**CSCBANK S.A.L.**

**CONSOLIDATED FINANCIAL STATEMENTS**
**AND INDEPENDENT AUDITORS' REPORT**
**YEAR ENDED DECEMBER 31, 2013**

**CSCBANK S.A.L.**
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## INDEPENDENT AUDITORS' REPORT

To the Shareholders
CSCBANK S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of CSCBANK S.A.L. and its Subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

***Auditor's Responsibility:***

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

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

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

***Opinion:***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CSCBANK S.A.L. and its subsidiaries as of December 31, 2013, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

| | | |
|---|---|---|
| | UHY Andy Bryan | Deloitte & Touche |
| Beirut, Lebanon<br>June 26, 2014 | UHY Andy Bryan | Deloitte & Touche |

**CSCBANK S.A.L.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

| ASSETS | Notes | December 31, 2013 LBP'000 | December 31, 2012 LBP'000 |
|---|---|---|---|
| Cash and central banks | 5 | 30,158,206 | 29,736,730 |
| Deposits with banks and financial institutions | 6 | 160,255,993 | 165,714,005 |
| Trading assets at fair value through profit or loss | 7 | 15,862,526 | 9,376,445 |
| Settlements due from banks and financial institutions | 8 | 22,940,705 | 24,775,563 |
| Loan to a financial institution | 9 | 15,777,322 | 7,865,695 |
| Loans and advances | 10 | 19,721,585 | 28,955,606 |
| Investment securities | 11 | 15,024,348 | 13,195,754 |
| Investments in associates | 12 | 10,680,760 | 9,638,624 |
| Regulatory blocked funds | 13 | 6,000,000 | 6,000,000 |
| Property and equipment | 14 | 24,001,920 | 24,222,738 |
| Intangible assets | 15 | 4,124,477 | 3,809,845 |
| Other assets | 16 | 1,580,501 | 845,024 |
| Total assets | | 326,128,343 | 324,136,029 |
| **LIABILITIES** | | | |
| Settlements due to banks and financial institutions | 17 | 43,753,775 | 43,995,293 |
| Deposits from banks and financial institutions | 18 | 42,276,791 | 66,251,854 |
| Customers' deposits at amortized cost | 19 | 55,165,770 | 46,971,549 |
| Creditors' operating accounts | 20 | 30,652,944 | 25,958,613 |
| Creditors' operating accounts - related parties | 21 | 1,792,644 | 2,467,549 |
| Borrowings from banks | 22 | 15,075,000 | 15,075,000 |
| Accounts payable and other creditors | 23 | 6,798,630 | 2,990,100 |
| Other liabilities | 24 | 2,408,367 | 2,160,056 |
| Provisions | 25 | 6,363,930 | 4,672,312 |
| Total liabilities | | 204,287,851 | 210,542,326 |
| **EQUITY** | | | |
| Capital | 26 | 75,000,000 | 75,000,000 |
| Legal and other reserves | 28 | 3,248,103 | 2,199,805 |
| Retained earnings | | 30,451,397 | 20,128,162 |
| Cumulative change in fair value of investment securities | 11 | ( 127,535) | ( 127,535) |
| Foreign currency translation reserve | | ( 243,524) | ( 113,249) |
| Profit for the year | | 11,649,490 | 13,294,450 |
| Equity attributable to equity holders of the Bank | | 119,977,931 | 110,381,633 |
| Non-controlling interests | | 1,862,561 | 3,212,070 |
| Total Equity | | 121,840,492 | 113,593,703 |
| Total Liabilities and Equity | | 326,128,343 | 324,136,029 |
| **Financial instruments with off-balance risk** | | | |
| Standby letters of credit | 38 | 22,163,723 | 22,165,270 |
| **Fiduciary accounts** | 36 | 27,444,582 | 32,412,381 |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

**CSCBANK S.A.L.**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

| | Notes | Year Ended December 31, 2013 LBP'000 | 2012 LBP'000 |
|---|---|---|---|
| Commission and fee revenue | 29 | 69,837,917 | 67,794,427 |
| Commission and fee expense | 30 | ( 41,561,588) | ( 38,520,738) |
| Net commission and fee income | | 28,276,329 | 29,273,689 |
| Interest income | 31 | 12,644,378 | 10,871,926 |
| Interest expense | 32 | ( 2,295,514) | ( 1,775,755) |
| Net interest income | | 10,348,864 | 9,096,171 |
| Net interest and gain on trading assets at fair value through profit or loss | 33 | 1,590,059 | 1,772,470 |
| Share of profit of associates | 12 | 1,779,132 | 1,010,004 |
| | | 3,369,191 | 2,782,474 |
| Net financial revenues | | 41,994,384 | 41,152,334 |
| Allowance for impairment of loans and advances | 8&10 | ( 211,258) | ( 77,561) |
| Bad debts expense | | ( 1,307) | ( 37,197) |
| Total allowance for impairment | | ( 212,565) | ( 114,758) |
| Net financial revenues after impairment losses | | 41,781,819 | 41,037,576 |
| Salaries and related charges | 34 | ( 18,200,312) | ( 15,638,383) |
| General and administrative expenses | 35 | ( 7,662,367) | ( 7,506,848) |
| Depreciation and amortization expenses | 14 & 15 | ( 4,103,026) | ( 4,092,496) |
| Net write-back of/provision for contingencies | 25 | ( 450,880) | 36,738 |
| Other income | | 1,262,290 | 776,804 |
| Other expense | | ( 50,561) | ( 264,411) |
| | | ( 29,204,856) | ( 26,688,596) |
| Profit before income tax | | 12,576,963 | 14,348,980 |
| Income tax expense | | ( 503,454) | ( 483,257) |
| Profit for the year | | 12,073,509 | 13,865,723 |
| Attributable to: | | | |
| Equity holders of the Bank | | 11,649,490 | 13,294,450 |
| Non-controlling interests | | 424,019 | 571,273 |
| | | 12,073,509 | 13,865,723 |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

**CSCBANK S.A.L.**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | Year Ended December 31, 2013 LBP'000 | Year Ended December 31, 2012 LBP'000 |
|---|---|---|
| Profit for the year | 12,073,509 | 13,865,723 |
| | | |
| Other comprehensive income ("OCI"): | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Currency translation adjustment | (130,275) | (12,904) |
| | (130,275) | (12,904) |
| | | |
| Total comprehensive income for the year | 11,943,234 | 13,852,819 |
| | | |
| Attributable to: | | |
| Equity holders of the Bank | 11,519,215 | 13,281,546 |
| Non-controlling interests | 424,019 | 571,273 |
| | 11,943,234 | 13,852,819 |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## CSCBANK S.A.L.
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Equity Attributable to Equity Holders of the Bank | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Capital | Legal and Other Reserve | Retained Earnings | Change in Fair Value of Financial Assets at Fair Value through other Comprehensive Income | Foreign Currency Translation Reserve | Profit for the year | Total | Non-Controlling Interests | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Balance as at December 31, 2011 | 75,000,000 | 1,533,545 | 6,829,097 | ( 127,535) | ( 100,345) | 15,462,336 | 98,597,098 | 2,755,628 | 101,352,726 |
| Total comprehensive income for 2012 | - | - | - | - | ( 12,904) | 13,294,450 | 13,281,546 | 571,273 | 13,852,819 |
| Allocation of 2012 profit | - | 658,466 | 14,803,870 | - | - | ( 15,462,336) | - | - | - |
| Dividend distribution – Note 27 | - | - | ( 1,400,000) | - | - | - | ( 1,400,000) | - | ( 1,400,000) |
| Dividend distribution to non-controlling interest | - | - | - | - | - | - | - | ( 98,986) | ( 98,986) |
| Other movement | - | 7,794 | ( 104,805) | - | - | - | ( 97,011) | ( 15,845) | ( 112,856) |
| Balance as at December 31, 2012 – before adjustment | 75,000,000 | 2,199,805 | 20,128,162 | ( 127,535) | ( 113,249) | 13,294,450 | 110,381,633 | 3,212,070 | 113,593,703 |
| Prior year adjustment – Note 23 | - | ( 659,420) | - | - | - | - | ( 659,420) | - | ( 659,420) |
| Balance, December 31, 2012 – after adjustment | 75,000,000 | 1,540,385 | 20,128,162 | ( 127,535) | ( 113,249) | 13,294,450 | 109,722,213 | 3,212,070 | 112,934,283 |
| Total comprehensive income for 2013 | - | - | - | - | ( 130,275) | 11,649,490 | 11,519,215 | 424,019 | 11,943,234 |
| Allocation of 2013 profit | - | 1,746,257 | 11,548,193 | - | - | ( 13,294,450) | - | - | - |
| Dividend distribution – Note 27 | - | - | ( 1,500,000) | - | - | - | ( 1,500,000) | - | ( 1,500,000) |
| Dividends distribution to non-controlling interest | - | - | - | - | - | - | - | ( 348,534) | ( 348,534) |
| Effect of full acquisition of a subsidiary | - | - | - | - | - | - | - | ( 1,391,475) | ( 1,391,475) |
| Gain on acquisition of a subsidiary | - | - | 331,779 | - | - | - | 331,779 | - | 331,779 |
| Other movements | - | ( 38,539) | ( 56,737) | - | - | - | ( 95,276) | ( 33,519) | ( 128,795) |
| Balance as at December 31, 2013 | 75,000,000 | 3,248,103 | 30,451,397 | ( 127,535) | ( 243,524) | 11,649,490 | 119,977,931 | 1,862,561 | 121,840,492 |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

**CSCBANK S.A.L.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Notes | Year Ended December 31, 2013 LBP'000 | 2012 LBP'000 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Profit for the year before income tax | | 12,576,963 | 14,348,980 |
| Adjustments: | | | |
| Allowance for impairment of loans and advances | | 211,258 | 77,561 |
| Net provisions for contingencies and end-of-service indemnity | 25 | 1,823,840 | 448,444 |
| Bad debts expense (Write-off of receivables) | | 1,307 | 37,197 |
| Depreciation and amortization | 14&15 | 4,103,026 | 4,092,496 |
| Interest income | | ( 12,644,378) | ( 10,871,926) |
| Interest expenses | | 2,295,514 | 1,775,755 |
| Gain on sale of financial assets at fair value through profit or loss | | ( 551,007) | ( 307,118) |
| Share of profit of associates | | ( 1,779,132) | ( 1,010,004) |
| Decrease/(increase) in central banks deposits | | 878,088 | ( 1,340,243) |
| Change in fair value of financial assets at fair value through profit or loss | | ( 287,757) | ( 845,930) |
| Decrease/(increase) in deposits with banks and financial institutions | | 2,453,615 | ( 41,675,761) |
| (Increase)/decrease in financial assets at fair value through profit or loss | | ( 5,647,317) | 2,721,634 |
| Increase in deposits from banks and financial institutions | | 6,619,324 | 1,156,558 |
| Net change in settlements due from/due to banks and financial institutions | | 314,545 | ( 6,449,392) |
| Increase in loans and advances | | ( 6,136,995) | ( 9,202,644) |
| Decrease/(increase) in loans to financial institutions | | 7,248,131 | ( 7,865,695) |
| (Increase)/decrease in other assets | | ( 735,477) | 138,269 |
| Interest received | | 12,058,394 | 10,271,150 |
| Interest paid | | ( 2,300,648) | ( 1,722,037) |
| Income tax paid | | ( 483,257) | ( 177,489) |
| Increase in customers' deposits | | 8,171,767 | 17,249,956 |
| Decrease in creditors' operating accounts | | 4,018,195 | 2,069,195 |
| Increase/(decrease) in accounts payable and other creditors | | 3,788,333 | ( 1,123,855) |
| Decrease in creditors' operating accounts – related parties | | ( 674,905) | ( 3,053,597) |
| Increase in other liabilities | | 248,311 | 1,019,137 |
| Decrease in provisions | | ( 132,222) | ( 137,120) |
| Net change in non-controlling interests | | ( 1,773,528) | ( 114,831) |
| Foreign currency translation reserve | | ( 225,551) | ( 109,915) |
| Net cash provided by/(used in) operating activities | | 33,438,437 | ( 30,601,225) |
| | | | |
| Cash flows from investing activities: | | | |
| Decrease in investments in associates | | 736,996 | 639,624 |
| Gain on acquisition of a subsidiary | | 331,779 | - |
| Increase in investment securities | 11 | ( 1,790,319) | ( 2,005,888) |
| Increase in property and equipment and intangible assets | | ( 4,196,840) | ( 4,521,733) |
| Net cash used in investing activities | | ( 4,918,384) | ( 5,887,997) |
| | | | |
| Cash flows from financing activities: | | | |
| Dividends paid | | ( 1,500,000) | ( 1,400,000) |
| Borrowing from banks | | - | 15,075,000 |
| Net cash used in financing activities | | ( 1,500,000) | 13,675,000 |
| | | | |
| Net increase in cash and cash equivalents | | 27,020,053 | ( 22,814,222) |
| Cash and cash equivalents – beginning of period | 39 | ( 3,138,004) | 19,676,218 |
| Cash and cash equivalents – end of period | 39 | 23,882,049 | ( 3,138,004) |

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

CSCBank S.A.L. (the "Bank") is a Lebanese joint stock company registered in Lebanon under commercial registration No.62620 on August 20, 1992 and was registered at the Central Bank of Lebanon as a financial institution under Number 30 on March 17, 2001.

Prior to June 30, 2010, the Bank was incorporated as a financial institution. On June 30, 2010, the Central Bank of Lebanon approved the conversion of the financial institution into a specialized bank under the name of CSCBANK S.A.L. As a result, the financial institution was removed from the list of financial institutions and was registered at the Central Bank of Lebanon as a bank under Number 133.

The Bank's current operations are to extend credit facilities from deposits and from its own funds as well as from the funds obtained from banks and financial institutions, in addition to issuing, acquiring, managing, and marketing credit cards and other types of cards in local as well as international markets, and conducting fiduciary operations, financial intermediation, and establishment and management of mutual investment funds and management of the electronic clearing system with the Central Bank of Lebanon.

The Bank's headquarters are located in Beirut.

CSCBank S.A.L. is subject to the regulations provided in decree number 50 dated July 15, 1983 and the Central Bank of Lebanon decision number 6101 dated February 8, 1996.

The Bank operates within the following guidelines:

(a) The objective is exclusive utilization of resources in medium and long-term loans, in investment in securities and in issuing medium and long-term letters of guarantee subject to sufficient collaterals. Advances and loans are considered medium or long-term if maximum 15% of the loan balance will be repaid within the first two years; otherwise the loan will not qualify as medium and long-term debt.

(b) The Bank is prohibited from accepting deposits with less than six-month maturity. However, the Bank has the right to provide the depositor the permission to withdraw before maturity. In this case, the Bank will automatically be subject to a penalty interest payable to the Central Bank of Lebanon computed on the drawn balance at the rate of 5% and for the remaining period until maturity.

    Furthermore, the Bank will be required to deposit an amount equivalent to the drawn balance with the Central Bank of Lebanon. This deposit will be blocked for the remaining period to maturity and will not generate interest.

(c) The Bank can place its available liquidity in short-term placements (less than one year) in the form of deposits with banks, fiduciary facilities to financial institutions or as Lebanese treasury bonds. Moreover, the Bank can borrow or receive deposits from banks, financial institutions, and insurance companies for less than six-month maturity period.

(d) Investment in property, plant and equipment and non-current equity securities should not exceed the Bank equity. However, the Bank can carry additional investments in non-current equity securities not to exceed 50% of the total deposits and borrowings with maturities greater than five years.

(e) Loans should be provided only against real or bank guarantees. The Bank is entitled to provide clean loans to the public sector, to the government, or to large companies based on the approval of the Central Bank of Lebanon and on a case-by-case basis. Under no circumstance should the value of the loan extended to customers exceed 60% of the appraisal value of the real and / or bank guarantees provided. Also, the aggregate balance of the loans extended to one debtor or a group of related companies should not exceed 20% of the Bank's equity.

(f) The total medium and long-term loans and investments in LBP in the private sector should not drop under 10% of the Bank's obligations in LBP, that include equity, deposits and debts.

(g) The total Bank investments and loans to the public sector, in any currency, should not exceed:

- Its investments and participations in the private sector, in Lebanese mixed companies, and in shares or investment funds that do not invest in Lebanese treasury bills.
- Its investments in financial intermediation operations as a market maker on condition that the respective bonds are liquidated within a six-month period.

(h) The Bank has the right to issue debentures and bonds up to six times its equity, as directed by article Number 125 of the Commercial Law following the approval of the general assembly. Interest paid on these bonds is tax exempt.

(i) According to tax regulations, the Bank is exempt from income tax for the first seven fiscal years from the date of its conversion into a bank. The Bank becomes subject to income tax starting the eighth fiscal year. There also, a cost of capital of 4% applicable on the Bank paid up capital is considered as deductible for tax purposes. In case there is a deficit in the taxable statement of comprehensive income in any year, this deficit cannot be carried forward to the next year. Accrued taxes on profit are recorded in the statement of financial position net of paid withheld taxes on interest income.

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

### 2.1 Standards and Interpretations effective for the current period

In the current year, the Group has applied the following new and revised Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective with a date of initial application of January 1, 2013 and that are applicable to the Group:

**Amendments to IFRS 7** ***Disclosures – Offsetting Financial Assets and Financial Liabilities***
The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

**New and revised Standards on consolidation, joint arrangements, associates and disclosures**
In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities,* IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

**IFRS 13** ***Fair Value Measurement***
IFRS 13 establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. IFRS 13 is applicable for both financial and non-financial items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances. IFRS 13 requires prospective application from January 1, 2013.

**Amendments to IAS 1** ***Presentation of Items of Other Comprehensive Income***
The amendments require to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. Income tax on items of other comprehensive income is required to be allocated on the same basis.

**Amendments to IAS19** ***Employee benefits***
The amendments eliminate the "corridor approach" and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.

**Parts of the Annual Improvements to IFRSs 2009 – 2011 Cycle**

Amendments to IAS 32 *Financial Instruments* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*.

Amendments to IAS 1 *Presentation of Financial Statements* specify that related notes are not required to accompany the third statement of financial position (as at the beginning of the preceding period) when presented. A third statement of financial position is required to be presented when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the third statement of financial position.

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

**(a) Impact of the application of IFRS 12**

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The Group has expanded its disclosures as reflected in Note 40.

**(b) Impact of the application of IFRS 13**

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (Note 49). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in these financial statements.

**(c) Impact of amendments to IAS 1**

Presentation of items of Other Comprehensive Income (OCI)

The Group has modified the presentation of items of OCI in its statement of profit or loss and other comprehensive income (including comparative information), to present separately items that would be reclassified to profit or loss from those that would never be.

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

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

- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* modify the disclosure requirements in IAS 36 *Impairment of Assets* regarding the measurement of the recoverable amount of impaired assets and require additional disclosures about the measurement of impaired assets (or group of impaired assets) with a recoverable amount based on fair value less costs of disposal. Effective for annual periods beginning on or after January 1, 2014.

- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* – Amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. Effective for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* – Amendments clarify the requirements relating to the offset of financial assets and financial liabilities. Effective for annual periods beginning on or after January 1, 2014.

- Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* allow the continuations of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. Effective for annual periods beginning on or after January 1, 2014.

- IFRS 9 *Financial Instruments* (2013) - General Hedge Accounting. On November 19, 2013 a new version of IFRS 9 was issued which includes the new hedge accounting requirements and some related amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. IFRS 9 (2013) also replicates the amendments in IAS 39 in respect of novations. The mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments.

- IFRS 9 *Financial Instruments*. IFRS 9 is to replace IAS 39 *Financial Instruments: Recognition and Measurement* and was split into a number of phases. Currently some of these phases have been completed and available for early adoption. The Group adopted Phase 1 of IFRS 9 effective January 1, 2011 *"Financial Instruments Classification and Measurement"*. The mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments.

- IFRIC 21 *Levies* defines a levy as a payment to a government for which an entity receives no specific goods or services. A liability is recognized when the obligating event occurs. Effective for annual periods beginning on or after January 1, 2014.

The Directors of the Group do not anticipate that the application of these amendments will have a significant effect on the Group's consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of Preparation and Measurement:

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

- Financial assets and liabilities at fair value through profit and loss are measured at fair value.
- Equity securities at fair value through other comprehensive income are measured at fair value.
- Derivative financial instruments are measured at fair value.

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

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of CSCBank S.A.L. incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

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

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

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

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

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

The consolidated subsidiaries as at December 31, 2013 comprise:

| Company Name | Ownership Percentage % | Ownership Date | Activity |
|---|---|---|---|
| CSC Finance S.A.L. | 100 | 2010 | Financial Institution |
| CSC S.A.L. (Holding) | 100 | 2003 | Holding |
| - CSC24seven.com Ltd | 100 | 2003 | Financial Institution |
| - CSC Overseas Development Ltd. | 100 | 2003 | Financial Intermediary |
| - CSC Yemen Ltd | 51 | 2004 | Financial Intermediary |
| - CSC Egypt SAE | 50% + 1 share | 2005 | Financial Intermediary |
| - CSC Jordan Ltd | 60 | 2005 | Financial Intermediary |
| - CSC Europe Ltd | 100 | 2006 | Financial Intermediary |
| - CSC Jordan Overseas Ltd | 60 | 2008 | Financial Intermediary |
| - CSC Syria Ltd | 84 | 2008 | Financial Intermediary |
| - CSC Syria Overseas Ltd | 84 | 2008 | Financial Intermediary |

B. Business Combinations:

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

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

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

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

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

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

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

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

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

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

C. Foreign Currencies:

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

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

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

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

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

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

D. Financial Assets and Liabilities:

*Recognition and Derecognition:*

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

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

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expire.

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

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

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

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

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

*Repurchase and Reverse Repurchase Agreements:*

Securities sold under agreements to repurchase at a specified future date ("repos") are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position reflecting its economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

*Offsetting:*

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

*Fair Value Measurement:*

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 measurement as a whole:

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

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

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

*Impairment of Financial Assets*:

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

Objective evidence of impairment could include:

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Collateral Valuation:*

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

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

E. Classification of Financial Assets:

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

*Debt Instruments:*

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

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

*Equity Instruments:*

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

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

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

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

A financial asset is held for trading if:

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

*Reclassification:*

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

Reclassification is not allowed where:

- the other comprehensive income option has been exercised for a financial asset, or
- the fair value option has been exercised in any circumstance for a financial instrument.

## F. Loans and Advances:

Loans and advances are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost, less any impairment. Interest income is recognized by applying the effective interest rate. Non-performing loans and advances to customers are stated net of unrealized interest and provision for credit losses because of doubts and the probability of non-collection of principal and/or interest.

## G. Financial Liabilities and Equity Instruments Issued by the Group:

*Classification as Debt or Equity:*

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

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

*Financial Liabilities at Fair Value Through Profit or Loss:*

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

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

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

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

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

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

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognised in profit or loss. Such gains or losses that are recognised in profit or loss incorporate any interest paid on the financial liabilities and are included in the "Net interest and gain and loss on liabilities at FVTPL" in the consolidated statement of profit or loss.

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

*Financial Liabilities Subsequently Measured at Amortised Cost:*

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

*Financial Guarantee Contract Liabilities:*

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

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

H. Investments in Associates:

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

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

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

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

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

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

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

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

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

I. Property and Equipment:

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

Depreciation of property and equipment, other than land and advance payments on capital expenditures, is calculated systematically using the straight-line method over the estimated useful lives of the related assets using the following annual rates:

| | **Years** |
|---|---|
| Buildings | 33 - 50 |
| Freehold improvements | 17 |
| Computer equipment | 5 - 10 |
| Technical equipment | 5 - 10 |
| Office equipment | 10 |
| Furniture and fixtures | 10 - 13 |
| Other properties and equipment | 5 - 10 |

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 consolidated statement of profit or loss in the year the asset is derecognized.

J. Intangible Assets other than Goodwill:

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

K. Goodwill:

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

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

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

Recoverable amount is defined as the higher of:

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

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

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

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

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

The impairment loss is charged to income.

M. Employees' Benefits:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

*Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)*

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

N. Provisions:

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

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

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

O. Revenue and Expense Recognition:

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

Interest income and expense presented in the statement of profit or loss include:

- Interest on financial assets and liabilities at amortized cost.
- Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Net trading income presented in the statement of profit or loss includes:

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

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

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

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

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9, are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability (i.e. commissions and fees earned on the loan book) are included under interest income and expense.

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

P. Income Tax:

As discussed under Note 1 above, the Bank is exempt from income tax for the first seven fiscal years from the date of its conversion into a bank.

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized in other comprehensive income (OCI), in which case it is recognized in OCI.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the statement of financial position date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Q. Fiduciary Deposits:

All fiduciary deposits are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, they are reflected as off-balance sheet accounts.

R. 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 with Banks and financial institutions, and deposits due to banks and financial institutions.

S. 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 Group.

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

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

*Going Concern:*

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

*Classification of Financial Assets:*

Business Model:

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

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

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

Characteristics of the Financial Asset:

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

Features considered by the Group that would be consistent with amortized cost measurement include:

- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:

- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

B. Key Sources of Estimation Uncertainty:

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

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

*Allowances for Credit Losses:*

Allowance for impairment for credit losses is calculated on the basis of an estimated amount equivalent to 100% of the total due and unpaid balances outstanding for more than 180 days. The collective assessment is based on a ratio determined by the Groups' managements of the total outstanding cardholders' receivable.

*Impairment of Goodwill:*

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

*Determining Fair Values:*

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

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

## 5. CASH AND CENTRAL BANKS

This caption is composed of the following:

| | December 31, 2013 | | |
|---|---|---|---|
| | Accounts in LBP | Accounts in Foreign Currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| Cash on hand and Automated Teller Machines (ATM) | 164,794 | 183,728 | 348,522 |
| Current accounts with Central Bank of Lebanon | 8,230,827 | 8,764,327 | 16,995,154 |
| Current accounts with other central banks | - | 780 | 780 |
| | 8,395,621 | 8,948,835 | 17,344,456 |
| Time deposits with Central Bank of Lebanon | - | 12,813,750 | 12,813,750 |
| | - | 12,813,750 | 12,813,750 |
| | 8,395,621 | 21,762,585 | 30,158,206 |

| | December 31, 2012 | | |
|---|---|---|---|
| | Accounts in LBP | Accounts in Foreign Currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| Cash on hand and Automated Teller Machines (ATM) | 154,495 | 226,417 | 380,912 |
| Current accounts with Central Bank of Lebanon | 6,482,798 | 9,680,973 | 16,163,771 |
| Current accounts with other central banks | - | 1,422 | 1,422 |
| | 6,637,293 | 9,908,812 | 16,546,105 |
| Time deposits with Central Bank of Lebanon | - | 13,190,625 | 13,190,625 |
| | 6,637,293 | 23,099,437 | 29,736,730 |

Term placements with the Central Bank of Lebanon include the equivalent in foreign currencies of LBP11.48billion as at December 31, 2013 (LBP12.36billion as at December 31, 2012) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans obtained from non-resident financial institutions.

## 6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption is composed of the following:

| | December 31, 2013 | | |
|---|---|---|---|
| | Accounts in LBP | Accounts in Foreign Currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| Current non-interest bearing accounts: | | | |
| Resident banks and financial institutions | 73,965 | 1,109,225 | 1,183,190 |
| Resident related banks | 1,091,485 | 528,934 | 1,620,419 |
| Non-resident related banks | - | 148,601 | 148,601 |
| Non-resident banks and financial institutions | 887 | 7,069,559 | 7,070,446 |
| | 1,166,337 | 8,856,319 | 10,022,656 |
| Time deposit accounts: | | | |
| Resident banks and financial institutions | 66,494,906 | 51,359,350 | 117,854,256 |
| Resident related banks | 9,621,404 | 13,659,749 | 23,281,153 |
| Non-resident banks and financial institutions | - | 6,221,256 | 6,221,256 |
| | 76,116,310 | 71,240,355 | 147,356,665 |
| Accrued interest receivable | 1,707,913 | 1,168,759 | 2,876,672 |
| Total | 78,990,560 | 81,265,433 | 160,255,993 |

| | December 31, 2012 | | |
|---|---|---|---|
| | Accounts in LBP | Accounts in Foreign Currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| Current non-interest bearing accounts: | | | |
| Resident banks and financial institutions | 373,092 | 1,343,436 | 1,716,528 |
| Resident related banks | 1,399,791 | 120,996 | 1,520,787 |
| Non-resident banks and financial institutions | - | 14,562,673 | 14,562,673 |
| | 1,772,883 | 16,027,105 | 17,799,988 |
| Time deposit accounts: | | | |
| Resident banks and financial institutions | 56,350,199 | 58,678,722 | 115,028,921 |
| Resident related banks | 7,584,971 | 16,136,887 | 23,721,858 |
| Non-resident banks and financial institutions | - | 7,156,384 | 7,156,384 |
| | 63,935,170 | 81,971,993 | 145,907,163 |
| Accrued interest receivable | 835,695 | 1,171,159 | 2,006,854 |
| Total | 66,543,748 | 99,170,257 | 165,714,005 |

Time deposits with resident banks and financial institutions include an amount of LBP7.8billion as of December 31, 2013 (LBP1.8billion in 2012) pledged against standby letters of credit issued in favor of international credit card companies and regional switches.

Time deposits as at December 31, 2013 and 2012 bear the following maturities and average interest rates:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Accounts in LBP | | Foreign Currencies | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| First quarter of 2014 | 24,102,725 | 6.69% | 30,578,018 | 3.52% |
| Second quarter of 2014 | 15,897,716 | 6.58% | 7,454,539 | 4.49% |
| Third quarter of 2014 | 14,887,745 | 6.87% | 6,502,645 | 4.34% |
| Fourth quarter of 2014 | 21,228,124 | 6.80% | 26,705,153 | 4.97% |
| | 76,116,310 | | 71,240,355 | |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Accounts in LBP | | Foreign Currencies | |
| Maturity | Amount | Average Interest Rate | Amount | Average Interest Rate |
| | LBP'000 | % | LBP'000 | % |
| First quarter of 2013 | 12,179,256 | 6.59% | 37,086,973 | 3.95% |
| Second quarter of 2013 | 14,816,510 | 6.80% | 14,938,593 | 4.38% |
| Third quarter of 2013 | 12,864,404 | 6.97% | 7,770,982 | 4.30% |
| Fourth quarter of 2013 | 24,075,000 | 6.86% | 22,175,445 | 5.00% |
| | 63,935,170 | | 81,971,993 | |

Accrued interest receivable is segregated as follows as at December 31, 2013 and 2012:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Non-related parties | 2,362,949 | 1,624,340 |
| Related parties | 513,723 | 382,514 |
| | 2,876,672 | 2,006,854 |

## 7. TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Quoted equity securities | 4,660,641 | 4,732,127 |
| Unquoted debt securities | 1,520,458 | - |
| Unquoted equity securities | 9,593,039 | 4,589,646 |
| Accrued interest receivable | 88,388 | 54,672 |
| | 15,862,526 | 9,376,445 |

The unrealized gain on trading assets at fair value through profit or loss amounted to LBP288million in 2013 and was recorded under "Net interest and gain on trading assets at fair value through profit or loss" in the consolidated statement of profit or loss (unrealized gain of LBP846million in 2012) (refer to Note 33).

## 8. SETTLEMENTS DUE FROM BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Due from banks and financial institutions – non-related | 21,856,246 | 23,708,948 |
| Due from banks and financial institutions – related parties | 1,084,459 | 1,066,615 |
| Doubtful debts | 587,749 | 664,664 |
| | 23,528,454 | 25,440,227 |
| Allowance for impairment | ( 587,749) | ( 664,664) |
| | 22,940,705 | 24,775,563 |

Settlements due from banks and financial institutions represent amounts paid by the Group related to the transactions conducted by the cardholders who are customers of the client banks and financial institutions and amounts billed by the Group to these banks and financial institutions for the services rendered. These transactions are generated and settled according to the conditions of the contracts signed between both parties. These balances are non-interest bearing and the settlement period does not exceed one month.

The movement of allowance for impairment is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance at January 1 | 664,664 | 678,434 |
| Additions | - | 19,206 |
| Write-off | (9,820) | (15,716) |
| Effect of exchange rates changes | (67,095) | (17,260) |
| Balance at December 31 | 587,749 | 664,664 |

## 9. LOANS TO A FINANCIAL INSTITUTIONS

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Loan to a financial institution | 15,075,000 | 7,537,500 |
| Accrued interest receivable | 702,322 | 328,195 |
| | 15,777,322 | 7,865,695 |

Loan to a financial institution is denominated in U.S. Dollar and mature during March 2014.

## 10. LOANS AND ADVANCES

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| (a) Loans and advances to customers | 19,104,021 | 28,311,421 |
| (b) Loans and advances to related parties | 617,564 | 644,185 |
| | 19,721,585 | 28,955,606 |

### (a) Loans and advances to customers

Loans and advances to customers consist of the following:

| | December 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Gross Amount net of Unrealized Interest | Impairment Allowance | Net Carrying Value | Gross Amount net of Unrealized Interest | Impairment Allowance | Net Carrying Value |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Performing loans and advances - retail: | | | | | | |
| - Discounted bills | 15,173 | - | 15,173 | 25,412 | - | 25,412 |
| - Medium term loans and advances | 3,483,236 | - | 3,483,236 | 9,921,206 | - | 9,921,206 |
| - Credit cards | 13,332,353 | ( 172,298) | 13,160,055 | 11,701,997 | - | 11,701,997 |
| - Overdrafts | 7,757 | - | 7,757 | 115,769 | - | 115,769 |
| - Loans to employees | 397,383 | - | 397,383 | 548,029 | - | 548,029 |
| | 17,235,902 | ( 172,298) | 17,063,604 | 22,312,413 | - | 22,312,413 |
| Non-performing loans and advances - retail: | | | | | | |
| - Doubtful and bad loans | 1,371,158 | ( 1,371,158) | - | 1,385,632 | ( 1,385,632) | - |
| | 1,371,158 | ( 1,371,158) | - | 1,385,632 | ( 1,385,632) | - |
| Performing loans and advances - corporate: | | | | | | |
| - Discounted bills | 167,476 | - | 167,476 | 678,456 | - | 678,456 |
| - Medium term loans | 1,872,941 | - | 1,872,941 | 5,320,552 | - | 5,320,552 |
| | 2,040,417 | - | 2,040,417 | 5,999,008 | - | 5,999,008 |
| | 20,647,477 | ( 1,543,456) | 19,104,021 | 29,697,053 | ( 1,385,632) | 28,311,421 |

The movement of doubtful and bad loans and related unrealized interest and allowance for impairment is summarized as follows:

| | 2013 | | | |
|---|---|---|---|---|
| | **Doubtful and Bad Loans** | **Unrealized Interest** | **Allowance for Impairment** | **Net Carrying Value** |
| | **LBP'000** | **LBP'000** | **LBP'000** | **LBP'000** |
| Balance at January 1 | 1,903,640 | ( 518,008) | ( 1,385,632) | - |
| Additions | 113,603 | ( 65,086) | ( 48,517) | - |
| Write-backs | ( 64,265) | - | 64,265 | - |
| Effect of changes in exchange rates | 1,274 | - | ( 1,274) | - |
| Balance at December 31 | 1,954,252 | ( 583,094) | ( 1,371,158) | - |

| | 2012 | | | |
|---|---|---|---|---|
| | **Doubtful and Bad Loans** | **Unrealized Interest** | **Allowance for Impairment** | **Net Book Value** |
| | **LBP'000** | **LBP'000** | **LBP'000** | **LBP'000** |
| Balance at January 1 | 1,939,808 | ( 578,814) | ( 1,360,994) | - |
| Additions | 26,857 | - | ( 26,857) | - |
| Write-offs | ( 60,806) | 60,806 | - | - |
| Write-backs | ( 1,667) | - | 1,667 | - |
| Effect of changes in exchange rates | ( 552) | - | 552 | - |
| Balance at December 31 | 1,903,640 | ( 518,008) | ( 1,385,632) | - |

The movement of provision for loans collectively assessed for impairment is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | **LBP’000** | **LBP’000** |
| Balance at January 1 | - | - |
| Additions | 172,298 | - |
| Balance at December 31 | 172,298 | - |

**(b) Advances to related parties**

This caption represents non-interest bearing accounts receivable resulting from current operations with related parties. Balances due from related parties are settled within periods not exceeding three months. The majority of these balances are denominated in U.S. Dollar.

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Advances to an associate | 367,406 | 315,713 |
| Advances to shareholders and other related parties | 617,564 | 641,170 |
| | 984,970 | 956,883 |
| Allowance for impairment of advances to an associate | (367,406) | (312,698) |
| | 617,564 | 644,185 |

Movement of allowance for impairment of advances to an associate was as follows:

| | 2013 | 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance beginning of the year | 312,698 | 279,533 |
| Addition | 54,708 | 33,165 |
| Balance end of the year | 367,406 | 312,698 |

## 11. INVESTMENT SECURITIES

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Financial assets at fair value through other comprehensive income | 1,063,633 | 1,063,633 |
| Financial assets at amortized cost (A) | 13,960,715 | 12,132,121 |
| | 15,024,348 | 13,195,754 |

**A- Financial assets at amortized cost:**

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Accounts in LBP | | Counter Value of Foreign Currencies | | |
| | Amortized Cost | Accrued Interest Receivable | Amortized Cost | Accrued Interest Receivable | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Lebanese Government bonds | 3,250,000 | 70,741 | 8,551,265 | 85,050 | 11,957,056 |
| Certificates of deposit | 2,000,000 | 3,659 | - | - | 2,003,659 |
| | 5,250,000 | 74,400 | 8,551,265 | 85,050 | 13,960,715 |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Accounts in LBP | | Counter Value of Foreign Currencies | | |
| | Amortized Cost | Accrued Interest Receivable | Amortized Cost | | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Lebanese Government bonds | 3,500,000 | 70,396 | 8,477,230 | 84,495 | 12,132,121 |
| | 3,500,000 | 70,396 | 8,477,230 | 84,495 | 12,132,121 |

Financial assets at amortized cost include an amount of LBP7.23billion as of December 31, 2013 (LBP7.23billion in 2012) pledged against standby letters of credit issued in favor of international credit card companies and regional switches.

Financial assets at amortized cost are segregated over remaining periods to maturity as follows:

| | December 31, 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accounts in LBP | | | | Counter Value of Foreign Currencies | | | |
| Remaining period to maturity | Nominal Value LBP'000 | Amortized Cost LBP'000 | Fair Value LBP'000 | Yield % | Nominal Value LBP'000 | Amortized Cost LBP'000 | Fair Value LBP'000 | Yield % |
| **Lebanese Government Bonds:** | | | | | | | | |
| -1 year to 3 years | 750,000 | 750,000 | 761,680 | 6.18 | - | - | - | - |
| -3 years to 5 years | - | - | - | - | 6,993,576 | 7,119,140 | 6,588,805 | 5.43 |
| -Beyond 5 years | 2,500,000 | 2,500,000 | 2,504,284 | 8.34 | 1,432,125 | 1,432,125 | 1,360,568 | 6.10 |
| | 3,250,000 | 3,250,000 | 3,265,964 | | 8,425,701 | 8,551,265 | 7,949,373 | |
| **Certificates of deposit issued by Central Bank of Lebanon:** | | | | | | | | |
| -1 year to 3 years | 2,000,000 | 2,000,000 | 2,668,800 | 4.25 | - | - | - | - |
| | 2,000,000 | 2,000,000 | 2,668,800 | | - | - | - | |

| | December 31, 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Accounts in LBP | | | | Counter Value of Foreign Currencies | | | |
| Remaining period to maturity | Nominal Value LBP'000 | Amortized Cost LBP'000 | Fair Value LBP'000 | Yield % | Nominal Value LBP'000 | Amortized Cost LBP'000 | Fair Value LBP'000 | Yield % |
| **Lebanese Government Bonds:** | | | | | | | | |
| -1 year to 3 years | 750,000 | 750,000 | 762,175 | 5.94 | - | - | - | |
| -3 years to 5 years | 750,000 | 750,000 | 749,870 | 6.18 | 1,507,500 | 1,663,679 | 1,660,937 | 6.07 |
| -Beyond 5 years | 2,000,000 | 2,000,000 | 2,057,922 | 8.24 | 6,805,127 | 6,813,551 | 6,489,444 | 5.43 |
| | 3,500,000 | 3,500,000 | 3,569,967 | | 8,312,627 | 8,477,230 | 8,150,381 | |

The movement of investments securities at amortized cost during 2013 and 2012 is summarized as follows:

| | December 31, 2013 Financial Assets at Amortized Cost | | December 31, 2012 Financial Assets at Amortized Cost | |
|---|---|---|---|---|
| | Accounts in LBP | Counter Value of Foreign Currency | Accounts in LBP | Counter Value of Foreign Currency |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Balance at January 1 | 3,500,000 | 8,477,230 | 1,500,000 | 8,465,308 |
| Acquisitions | 2,500,000 | - | 2,000,000 | - |
| Redemption | ( 750,000) | - | - | - |
| Effect of discount/premium amortization | - | ( 39,038) | - | ( 39,038) |
| Effect of changes in exchange rates | - | 113,073 | - | 50,960 |
| Balance at December 31 | 5,250,000 | 8,551,265 | 3,500,000 | 8,477,230 |

## 12. INVESTMENTS IN ASSOCIATES

| | Country | % of Ownership 2013 | % of Ownership 2012 | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|---|
| | | % | % | LBP'000 | LBP'000 |
| Access to Arabia Overseas Ltd | Cyprus | 38 | 38 | 7,866,654 | 7,408,970 |
| Arab Company for Internet Services Ltd | Jordan | 38 | 38 | | |
| Credit Card Management S.A.L. | Lebanon | 20 | 20 | 1,946,146 | 1,184,714 |
| Universal Cards Company | Saudi Arabia | 26 | 26 | 867,960 | 1,044,940 |
| IPN Yemen | Yemen | 35 | 35 | 105,525 | 105,525 |
| | | | | 10,786,285 | 9,744,149 |
| Allowance for impairment loss | | | | ( 105,525) | ( 105,525) |
| | | | | 10,680,760 | 9,638,624 |

The Group's investment in 20% equity stake of "Credit Card Management Company S.A.L." includes LBP254million representing the goodwill arising from the acquisition of the equity interest in the said company.

Access to Arabia Overseas and Arab Company for Services Ltd are managed as one business and their activities are complementary and inter-related. The Group recognized its share in the associates' profit for the year ended December 31, 2013 in the amount of LBP1billion recorded under "Share of profits of associates" in the consolidated statement of profit or loss (LBP1billion for the year ended December 31, 2012).

During 2012, the Group's equity stake in "Universal Cards Company" decreased to 26% due to dilution. As a result, the Group's share in the associate's loss decreased from LBP160million in 2011 to LBP82million in 2012. During 2013, the Group recognized its share in the associate's net assets as at December 31, 2013 in the amount of LBP177million (loss) recorded under "Share of profit of associates" in the consolidated statement of profit or loss.

During 2013, the Group recognized its share in the net assets of Credit Card Management S.A.L. as at December 31, 2013 for an aggregate amount of LBP897million.

Summarized financial information in respect of the Group's associates is set out below:

| | | | **Group's Share** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **LBP'000** | **LBP'000** | **LBP'000** | **LBP'000** |
| Total assets | 20,747,033 | 19,879,400 | 5,585,403 | 5,207,933 |
| Total liabilities | 3,328,647 | 3,799,723 | 889,638 | 1,019,848 |
| Net assets | 17,418,386 | 16,079,677 | 4,695,765 | 4,188,085 |
| Total revenue | 16,091,438 | 17,096,215 | 4,924,980 | 5,027,158 |
| Total profit for the year | 3,517,756 | 3,568,189 | 1,213,326 | 1,192,461 |

## 13. REGULATORY BLOCKED FUNDS

Regulatory blocked funds represent a non-interest earning compulsory deposit placed with the Lebanese Treasury. This deposit is refundable in case of cessation of operations, according to article 132 of the Money and Credit Law.

## 14. PROPERTY AND EQUIPMENT

This caption consists of the following:

| | Buildings | Freehold/ Leasehold Improvements | Computer Equipment | Technical Equipment | Office Equipment | Furniture and Fixtures | Other Properties and Equipment | Advances on Property and Equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Cost:** | | | | | | | | | |
| Balance as at January 1, 2012 | 12,907,923 | 10,073,309 | 12,035,519 | 4,034,253 | 1,637,181 | 748,515 | 855,106 | 65,106 | 42,356,912 |
| Additions | 945,050 | 1,072,845 | 809,521 | - | 42,334 | 35,305 | 24,809 | 237,054 | 3,166,918 |
| Effect of foreign currency exchange differences | - | (300,273) | (57,350) | (182) | (6,215) | (25) | (4,464) | - | (368,509) |
| Adjustments and disposals | - | - | - | - | (3,916) | - | - | - | (3,916) |
| Balance as at December 31, 2012 | 13,852,973 | 10,845,881 | 12,787,690 | 4,034,071 | 1,669,384 | 783,795 | 875,451 | 302,160 | 45,151,405 |
| Additions | 58,713 | 2,459 | 1,482,299 | 669,455 | 68,987 | 8,931 | 23,215 | 378,986 | 2,693,045 |
| Transfers | - | 322,115 | - | - | - | - | - | (322,115) | - |
| Effect of foreign currency exchange differences | - | (269,602) | (50,115) | 435 | (4,943) | 82 | 97 | - | (324,046) |
| Adjustments and disposals | - | (884) | - | - | | (7,803) | (7,365) | - | (16,052) |
| Balance as at December 31, 2013 | 13,911,686 | 10,899,969 | 14,219,874 | 4,703,961 | 1,733,428 | 785,005 | 891,398 | 359,031 | 47,504,352 |
| **Accumulated depreciation:** | | | | | | | | | |
| Balance as at January 1, 2012 | 1,287,680 | 3,163,651 | 8,811,076 | 3,065,272 | 980,902 | 372,620 | 456,121 | - | 18,137,322 |
| Additions | 279,369 | 688,907 | 1,408,783 | 219,629 | 133,854 | 53,198 | 86,467 | - | 2,870,207 |
| Effect of foreign currency exchange differences | - | (56,661) | (16,586) | (82) | (915) | (23) | (1,164) | - | (75,431) |
| Adjustments and disposals | - | - | - | - | (3,431) | - | - | - | (3,431) |
| Balance as at December 31, 2012 | 1,567,049 | 3,795,897 | 10,203,273 | 3,284,819 | 1,110,410 | 425,795 | 541,424 | - | 20,928,667 |
| Additions | 286,124 | 687,641 | 1,262,533 | 195,835 | 123,420 | 52,580 | 66,488 | - | 2,674,621 |
| Effect of foreign currency exchange differences | - | (72,764) | (19,706) | 266 | (1,165) | 35 | (1,241) | - | (94,575) |
| Adjustments and disposals | - | (586) | 1,693 | - | - | (5,472) | (1,916) | - | (6,281) |
| Balance as at December 31, 2013 | 1,853,173 | 4,410,188 | 11,447,793 | 3,480,920 | 1,232,665 | 472,938 | 604,755 | - | 23,502,432 |
| **Net carrying value:** | | | | | | | | | |
| As at December 31, 2013 | 12,058,513 | 6,489,781 | 2,772,081 | 1,223,041 | 500,763 | 312,067 | 286,643 | 359,031 | 24,001,920 |
| As at December 31, 2012 | 12,285,924 | 7,049,984 | 2,584,417 | 749,252 | 558,974 | 358,000 | 334,027 | 302,160 | 24,222,738 |

In 2012, and for expansion purposes, the Group acquired additional premises in "Ivoire Center", in Ras Beirut, Lebanon for an aggregate amount of LBP945million fully settled in 2012.

## 15. INTANGIBLE ASSETS

The caption consists of the following:

| | Computer Software LBP'000 |
|---|---|
| **Cost:** | |
| Balance as at January 1, 2012 | 12,518,613 |
| Additions | 1,681,588 |
| Adjustments | ( 2,630) |
| Effect of changes in exchange rates | ( 83,055) |
| Balance as at December 31, 2012 | 14,114,516 |
| Additions | 1,782,661 |
| Effect of charges in exchange rates | ( 64,004) |
| Balance as at December 31, 2013 | 15,833,173 |
| | |
| **Accumulated amortization:** | |
| Balance as at January 1, 2012 | ( 9,134,857) |
| Additions | ( 1,222,289) |
| Adjustments | 21,653 |
| Effect of change in exchange rates | 30,822 |
| Balance as at December 31, 2012 | (10,304,671) |
| Additions | ( 1,428,405) |
| Adjustments | ( 910) |
| Effect of changes in exchange rates | 25,290 |
| Balance as at December 31, 2013 | 11,708,696 |
| | |
| **Net book value:** | |
| As at December 31, 2013 | 4,124,477 |
| As at December 31, 2012 | 3,809,845 |

## 16. OTHER ASSETS

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Prepaid expenses | 1,285,040 | 628,681 |
| Deferred tax assets | - | 6,742 |
| Other debit balances | 295,461 | 209,601 |
| | 1,580,501 | 845,024 |

## 17. SETTLEMENTS DUE TO BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Settlements due to banks and financial institutions - non-related | 42,721,904 | 42,408,082 |
| Settlements due to banks and financial institutions - related parties | 1,031,871 | 1,587,211 |
| | 43,753,775 | 43,995,293 |

Settlements due to banks and financial institutions represent non-interest bearing balances due to several banks resulting mainly from the automated teller machines transactions.

These balances are generated and settled in accordance with the contractual terms between these banks and the Group.

The Group on a daily basis, performs clearing transactions with Lebanese banks, using the electronic clearing system of the Central Bank of Lebanon, in accordance with the Central Bank of Lebanon requirements in its circular No. 92 dated January 24, 2003.

## 18. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Banks and financial institutions current accounts | 25,564,138 | 37,877,358 |
| Blocked accounts | 10,930,136 | 11,333,516 |
| Overnight deposits – related parties | - | 7,537,500 |
| Overnight deposits | - | 9,421,875 |
| Term deposits | 5,728,500 | - |
| | 42,222,774 | 66,170,249 |
| Accrued interest payable | 54,017 | 81,605 |
| | 42,276,791 | 66,251,854 |

Blocked accounts are balances deposited with the Group by bank issuers of credit cards, in guarantee of the credit facilities granted on these cards.

## 19. CUSTOMERS' DEPOSITS AT AMORTIZED COST

Customers' deposits are allocated by currencies as follows:

| | December 31, 2013 | | |
|---|---|---|---|
| | Accounts in LBP | Accounts in Foreign Currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| Customers deposits | 2,079,563 | 53,006,762 | 55,086,325 |
| Accrued interest payable | - | 79,445 | 79,445 |
| | 2,079,563 | 53,086,207 | 55,165,770 |

| | December 31, 2012 | | |
|---|---|---|---|
| | Accounts in LBP | Accounts in Foreign Currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 |
| Customers deposits | 5,550,461 | 41,364,097 | 46,914,558 |
| Accrued interest payable | 37,079 | 19,912 | 56,991 |
| | 5,587,540 | 41,384,009 | 46,971,549 |

## 20. CREDITORS' OPERATING ACCOUNTS

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Due to companies, merchants and points of sale | 3,822,055 | 2,809,907 |
| Debit and internet cards | 26,830,889 | 23,148,706 |
| | 30,652,944 | 25,958,613 |

Creditors operating accounts are short term non-interest bearing accounts, mostly denominated in foreign currencies.

"Due to companies, merchants and points of sale" represents the balances due to resident and non-resident merchants, as a result of credit card transactions, settled according to the respective merchants' contractual terms.

"Debit and internet cards" represents pledged funds received against credit facilities granted to customers using these cards.

## 21. CREDITORS' OPERATING ACCOUNTS – RELATED PARTIES

This caption represents non-interest bearing current credit accounts with related parties.

"Creditors operating accounts - related parties" as at December 31, 2013 and 2012 includes the balance due to a related party company against the Group's use of machines owned by the related party and placed in commercial stores against a fixed commission fee for each type of transaction and monthly rental charges. It also includes the balances due to two related companies that provide the Group with network communication and internet services, against a fixed commission fee for each type of transaction and monthly rental charges.

## 22. BORROWINGS FROM BANKS

This caption represents a borrowing from a resident bank obtained during 2012 in the amount of LBP15billion (USD10million).

During 2013, the terms of the loan contract were amended and accordingly the period of the loan was extended to two years maturing in December 2014.

During 2013, interest expense amounted to LBP611million (LBP35million during 2012) and is recorded under interest expense in the consolidated statement of profit or loss (Note 32).

## 23. ACCOUNTS PAYABLE AND OTHER CREDITORS

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| | **LBP'000** | **LBP'000** |
| Charge back payable | 375,064 | 565,452 |
| Due to National Social Security Fund | 213,600 | 171,211 |
| Taxes payable | 395,544 | 673,754 |
| Suppliers of fixed assets, software and other | 3,592,053 | 1,567,664 |
| Other creditors | 2,222,369 | 12,019 |
| | 6,798,630 | 2,990,100 |

Under Article 14 of Legislative Decree No. 50 issued on July 15, 1983, applicable to specialized banks, the Bank is exempt from tax on profits for the first seven financial years effective July 1, 2010, the date of its conversion into a specialized bank.

During 2013, the Bank's tax returns for the years 2008 until 2011 were subject to tax examination and tax assessment by the tax authorities. The tax revision resulted in additional tax liability in the amount of LBP203million that was accrued for in prior years under "Provisions". The tax amount was fully paid during 2014.

In 2012, the Bank's tax returns for the year 2007 were subject to examination and tax assessment by the tax authorities. This tax revision resulted in additional tax liability in the amount of LBP68million that was accrued for and recognized in the consolidated statement of profit or loss in 2012 under "general and administrative expense – Other taxes".

The Group's Lebanese entities' tax returns from the year 2012 are still subject to examination and final assessment by the tax authorities. Management is of the opinion that additional tax liability, if any, will not be material.

The Group's Lebanese entities' National Social Security Fund (NSSF) declarations after March 1, 2011 are still subject to examination and final assessment by the NSSF authorities. Management is of the opinion that additional liabilities, if any, will not be material.

"Other creditors" includes an amount of LBP659million representing an adjustment in the reporting of an unearned income previously recognized under capital reserve. Furthermore, "Other creditors" includes an amount of LBP677million representing charge back payable to client bank that were settled subsequently.

## 24. OTHER LIABILITIES

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | **2013** | **2012** |
| | **LBP'000** | **LBP'000** |
| Accrued expenses | 2,329,154 | 2,096,116 |
| Deferred revenues | 61,839 | 56,687 |
| Deferred tax | 17,374 | 7,253 |
| | 2,408,367 | 2,160,056 |

"Deferred revenues" represent credit card issuance fees received in advance and recognized in income upon issuance of the related cards in the period subsequent to the date of the consolidated statement of financial position.

## 25. PROVISIONS

This caption consists of the following:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Provision for employee's end-of-service indemnity | 5,008,534 | 3,671,198 |
| Provision for contingencies | 1,355,396 | 1,001,114 |
| | 6,363,930 | 4,672,312 |

Movement of employees' end-of-service indemnity provision was as follows:

| | 2013 | 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance - beginning of the year | 3,671,198 | 3,288,343 |
| Additions (Note 34) | 1,372,960 | 629,919 |
| Write backs (Note 34) | - | ( 144,737) |
| Settlements | ( 35,624) | ( 102,327) |
| Balance - end of the year | 5,008,534 | 3,671,198 |

The movement of provision for contingencies was as follows:

| | 2013 | 2012 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance - beginning of the year | 1,001,114 | 1,072,645 |
| Additions | 450,880 | - |
| Write backs | - | ( 36,738) |
| Settlements | ( 96,614) | - |
| Effect of changes in exchange rates | 16 | ( 34,793) |
| Balance - end of the year | 1,355,396 | 1,001,114 |

## 26. CAPITAL

Capital amounting to LBP75billion as at December 31, 2013 and 2012 consists of 3,000,000 shares of LBP25,000 each, authorized and fully paid.

## 27. DIVIDEND DISTRIBUTION

In its meeting held on June 25, 2013, the General Assembly of shareholders approved the distribution of dividends in the amount of LBP1.5billion (a dividend of LBP500 per share). During 2012, dividends paid amounted to LBP1.4billion, (a dividend of LBP466.67 per share) as approved by the General Assembly held on October 4, 2012. These dividends were fully paid during 2013 and 2012 respectively.

## 28. LEGAL AND OTHER RESERVES

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Legal reserves | 2,553,744 | 932,693 |
| Reserves for general banking risks | 694,359 | 607,692 |
| | 3,248,103 | 1,540,385 |

**Legal reserves:**

The Group's Lebanese entities transfer 10% of their annual net income to legal reserve until such reserve reaches one third of capital, as required by the Lebanese Code of Commerce and Money and Credit Law. This reserve is not available for distribution.

**Reserve for general banking risks:**

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per thousand and a maximum of 3 per thousand of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve should reach 1.25% of total risk weighted assets, off-balance sheet risk and global exchange position at year 10 and 2% of that amount at year 20. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

## 29. COMMISSION AND FEE REVENUE

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | Year Ended December 31, 2012 LBP'000 |
|---|---|---|
| Commissions earned from issuance of cards | 9,264,100 | 10,227,137 |
| Commissions earned from cardholders' spending | 39,517,007 | 39,111,725 |
| Commissions earned from the ATM network | 16,211,090 | 14,166,766 |
| Commissions earned from merchants | 1,357,598 | 1,646,318 |
| Other commissions earned | 3,488,122 | 2,642,481 |
| | 69,837,917 | 67,794,427 |

## 30. COMMISSION AND FEE EXPENSE

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | Year Ended December 31, 2012 LBP'000 |
|---|---|---|
| Clearing and commissions fees paid to International and Regional Switches and ATM network usage | 26,416,087 | 23,324,489 |
| Commissions paid on cardholders' spending | 13,773,960 | 13,595,657 |
| ATM fraud losses | 135,764 | 349,334 |
| Other commissions paid | 1,235,777 | 1,251,258 |
| | 41,561,588 | 38,520,738 |

## 31. INTEREST INCOME

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | Year Ended December 31, 2012 LBP'000 |
|---|---|---|
| Interest on deposits with banks and financial institutions | 6,790,086 | 6,255,289 |
| Interest on deposits with banks and financial institution – related parties | 1,193,652 | 942,087 |
| Interest on loan to a financial institution | 702,322 | 345,469 |
| Interest on investments in financial assets at amortized cost | 827,919 | 670,415 |
| Interest on loans and advances to customers | 3,106,366 | 2,637,145 |
| Interest on loans and advances to customers – related parties | 24,033 | 21,521 |
| | 12,644,378 | 10,871,926 |

## 32. INTEREST EXPENSE

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | 2012 LBP'000 |
|---|---|---|
| Interest on due to banks and financial institutions | 410,622 | 636,829 |
| Interest on customers' deposits | 1,001,133 | 913,959 |
| Interest on borrowings from banks – Note 22 | 612,330 | 35,175 |
| Other | 271,429 | 189,792 |
| | 2,295,514 | 1,775,755 |

## 33. NET INTEREST AND GAIN ON TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | 2012 LBP'000 |
|---|---|---|
| Dividend income | 751,295 | 619,422 |
| Realized gain from sale of securities | 551,007 | 307,118 |
| Net unrealized gain from securities – Note 7 | 287,757 | 845,930 |
| | 1,590,059 | 1,772,470 |

## 34. SALARIES AND RELATED CHARGES

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | 2012 LBP'000 |
|---|---|---|
| Salaries and other benefits | 13,529,123 | 12,074,110 |
| Transportation and other benefits | 1,680,229 | 1,652,297 |
| Social Security contributions | 1,618,000 | 1,426,794 |
| Provision for end-of-service indemnity – Note 25 | 1,372,960 | 485,182 |
| | 18,200,312 | 15,638,383 |

Salaries and related charges include key management compensation in the amount of LBP3.16billion for 2013 (LBP1.75billion for 2012).

## 35. GENERAL AND ADMINISTRATIVE EXPENSES

This caption consists of the following:

| | Year Ended December 31, 2013 LBP'000 | Year Ended December 31, 2012 LBP'000 |
|---|---|---|
| Miscellaneous taxes and fees | 386,831 | 667,791 |
| Telecommunication | 773,362 | 928,317 |
| Water, electricity and fuel | 792,028 | 778,157 |
| Studies, professional fees and training | 1,529,926 | 1,359,373 |
| Maintenance, security and other building expenses | 2,084,036 | 1,528,091 |
| Travel, accommodation and entertainment | 423,398 | 500,441 |
| Software and other licensing fees | 90,643 | 84,213 |
| Stationery and printing | 238,382 | 284,493 |
| Insurance, security and money transfer | 308,568 | 284,401 |
| Transportation, shipping and porters | 56,100 | 36,793 |
| Publicity and advertising | 84,198 | 144,416 |
| Rent and related services | 168,231 | 239,469 |
| Subscriptions and conferences | 4,728 | 23,234 |
| Attendance fees to the members of the board of directors | 344,100 | 271,350 |
| Other | 377,836 | 376,309 |
| | 7,662,367 | 7,506,848 |

## 36. FIDUCIARY ACCOUNTS

This caption consists of the following:

| | December 31, 2013 LBP'000 | December 31, 2012 LBP'000 |
|---|---|---|
| Non-discretionary deposits | 27,444,582 | 32,412,381 |
| | 27,444,582 | 32,412,381 |

The non-discretionary fiduciary deposits are invested according to the contractual terms with the account holders and for their account.

## 37. MEMO ACCOUNTS

This caption consists of the following:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP Million | LBP Million |
| Facilities extended and not utilized | 983,220 | 735,353 |
| of which facilities extended covered by contracts with banks and financial institutions | 945,210 | 697,758 |
| Assets under custody | 186,651 | 184,842 |

Non-utilized credit facilities extended to individual customers and banks resulting from the issuance of revolving credit cards and charge cards. Facilities to the extent of LBP945billion are subject to contractual terms signed with banks to settle the dues to the Group within limited time periods (LBP698billion as at December 31, 2012).

In addition, the banks and each of the cardholders of the banks are jointly and severally liable for all charges incurred by the Group as a consequence of the use of the cards. In case of default of one or more banks, the Group has recourse against the cardholders of such bank for the dues incurred by the cardholders and not yet settled to the Bank.

The total commitments related to the extended facilities do not necessarily represent future cash requirements, since the Group does not expect these funds to be drawn at one time, noting that the Group is continuously collecting utilized amounts from banks and the payment period varies between daily and monthly according to the agreements with the banks.

Assets under custody represent the receivables of credit card facilities granted to banks' customers and managed by the Group, on behalf of those banks. These receivables amounted to LBP187billion as at December 31, 2013 (LBP185billion as at December 31, 2012). A commission fee is paid to the Group against the management of these receivables.

## 38. COMMITMENTS AND LIABILITIES

Standby letters of credit have been issued in favor of international credit card companies as well as regional switches for the amount of LBP22.2billion (counter value of USD14,702,303) as at December 31, 2013 (LBP22.2billion (counter value of USD14,703,330) in 2012), to guarantee any shortage in the credit facilities coverage granted by the above mentioned companies for credit card operations. Accordingly, the Group could be liable for the risks of these letters of credit, since the Group operates through issuing, marketing and managing those credit cards based on contracts signed between the Group and the international credit card companies.

## 39. NOTE TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents as presented in the statement of cash flows comprise the following:

| | December 31, 2013 LBP'000 | December 31, 2012 LBP'000 |
|---|---|---|
| Cash and central banks | 18,678,563 | 17,378,999 |
| Current accounts with banks and financial institutions (Note 6) | 10,022,656 | 17,799,988 |
| Time deposits with banks and financial institutions (Note 6) | 20,744,968 | 16,519,742 |
| Due to banks and financial institutions | ( 25,564,138) | ( 54,836,733) |
| Net cash and cash equivalents | 23,882,049 | ( 3,138,004) |

Time deposits with banks and financial institutions and due to banks and financial institutions represent balances with original maturities of 90 days or less from their origination.

## 40. MATERIAL PARTLY - OWNED SUBSIDIARIES

CSC Jordan Ltd and CSC Jordan Overseas Ltd are material partly – owned subsidiaries of the Group. Financial information of the subsidiaries are provided below:

| | 2013 % | 2012 % |
|---|---|---|
| Portion of equity interests held by non-controlling interests | | |
| - CSC Jordan Ltd | 60 | 60 |
| - CSC Jordan overseas Ltd | 60 | 60 |

The summarized financial information of the subsidiaries are provided below. This information is based on amounts before inter-company eliminations:

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | CSC Jordan Ltd LBP'000 | CSC Jordan Overseas Ltd LBP'000 | CSC Jordan Ltd LBP'000 | CSC Jordan Overseas Ltd LBP'000 |
| Total Assets | 2,509,989 | 1,546,437 | 1,960,708 | 1,480,118 |
| Total liabilities | 362,226 | 3,766 | 341,320 | 41,456 |
| Total equity | 2,147,763 | 1,542,671 | 1,619,388 | 1,438,662 |
| Attributable to non-controlling interest | 1,288,658 | 925,603 | 971,633 | 863,197 |
| Profit for the year | 523,635 | 104,007 | 500,895 | 679,590 |
| Attributable to non-controlling interest | 314,181 | 62,404 | 300,537 | 407,754 |

Summarized statement of profit or loss:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | CSC Jordan Ltd | CSC Jordan Overseas Ltd | CSC Jordan Ltd | CSC Jordan Overseas Ltd |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Commissions and fees revenue | 2,413,087 | 141,624 | 2,961,239 | 819,552 |
| Commissions and fees expense | ( 1,227,076) | ( 139,964) | ( 1,828,303) | ( 168,677) |
| Interest income | 66,549 | - | 83,455 | - |
| Interest expense | ( 13,861) | - | ( 762) | - |
| Staff costs | ( 348,953) | - | ( 328,161) | ( 37,688) |
| Administrative expenses | ( 342,821) | ( 10,716) | ( 306,020) | ( 8,972) |

Summarized statement of financial position:

| | December 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | CSC Jordan Ltd | CSC Jordan Overseas Ltd | CSC Jordan Ltd | CSC Jordan Overseas Ltd |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **ASSETS** | | | | |
| Deposits with banks and financial institutions | 55,350 | - | 124,527 | - |
| Loans and advances to customers | 23,105 | - | 104,206 | - |
| Loans and advances to related parties | 1,424,048 | 482,803 | 647,459 | 416,485 |
| Investment Securities | - | 1,063,632 | - | 1,063,632 |
| Investment in subsidiaries and associates | 747,618 | - | 745,618 | - |
| **LIABILITIES** | | | | |
| Settlements due to banks and financial institutions | 216,960 | - | 246,111 | - |
| Accounts payable and other creditors | 54,844 | - | 79,096 | - |

## 41. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon, the Group's main regulator, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

The Central Bank of Lebanon requires each bank or banking group to observe the minimum capital adequacy ratio set by the main regulator at 10.50% as at December 31, 2013.

The Group monitors the adequacy of its capital using the methodology and ratios established by Central Bank of Lebanon. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

The Group's capital is split as follows:

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

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

Certain investments in financial and non-financial institutions are ineligible and are deducted from Tier I and Tier II.

Furthermore, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

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

The Group's consolidated capital adequacy ratio, based on the Central Bank of Lebanon directives applicable as at December 31, 2013 and 2012 amounted to 30.79% and 27.76% respectively, and is determined as follows:

| | **2013**<br>**In million of LBP** | **(Represented for Consistency Purposes)**<br>**2012**<br>**In million of LBP** |
|---|---|---|
| Total regulatory capital | 99,383 | 93,214 |
| Credit risk | 220,527 | 233,867 |
| Market risk | 26,952 | 24,026 |
| Operational risk | 75,273 | 77,852 |
| Risk-weighted assets | 322,752 | 335,745 |
| **Capital adequacy ratio** | **30.79** | **27.76** |

## 42. FINANCIAL INSTRUMENTS

### a – Credit Risk

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

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group limits the impact of concentration risk in exposure by setting progressively lower limits for longer tenors and taking security, where considered appropriate, to mitigate such risks.

***Management of credit risk***

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In certain cases the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The Group seeks to manage its credit risk exposure also through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate and also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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 Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practices.

The table below reflect the Group's exposure to credit risk:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | LBP'000 | LBP'000 |
| Central banks | 29,809,684 | 29,355,818 |
| Deposits with banks and financial institutions | 160,255,993 | 165,714,005 |
| Trading assets at fair value through profit or loss | 15,862,526 | 9,376,445 |
| Settlement due from banks and financial institutions | 22,940,705 | 24,775,563 |
| Loans to a financial institution | 15,777,322 | 7,865,695 |
| Loans and advances | 19,721,585 | 28,955,606 |
| Investment securities | 15,024,348 | 13,195,754 |
| Total assets | 279,392,163 | 279,238,886 |

**b. Liquidity Risk:**

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. The Group is managing its assets and liabilities in a way to provide and maintain a sufficient rate of liquidity. The majority of the Group's financial assets and liabilities carry short term maturities and their maturities are disclosed under the related notes.

Financial liabilities by maturity:

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accounts with No Maturity | Up to 3 months | 3 months to 1 Year | 1 - 3 Years | 3 - 5 Years | Over 5 years | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP’000 |
| **Financial Liabilities** | | | | | | | |
| Settlements due to banks and financial institutions | 43,753,775 | - | - | - | - | - | 43,753,775 |
| Deposits from banks and financial institutions | 53,758 | 31,292,897 | 10,930,136 | - | - | - | 42,276,791 |
| Customers' deposits | - | - | 54,751,750 | - | 414,020 | - | 55,165,770 |
| Creditors’ operating accounts | 30,652,944 | - | - | - | - | - | 30,652,944 |
| Creditors’ operating accounts - related parties | 1,792,644 | - | - | - | - | - | 1,792,644 |
| Borrowings from banks | - | - | 15,075,000 | - | - | - | 15,075,000 |
| Accounts payable and other creditors | 6,403,028 | - | - | - | - | - | 6,403,028 |
| | 82,656,149 | 31,292,897 | 80,756,886 | - | 414,020 | - | 195,119,952 |

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Accounts with No Maturity | Up to 3 months | 3 months to 1 Year | 1 - 3 Years | 3 - 5 Years | Over 5 years | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP’000 |
| **Financial Liabilities** | | | | | | | |
| Settlements due to banks and financial institutions | 43,995,293 | - | - | - | - | - | 43,995,293 |
| Deposits from banks and financial institutions | 81,605 | 54,836,733 | 11,333,516 | - | - | - | 66,251,854 |
| Customers' deposits | - | 3,038,553 | 43,655,212 | - | - | 277,784 | 46,971,549 |
| Creditors’ operating accounts | 25,958,613 | - | - | - | - | - | 25,958,613 |
| Creditors’ operating accounts - related parties | 2,467,549 | - | - | - | - | - | 2,467,549 |
| Borrowings from banks | - | - | 15,075,000 | - | - | - | 15,075,000 |
| Accounts payable and other creditors | 2,316,346 | - | - | - | - | - | 2,316,346 |
| | 74,819,406 | 57,875,286 | 70,063,728 | - | - | 277,784 | 203,036,204 |

c. **Market Risk:**

Market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

*Currency Risk:*

The Group is exposed to exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows.

Below is the segregation of assets and liabilities between Lebanese Pound and foreign currencies base accounts as at December 31, 2013 and 2012:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | **LBP** | **US Dollar** | **Other currencies** | **Total** |
| | **LBP'000** | **LBP'000** | **LBP'000** | **LBP'000** |
| **ASSETS** | | | | |
| Cash and central banks | 8,395,621 | 20,000,755 | 1,761,830 | 30,158,206 |
| Deposits with banks and financial institutions | 78,990,560 | 54,438,755 | 26,826,678 | 160,255,993 |
| Trading assets at fair value through profit or loss | - | 15,387,283 | 475,243 | 15,862,526 |
| Settlement due from banks and financial institutions | 7,517,075 | 13,439,113 | 1,984,517 | 22,940,705 |
| Loan to a financial institution | - | 15,777,322 | - | 15,777,322 |
| Loans and advances | ( 773,764) | 20,270,314 | 225,035 | 19,721,585 |
| Investment securities | 5,324,400 | 5,925,889 | 3,774,059 | 15,024,348 |
| Investments in associates | 1,896,059 | 1,352,887 | 7,431,814 | 10,680,760 |
| Regulatory blocked funds | 6,000,000 | - | - | 6,000,000 |
| Property and equipment | 21,969,080 | 1,569,589 | 463,251 | 24,001,920 |
| Intangible assets | 877,221 | 3,172,833 | 74,423 | 4,124,477 |
| Other assets | 3,903 | 1,250,341 | 326,257 | 1,580,501 |
| Total assets | 130,200,155 | 152,585,081 | 43,343,107 | 326,128,343 |
| **LIABILITIES** | | | | |
| Settlements due to banks and financial institutions | 17,352,488 | 18,443,408 | 7,957,879 | 43,753,775 |
| Deposits from banks and financial institutions | - | 37,098,628 | 5,178,163 | 42,276,791 |
| Customers' deposits at amortized cost | 2,079,137 | 42,947,112 | 10,139,521 | 55,165,770 |
| Creditors' operating accounts | 3,505,607 | 12,231,259 | 14,916,078 | 30,652,944 |
| Creditors' operating accounts - related parties | ( 63) | 3,068,031 | ( 1,275,324) | 1,792,644 |
| Borrowings from banks | - | 15,075,000 | - | 15,075,000 |
| Accounts payable and other creditors | 438,492 | 5,792,015 | 568,123 | 6,798,630 |
| Other liabilities | 155,400 | 2,043,589 | 209,378 | 2,408,367 |
| Provisions | 2,782,853 | 3,559,782 | 21,295 | 6,363,930 |
| Total liabilities | 26,313,914 | 140,258,824 | 37,715,113 | 204,287,851 |
| Equity | 114,823,202 | 3,466,651 | 3,550,639 | 121,840,492 |
| Total liabilities and equity | 141,137,116 | 143,725,475 | 41,265,752 | 326,128,343 |
| Net Foreign Exchange Risk | ( 10,936,961) | 8,859,606 | 2,077,355 | - |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | LBP | US Dollar | Other currencies | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **ASSETS** | | | | |
| Cash and central banks | 6,637,293 | 16,712,060 | 6,387,377 | 29,736,730 |
| Deposits with banks and financial institutions | 66,543,748 | 65,330,777 | 33,839,480 | 165,714,005 |
| Trading assets at fair value through profit or loss | - | 8,487,928 | 888,517 | 9,376,445 |
| Settlement due from banks and financial institutions | 10,668,485 | 12,427,783 | 1,679,295 | 24,775,563 |
| Loan to a financial institution | - | 7,865,695 | - | 7,865,695 |
| Loans and advances | 1,405,913 | 21,667,879 | 5,881,814 | 28,955,606 |
| Investment securities | 3,570,396 | 5,964,925 | 3,660,433 | 13,195,754 |
| Investments in associates | 1,184,714 | 1,352,887 | 7,101,023 | 9,638,624 |
| Regulatory blocked funds | 6,000,000 | - | - | 6,000,000 |
| Property and equipment | 21,876,393 | 1,540,221 | 806,124 | 24,222,738 |
| Intangible assets | 1,434,495 | 2,231,121 | 144,229 | 3,809,845 |
| Other assets | 3,778 | 588,785 | 252,461 | 845,024 |
| Total assets | 119,325,215 | 144,170,061 | 60,640,753 | 324,136,029 |
| **LIABILITIES** | | | | |
| Settlements due to banks and financial institutions | 14,825,233 | 17,519,765 | 11,650,295 | 43,995,293 |
| Deposits from banks and financial institutions | - | 54,117,959 | 12,133,895 | 66,251,854 |
| Customers' deposits at amortized cost | 5,587,540 | 29,513,697 | 11,870,312 | 46,971,549 |
| Creditors' operating accounts | 785,963 | 9,585,257 | 15,587,393 | 25,958,613 |
| Creditors' operating accounts - related parties | ( 46) | 2,769,569 | ( 301,974) | 2,467,549 |
| Borrowings from banks | - | 15,075,000 | - | 15,075,000 |
| Accounts payable and other creditors | 585,062 | 1,999,587 | 405,451 | 2,990,100 |
| Other liabilities | 433,255 | 1,656,985 | 69,816 | 2,160,056 |
| Provisions | 2,176,298 | 2,437,088 | 58,926 | 4,672,312 |
| Total liabilities | 24,393,305 | 134,674,907 | 51,474,114 | 210,542,326 |
| Equity | 104,710,623 | 6,421,423 | 2,461,657 | 113,593,703 |
| Total liabilities and equity | 129,103,928 | 141,096,330 | 53,935,771 | 324,136,029 |
| Net Foreign Exchange Risk | ( 9,778,713) | 3,073,731 | 6,704,982 | - |

## *Interest Rate Risk:*

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The structure of the financial statements presented below, show interest sensitivity which reflect the mismatches in the sources and application of funds between assets earning interest rates over medium to long term period versus short term funding.

Interest sensitivity analysis:

| | December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-Interest Earning | Up to 3 months | 3 months to 1 year | 1 – 3 Years | 3 – 5 Years | Over 5 Years | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and central banks | 30,158,206 | - | - | - | - | - | 30,158,206 |
| Deposits with banks and financial institutions | 3,264,094 | 64,323,241 | 92,668,658 | - | - | - | 160,255,993 |
| Trading assets at fair value through profit or loss | 14,492,818 | - | - | - | - | 1,369,708 | 15,862,526 |
| Settlement due from banks and financial institutions | 22,940,705 | - | - | - | - | - | 22,940,705 |
| Loans to a financial institutions | - | 15,777,322 | - | - | - | - | 15,777,322 |
| Loans and advances | 348,323 | 13,546,953 | 2,063,759 | 3,256,727 | 505,823 | - | 19,721,585 |
| Investments securities | 1,223,082 | - | - | 2,750,000 | 7,119,141 | 3,932,125 | 15,024,348 |
| Investments in associates | 10,494,673 | - | - | - | - | - | 10,494,673 |
| Regulatory blocked funds | 6,000,000 | - | - | - | - | - | 6,000,000 |
| Total assets | 88,921,901 | 93,647,516 | 94,732,417 | 6,006,727 | 7,624,964 | 5,301,833 | 296,235,358 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Settlements due to banks and financial institutions | 43,753,775 | - | - | - | - | - | 43,753,775 |
| Deposits from banks and financial institutions | 25,564,138 | 16,712,653 | - | - | - | - | 42,276,791 |
| Customers' deposits | 79,445 | 7,369,609 | 47,310,345 | 406,371 | - | - | 55,165,770 |
| Creditors' operating accounts | 28,356,333 | 2,296,611 | - | - | - | - | 30,652,944 |
| Creditors' operating accounts - related parties | 1,792,644 | - | - | - | - | - | 1,792,644 |
| Borrowing from banks | - | - | 15,075,000 | - | - | - | 15,075,000 |
| Accounts payable and other creditors | 6,403,028 | - | - | - | - | - | 6,403,028 |
| Total liabilities | 105,949,363 | 26,378,873 | 62,385,345 | 406,371 | - | - | 195,119,952 |
| Net Assets | ( 17,027,462) | 67,268,643 | 32,347,072 | 5,600,356 | 7,624,964 | 5,301,833 | 101,115,406 |

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Non-Interest Earning | Up to 3 months | 3 months to 1 year | 1 – 3 Years | 3 – 5 Years | Over 5 Years | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and central banks | 29,736,730 | - | - | - | - | - | 29,736,730 |
| Deposits with banks and financial institutions | 2,523,426 | 66,556,439 | 96,634,140 | - | - | - | 165,714,005 |
| Settlements due from banks and financial institutions | 24,775,563 | - | - | - | - | - | 24,775,563 |
| Trading assets at fair value through profit or loss | 8,622,695 | - | 753,750 | - | - | - | 9,376,445 |
| Loan to a financial institution | - | 7,865,695 | - | - | - | - | 7,865,695 |
| Loans and advances | 395,072 | 11,602,896 | 6,403,322 | 4,135,787 | 6,418,529 | - | 28,955,606 |
| Investment securities | 1,218,524 | - | - | 750,000 | 750,000 | 10,477,230 | 13,195,754 |
| Investments in associates | 9,638,624 | - | - | - | - | - | 9,638,624 |
| Regulatory blocked funds | 6,000,000 | - | - | - | - | - | 6,000,000 |
| Total assets | 82,910,634 | 86,025,030 | 103,791,212 | 4,885,787 | 7,168,529 | 10,477,230 | 295,258,422 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Settlements due to banks and financial institutions | 43,995,293 | - | - | - | - | - | 43,995,293 |
| Deposits from banks and financial institutions | 37,877,358 | 16,959,375 | 11,415,121 | - | - | - | 66,251,854 |
| Customers' deposits at amortized cost | 56,991 | 3,028,656 | 43,608,118 | - | - | 277,784 | 46,971,549 |
| Creditors' operating accounts | 23,851,425 | 2,107,188 | - | - | - | - | 25,958,613 |
| Creditors' operating accounts - related parties | 2,467,549 | - | - | - | - | - | 2,467,549 |
| Borrowings from banks | - | - | 15,075,000 | - | - | - | 15,075,000 |
| Account payable and other creditors | 2,316,346 | - | - | - | - | - | 2,316,346 |
| Total liabilities | 110,564,962 | 22,095,219 | 70,098,239 | - | - | 277,784 | 203,036,204 |
| Net Assets | ( 27,654,328) | 63,929,811 | 33,692,973 | 4,885,787 | 7,168,529 | 10,199,446 | 92,222,218 |

## 43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

The summary of the Group's classification of each class of financial assets and liabilities and their fair values are as follows:

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying Value<br>LBP'000 | Level 1<br>LBP'000 | Level 2<br>LBP'000 | Level 3<br>LBP'000 | Total<br>LBP'000 |
| **Financial Assets measured at** | | | | | |
| **Fair value through profit or loss:** | | | | | |
| Quoted equity securities | 4,283,766 | 4,283,766 | - | - | 4,283,766 |
| Unquoted equity securities | 9,216,164 | - | - | 9,216,164 | 9,216,164 |
| Unquoted preferred shares | 753,750 | - | - | 753,750 | 753,750 |
| Unquoted debt securities | 1,520,458 | - | - | 1,520,458 | 1,520,458 |
| **Amortized cost** | | | | | |
| Lebanese government bonds | 11,801,265 | - | 11,215,337 | - | 11,215,337 |
| Certificates of deposit | 2,000,000 | - | 2,668,800 | - | 2,668,800 |
| Loans and advances to customers | 19,721,585 | - | 19,721,585 | - | 19,721,585 |
| **Fair value through other comprehensive income:** | | | | | |
| Unquoted equity securities | 1,063,633 | - | - | 1,063,633 | 1,063,633 |
| | 50,360,621 | 4,283,766 | 33,605,722 | 12,554,005 | 50,443,493 |
| **Financial Liabilities measured at amortized cost** | | | | | |
| Customers' deposits | 55,086,558 | - | 55,086,558 | - | 55,086,558 |
| | 55,086,558 | - | 55,086,558 | - | 55,086,558 |

***Valuation techniques, significant unobservable inputs, and sensitivity of the input to the fair value***

The following table gives information about how the fair values of financial assets and financial liabilities, are determined (Level 2 and Level 3 fair values) and significant unobservable inputs used:

| December 31, 2013 | | |
|---|---|---|
| **Financial Assets** | **Date of Valuation** | **Valuation Technique and key Inputs** |
| **At fair value through profit or loss:** | | |
| Unquoted equity securities | December 31, 2013 | Not valued |
| Unquoted preferred shares | December 31, 2013 | Management estimate based on unobservable input related to market volatility and liquidity |
| Unquoted debt securities | December 31, 2013 | DCF at market discount rate |
| **At fair value through other comprehensive income:** | | |
| Unquoted equity securities | December 31, 2013 | Not valued |
| **At amortized cost:** | | |
| Lebanese government bonds | December 31, 2012 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds. |
| Loans and advances to customers | December 31, 2013 | DCF at market discount rate. |
| Certificates of deposit issued by the Central Bank of Lebanon | December 31, 2013 | DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bonds, adjusted for illiquidity. |
| **Financial Liabilities** | | |
| **At amortized cost:** | | |
| Customers' deposits at amortized cost | December 31, 2013 | DCF at market discount rate. |

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

The directors consider that the carrying amounts of cash and central banks, settlement due from/due to banks and financial institutions, loans to a financial institution, borrowings from banks and other liabilities approximate their fair values due to the short-term maturities of these instruments.

## 44. COMPARATIVE FINANCIAL STATEMENTS

Certain 2012 comparative figures were reclassified to conform to the current year presentation, in the amount of LBP1.28billion that were reclassified to “Settlement due to banks and financial institutions” from “Creditors’ operating accounts”.

## 45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2013 were approved and authorized for issue by the Board of Directors on June 25, 2014.