting to LL (000) 39,194,610 (as converted at year end rate).

Balances denominated in US Dollars are not considered to constitute a significant currency risk as the exchange rate of the Lebanese Lira against the US Dollar has remained stable in recent years.

34.5 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 it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

34.6 PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because counterparties repay or request repayment earlier than expected. Market conditions causing prepayment is not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income not material after taking into account the effect of any prepayment penalties.

35 CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks, inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

In accordance with the Central Bank of Lebanon Main Circular 44, the Bank should maintain the minimum required capital adequacy ratio for the year ended 31 December 2013 and thereafter as follows:

	Tier 1 capital ratio	**Total capital ratio**
Year ended 31 December 2013	8.5 %	10.5 %
Year ended 31 December 2014	9.5 %	11.5 %
Year ended 31 December 2015	10.0 %	12.0 %

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. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years; however, it is under constant scrutiny of the Board.

Regulatory capital

At 31 December, the capital consists of the following:

	2014 ***LL million***	*2013* *LL million*
Tier 1 capital	**82,523**	81,293
Total capital	**82,523**	81,293
Risk weighted assets	**87,501**	77,244

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

	2014	*2013*
Tier 1 capital ratio	**94.31%**	105.24%

36 COMPARATIVE INFORMATION

During the year ended 31 December 2014, the Bank reclassified some comparative amounts to improve the quality of the information presented.