COMMITTED TO SUCCESS

2013 ANNUAL REPORT

FIRST NATIONAL BANK S.A.L.

FIRST NATIONAL BANK S.A.L.

ANNUAL REPORT 2013

CONTENT

CHAIRMAN'S LETTER

The overall performance of the Bank during 2013 was within the targets set for the year whilst the Net Profit, in particular, exceeded budget expectations. The growth of 30.4% in Net Profits is well ahead of the negative 0.1% Profit growth of the Alpha banks and slight Profit growth of the domestic Lebanese banking sector. The growth originated from an enhancement to the Bank's Non-Interest Income which in turn resulted from the diversity of the sources of business activities undertaken along with a newly implemented policy to help control the increase in expenses. This growth in Net Profit improved the Return on Average Common Equity from 9.4% in 2012 to 11.4% in 2013, coupled with an enhancement to the Net Primary Liquidity in Foreign Currencies from 22.4% in 2012 to 25.0% in 2013, compared to 12.0% in 2011.

Furthermore, the growth in Net Profit was supported by a qualitative growth in our statement of financial position reflected in healthier funding structure. Deposits increased by a solid 9.8% to reach approximately $3 billion while assets grew by 5.0% to reach $3.5 billion. This was a result of a healthy decrease in inter-bank balances of 29.6%, thus increasing percentage funding of Assets from Deposits to 83.1% compared to 74.5% in 2012. Loans and Advances to Customers also grew to reach around $900 million while maintaining a conservative ratio of Loans to Deposits of 30.2%.

The combination of the above growth indicators, changes in statement of financial position structure, and new Banque du Liban regulations amongst other factors led to the significant improvement in the Capital Adequacy Ratio from 8.7% in 2012 to 10.4% in 2013.

The above results were achieved as part of a three year strategic plan approved by the Board of Directors of FNB early 2013. The plan covered both the qualitative and quantitative aspects of the Bank's activities. Starting with a revision of FNB's vision and mission statements and covering systematically business and commercial activities along with Support and Control functions, the plan clearly defined Key Performance Indicators and thus enhanced business and operational focus and accountability throughout the FNB Group.

Accordingly, several strategic initiatives were approved based on our Profit driven strategy within an appropriate risk tolerance and prudent operational policies. This included establishing a strong market oriented culture for commercial business covering Corporate, SME and Retail Banking, and enhancing direct supporting services such as Treasury, Corresponding Banking network and Trade Finance activities.
In addition, the Bank maintained its expansion strategy in terms of its Branch network and different distribution channels to service its clientele more efficiently and effectively to cover a wider geographical area throughout its 24 branches network.

The bank also enhanced its Information Technology services, by investing considerable funds to transform its IT activities from a traditional cost-center to a business enabler approach. Consequently, it brought about a new and rapid change which enabled our clients to access a state of the art technology and more customized business and financial solutions. In this respect, the e-banking platform was enhanced further and a new Customer Service initiative was adopted, to better respond to our customer's evolving needs and providing them with tailored solutions.

Moreover, throughout the year 2013, the Bank's Management placed high priority on solid Risk Management, Compliance, Anti-Money Laundering and Corporate Governance activities within the FNB Group. Accordingly, the Bank continued to adapt and optimize its business by reinforcing the highest level of operation and requiring all its subsidiaries and business partners to adhere to these standards.

FNB continued its investment in the Bank's employees being the key resource to the success of the Bank's mission and for achieving our objectives.

Another key goal was to invest in our employees, because FNB's talent pool will continue to be a vital driver of FNB's success for many years to come. The majority of our employees have attended several internal and external training programs to improve their skills and competencies.

Finally, I would like to thank our customers for their loyalty, our employees for their dedication, and our shareholders for their continued confidence and their support to the Group, and aiming to continue adding excellent value for their investment.

RAMI EL NIMER

CORPORATE GOVERNANCE

STATUTORY BODY

The corporate governance guidelines, adopted by First National Bank, provide a framework to regulate the relationships between shareholders, supervisors and management.

A clear separation between the oversight, vision setting, supervision and execution is reflected in the corporate governance structure. The board makes every effort to balance the interest of its shareholders, customers, employees and suppliers.

Furthermore, the board ensures effective governance, supervises the management of the bank's business and affairs, and exercises reasonable business judgment on behalf of the bank. In all actions taken by the board, the members act on a fully informed basis, in good faith, with due diligence, keeping in mind the best interests of the bank. In discharging their obligation, board members rely, among other things, on the honesty and integrity of the bank's senior management and its outside advisors and external auditors.

CHAIRMAN

The Chairman and Vice Chairman of the Board are appointed by the Board of Directors for a maximum period of three years. The Chairman may delegate some or all of his authority to another person who operates under his supervision, but remains responsible for the acts and performance of his delegates. The General Managers, Deputy General Manager and Assistant General Managers are endorsed by the board upon the recommendation of the Chairman. They assist the Chairman in the daily operations of the bank. The Chairman has extensive powers to execute resolutions adopted by the shareholders at the Ordinary or Extraordinary General Assembly and to represent the bank in its different activities.

BOARD OF DIRECTORS

The Board of Directors consists of nine elected members and is chaired by Mr. Rami El Nimer. The election of the members takes place at the Annual General Assembly of Shareholders for a maximum period of three years renewable. Board members need General Assembly authorization to be elected members in other entities with similar business activities. The renewal of this authorization is mandatory at each Annual General Assembly of Shareholders.

The Board of Directors of First National Bank in 2013 was composed of the following 8 members:

Mr. Rami Refaat El Nimer is an experienced banker who has many notable achievements in the banking industry. He has served as a Director and Chairman for the bank since March 2001. Additionally, Mr. El Nimer holds other corporate responsibilities within the business community.

Mr. Khaled Abdallah Al Sagar is the Vice-Chairman of the bank. He has been a Director at FNB since June 1996. Mr. Al Sagar held the role of Chairman of the Board for a three year term starting April 3, 1998 until March 23, 2001. He is an active member of the Al Sager Group, a leading merchant and industrial conglomerate in Kuwait.

Promotion des Investissements S.A.L. (Holding) has been represented on the board through its representative since April 2000. It is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon.

Mr. Abdallah Saoud Al Humaidhi has been a Director of the bank since June 1996. He is also a member of the Board of Directors of the Arab Banking Corporation in Bahrain, representing the government of Kuwait. Mr. Al Humaidhi is the Chairman and Managing Director of Commercial Facilities Company K.S.C., and a Board Member of the Chamber of Commerce & Industry in Kuwait, in addition to other Kuwaiti organizations.

Mr. Arfan Khalil Ayass has been a Director for the bank since August 2009. He is a member of the American Institute of Certified Public Accountants, and the Lebanese Society of Certified Public Accountants. Mr. Ayass is currently a faculty member of Rafic Hariri University.

Mr. Tamim Saleh Al Sahli has been a board member since April 2000. He is a Lebanese businessman.

Mr. Roland Elias Haraoui has been a board member since December 2001. He is a Lebanese businessman with an exceptional leadership profile.

Almuttahida Lil Istithmar (Lebanon) S.A.L. (Holding) has been elected, through its representative, as a board member since 2004. It is a Lebanese holding company that invests its financial and industrial concerns in Lebanon.

MANAGEMENT

FNB S.A.L. (First National Bank)

GENERAL MANAGEMENT

MR. RAMI R. EL NIMER
(Chairman-General Manager)

MR. ELIAS S. BAZ
(General Manager)

MR. NAJIB M. SEMAAN
(General Manager)

MR. GHAITHAN S. TAYARA
(Deputy General Manager)

MR. MAHMOUD G. FRANCIS
(Assistant General Manager)

MR. TONY W. DABBAGHIAN
(Assistant General Manager)

MR. ROBERT H. EL HADDAD
(Chief Group Audit Executive)

MR. ANTOINE C. WAKIM
(Chief Financial Officer)

HEAD OFFICE - MANAGERS

MR. ADAM H. MANSOUR
(Chief Compliance Officer)

MR. ADONIS F. SHEHAYEB
(Managing Information Systems Department)

MS. AMINA H. BIZRI
(Anti-Money Laundering Department)

MR. ANTOINE G. HAFEZ
(Business Development Department)

MR. ASSAAD K. SALIBA
(Foreign Exchange Department)

MS. CARINE N. JBEILY
(Retail Credit Department)

MS. CAROLE A. ABI SAAD
(Organization & Methods Department)

MS. CHANTAL R. FREIJI
(Financial Institution & Correspondent Banking Department)

MS. DIMA H. EL DAIRY
(Marketing & Communication Department)

MR. ELIE M. RAHAL
(Trade Finance Department)

MR. GEORGE K. ABI KARAM
(Legal Department)

MR. GEORGE K. BOUSTANY
(Information Technology Security Department)

MR. JOHN N. CHALOUHI
(Chief Risk Officer)

MR. JOSEPH E. ESTEPHAN
(Recovery & Restructuring Department)

MR. KHALIL K. BADRAN
(Administration Department)

MR. MARWAN B. KHAWAND
(Information Technology Department)

MS. MARIE-THERESE E. OBEID
(International Corporate Credit Banking Department)

MR. NABIL J. SEMAAN
(Human Resources & Administration Departments)

MS. NADA F. EL ZEIN
(Credit Appraisal Department)

MR. NAJI N. MAALOUF
(Corporate Credit Department)

MR. PHILIPPE A. ABOU AZAR
(Small & Medium Enterprises Banking Department)

MS. RAYMONDA D. ABBOUD
(Credit Inspection Department)

MR. RAYMOND N. YAZBECK
(Credit Administration Department)

MR. SALIM L. KARROUM
(Operations Department)

MS. SOUMAYA Y. HARIS
(Head of Group Treasury)

MR. WASSIM M. DAOUK
(Corporate Credit Analysis Department)

BRANCH MANAGERS

MR. ABED S. CHAMI
(Halba Branch)

MR. AHMAD SAOUD A. HAJAR
(Tripoli Branch)

MS. ALINE A. AYOUB
(Antelias Branch)

MR. ELIE H. KHALIL
(Zouk Mousbeh Branch)

MR. ERIK P. VASDEKIS
(Achrafieh Branch)

MR. FOUAD H. HAMADEH
(Choueifat Branch)

MR. FIRAS A. ABI FARRAJ
(Aley Branch)

MR. GHASSAN R. ABOU ZAHR
(Saida Branch)

MR. HASSAN I. GHOSN
(Nabatieh Branch)

MR. HUSSEIN G. FAKHREDDINE
(Jnah Branch)

MR. JEAN G. CHEHADEH
(Hazmieh Branch)

MR. JOSEPH M. AZOURY
(Jounieh Branch)

MR. MAHMOUD A. BERJAWI
(HaretHreik Branch)

MS. MAYA N. NASR
(Ghazir Branch)

MR. MOHAMAD H. CHOKR
(Chtoura Branch)

MR. MOHAMAD S. SHREIF
(Baalbeck Branch)

MS. NADA A. KANJ
(Mazraat Yashouh Branch)

MS. NADINE A. ZAHER
(Allenby Branch)

MR. NABIL H. SERHAN
(Mais El Jabal Branch)

MS. RANIA M. QUBAA
(Mazraa Branch)

MS. ROLA S. ZAGHLOUL
(Hamra Branch)

MR. WAJIH S. AKKARI
(Verdun Branch)

MR. YOUSSEF H. EL ZOGHBI
(Jdeideh Branch)

MR. ZIAD A. BAADARANI
(Tarik El Jdideh Branch)

ADVISORS

MR. GEORGE N. AOUAD
(Advisor to Chairman-General Manager)

MR. NABIL M. SOUBRA
(Consultant to Chairman – Foreign Affairs)

MR. CHARLES W. SKAFF
(Advisor to the General Manager – Control & Support)

ME. JEAN CLAUDE M. CHAMOUN
(Legal Advisor)

ME. MANSOUR A. BREIDI
(Legal Advisor)

ME. RAWI B. KANAAN
(Legal Advisor)

ME. SAKHER C. EL HACHEM
(Legal Advisor)

ABOU SLEIMAN AND PARTNERS
(Legal Advisor)

MENA CITY LAWYERS
(Legal Advisor)

SAADE, DEBS AND PARTNERS
(Legal Advisor)

AUDITORS

DELOITTE & TOUCHE
FIDUCIAIRE DU MOYEN-ORIENT

MECG S.A.L. (Middle East Capital Group)

GENERAL MANAGEMENT

MR. NAJIB M. SEMAAN
(Chairman-General Manager)

CFC S.A.L. (Capital Finance Company)

GENERAL MANAGEMENT

MR. TAREK I. KOMBARJI
(Chief Executive Officer)

MR. RONY M. KHONEISSER
(Assistant General Manager)

MS. MYRIAM J. MOUANESS
(Financial Control Director)

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

First National Bank S.A.L. (FNB) is a commercial bank operating in Lebanon categorized within the Alfa Group banks. As the economic studies of 2012 have indicated, FNB's expansion is notably ranked among the highest in Lebanon's banking industry. Founded in 1994, FNB has introduced a wide range of innovative products and upscale banking services to customers with a major focus on corporate, SME, individuals, and the public sector.

The acquisition of the Middle East Capital Group (MECG) in 2008 and the Capital Finance Company (CFC) in 2010 bolstered volume, encouraged development, and strengthened the Group's network coverage which led to opportunities throughout the MENA region and the world.

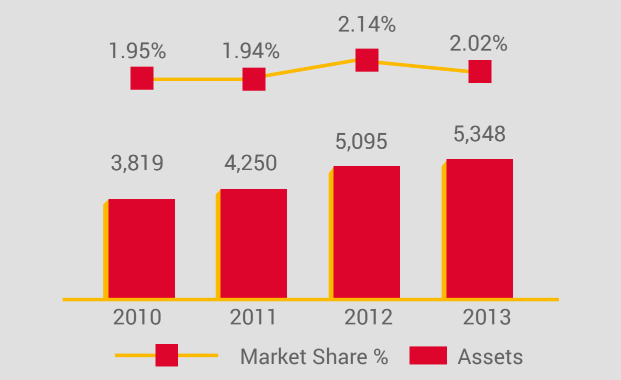
The management discussion and analysis display the consolidated key financial figures of the First National Bank Group and the main highlights of 2013. The charts will demonstrate the cyclical trend of FNB results to better address the informational needs of the public and the regulators, specifically the stakeholders.

The terms "the bank" and "FNB," used without other qualifying descriptions, will refer to the First National Bank S.A.L. The term "Group" will refer to FNB consolidated (with Middle East Capital Group "MECG" and Capital Finance Company "CFC"). All statements of financial position are consolidated and are expressed in Lebanese pounds (LBP) unless otherwise stated, and are based on the audited consolidated statements of the external auditors, Deloitte & Touche and DFK Fiduciaire du Moyen-Orient. All references to the banking sector refer to the 53 banks operating in Lebanese territory and all references to peer groups or markets are those of the Alpha Group with total deposits exceeding 2 billion dollars each as per bank data financial statements.

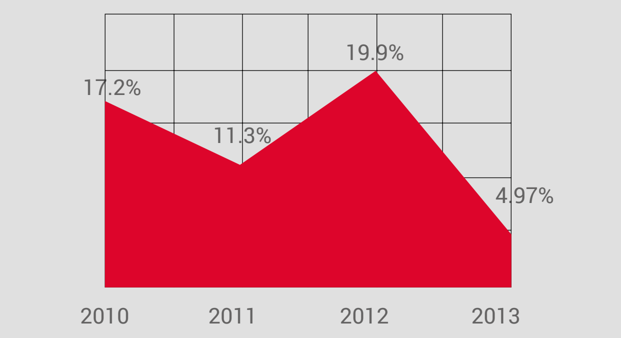
KEY FIGURES OF THE FNB GROUP

IN BILLIONS OF LBP

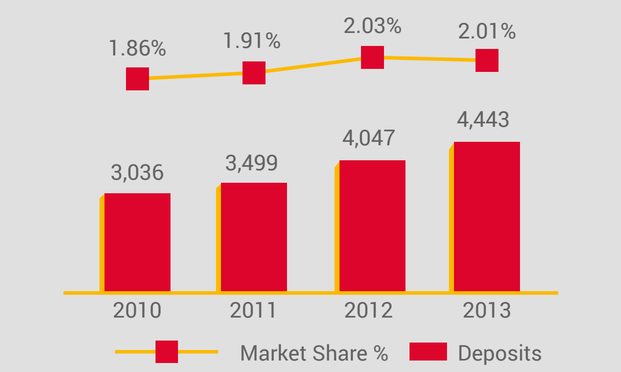
ASSETS



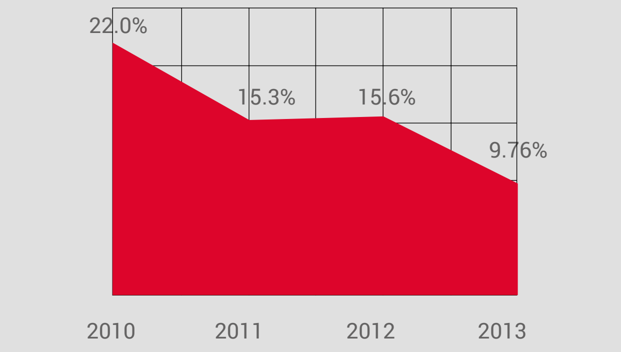
ASSETS GROWTH %



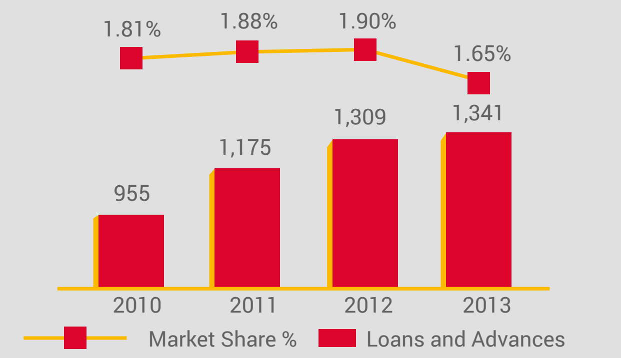
DEPOSITS



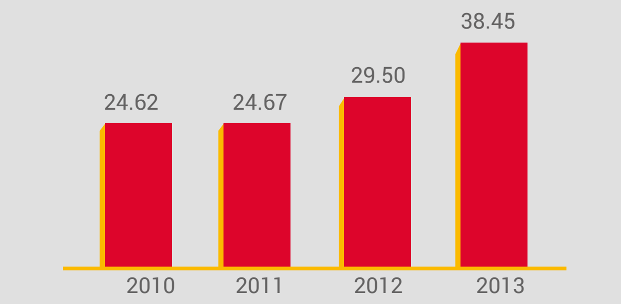
DEPOSITS GROWTH %



LOANS AND ADVANCES TO CUSTOMERS



NET INCOME



ECONOMIC ENVIRONMENT

Lebanese economic growth witnessed a listless contraction during the year 2013 due to the extension of the regional turmoil. Spillovers of the external environment, namely the Syrian conflict and the Syrian refugees in Lebanon, had adverse repercussions on the economy mainly on the investment and trade activity and tourism. The ongoing internal political strife, within the country, interrupted the formation of a contingency plan to preserve the economic sectors.

The BDL coincident indicator that reflects the general state of the economy presented a slight correction reaching 267.9 with a 2.06% increase from last year's figures. The real GDP growth of the country, estimated by the IMF, reported a rise between 1.5% and 2.5% during the year 2013. The 2012 GDP growth rate equaling 2%, clearly illustrates the pattern similarity that is growing in line with the unchanged environmental conditions.

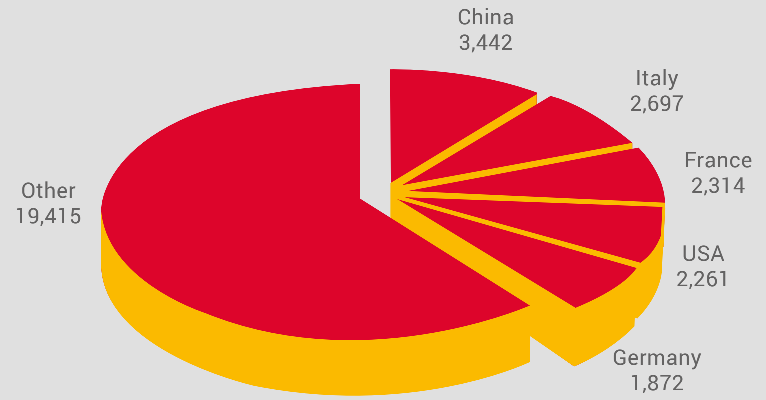
While a sluggish investor attitude has been observed in the market, resiliency in product consumption was supported by Lebanese resident and Syrian refugee spending. The Consolidated Balance Sheet of Lebanese commercial banks attained an 8.5% growth rate compared to a customary rate of 8% in 2012.

The inflows could not overcome the Lebanese trade deficit despite the heavy pressure on the Balance of Payments, stimulating an increase in deficit to reach USD 17,292.5 million at year end from the stated USD 16,796.6 million in 2012, recording a 3% increase compared to a 5.7% increase in 2012. This result is the outcome of the decrease in imports and exports by 0.2% and 12.2% consecutively, reaching USD 21,228.5 million and USD 3,936.0 million. According to the Ministry of Finance figures, the Net Public Debt recorded USD 53.2 billion at year end 2013, surged by 8.3% increase.

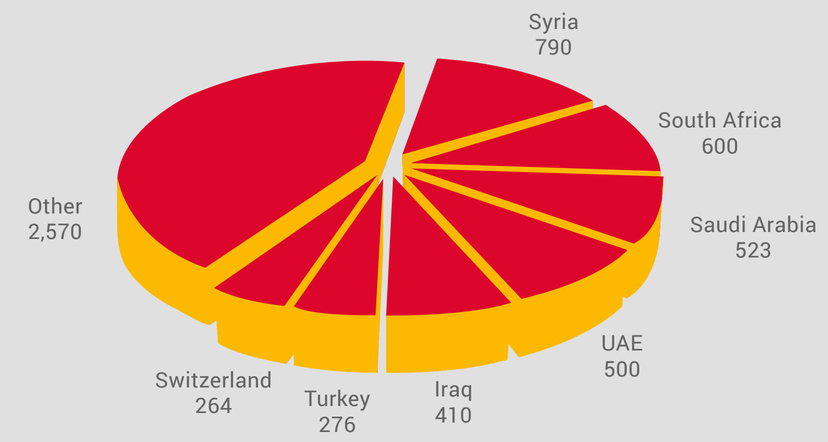
The Central Bank reserves in foreign currency regressed by 1.19% as per BDL publications, and the average exchange rate of Lebanese pounds against the dollar remained at LBP 1,507.5. Interest rates on the Lebanese Treasury Bills, the least risky of all the financial instruments in the Lebanese financial market (although they are highly concentrated in the financial statements of Lebanese banks), remained unchanged during the year. Interest rates in the commercial banks witnessed a growth during December 2013 footing 7.29% for LBP Loans and regressed in LBP Deposits with 5.44%. The stock of money and quasi money (M3) was amplified by 6.9% progress in 2013, compared to 7% in 2012 and 5.5% in 2011.

The average inflation rate, driven by the weak growth in the money supply, attained approximately 2.6% compared to 5.7% in the statistics of the previous year. The Debt-to-GDP ratio sustained its yearly expansion to register a 145.9% increase. Investors' accelerating attitude displayed a potential rise in cement deliveries, registering a 9.8% increase in 2013 compared to a negative level of 4.4% attained in 2012.

IMPORTS BY ORIGIN IN 2013
IN BILLION LBP



EXPORTS BY DESTINATION IN 2013
IN BILLION LBP

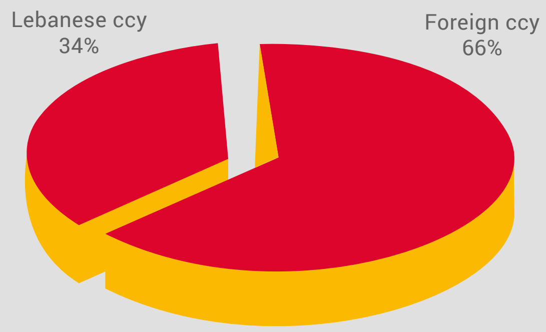


Source: Association of Banks in Lebanon. Economic Letter 2013

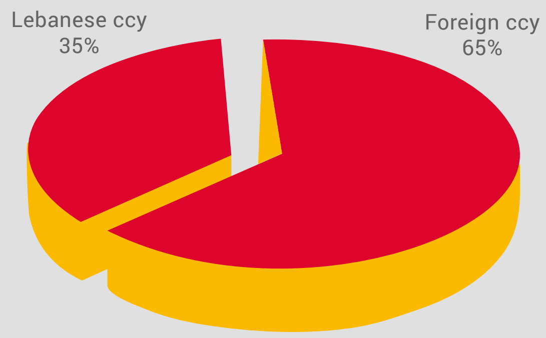
BANKING SECTOR

The Consolidated Statement of Financial Position for the commercial banks expanded to 8.52% in 2013 compared to 8% in 2012, and reached LBP 248,468 billion. Total resident and non-resident private sector deposits with a slow growth recorded LBP 205,329 billion, increasing by 8.97% in 2013 compared to 8% in 2012. The dollarization rate shows an incline reaching 66.13% on average in December 2013 of total Bank Deposits from 64.82% at the end of 2012.

DEPOSITS BY CURRENCY IN 2013

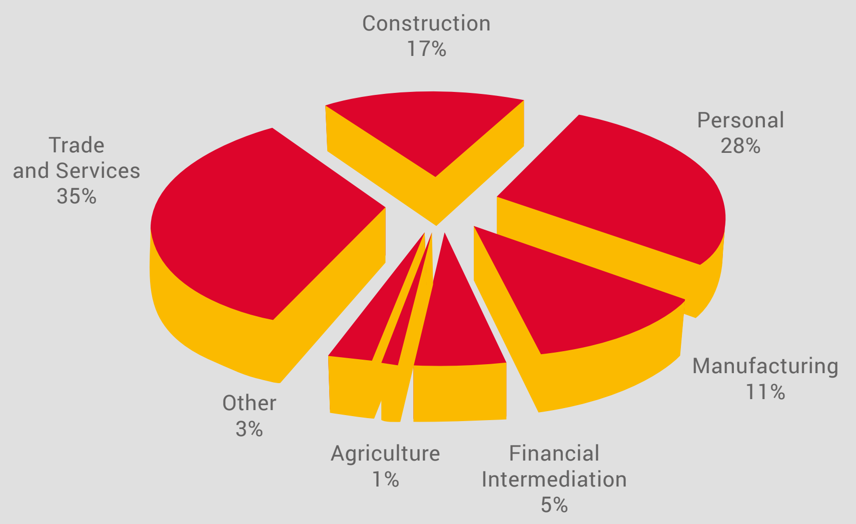


DEPOSITS BY CURRENCY IN 2012



Loans and Advances to Customers endorsed a positive evolution though the market and entered a contracted phase at end 2013. Loans and Advances to the private sector increased by an annual 9.04% versus 10.35% in 2012, amounting to LBP 71,427 billion in 2013 with an overall Loans to Deposits ratio of 34.79%.

LOANS AND ADVANCES BY SECTOR IN 2013



Source: BDL Monthly Bulletin, December 2013

FNB GROUP PERFORMANCE

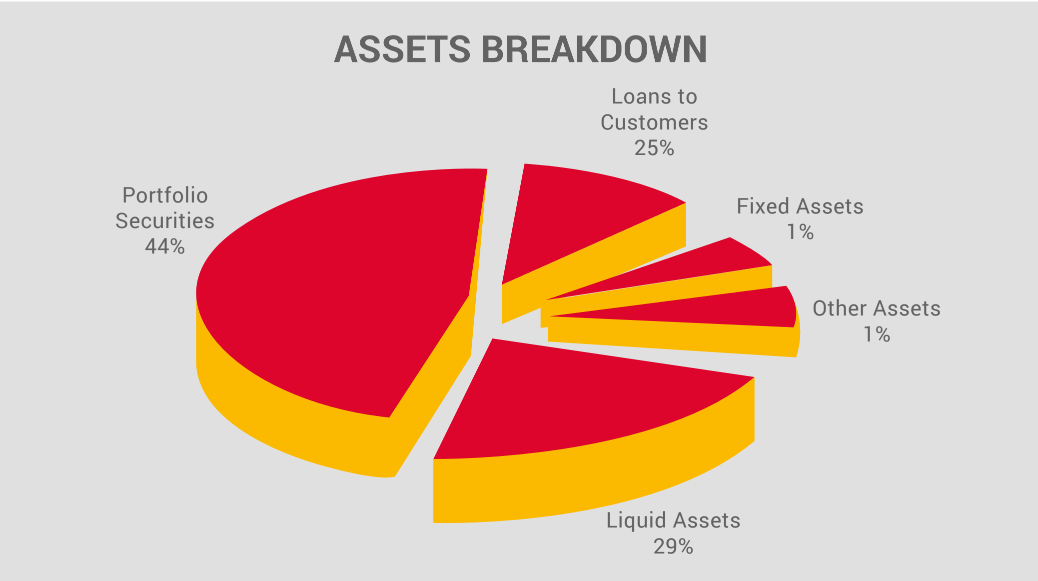
I. Key Performance Indicators

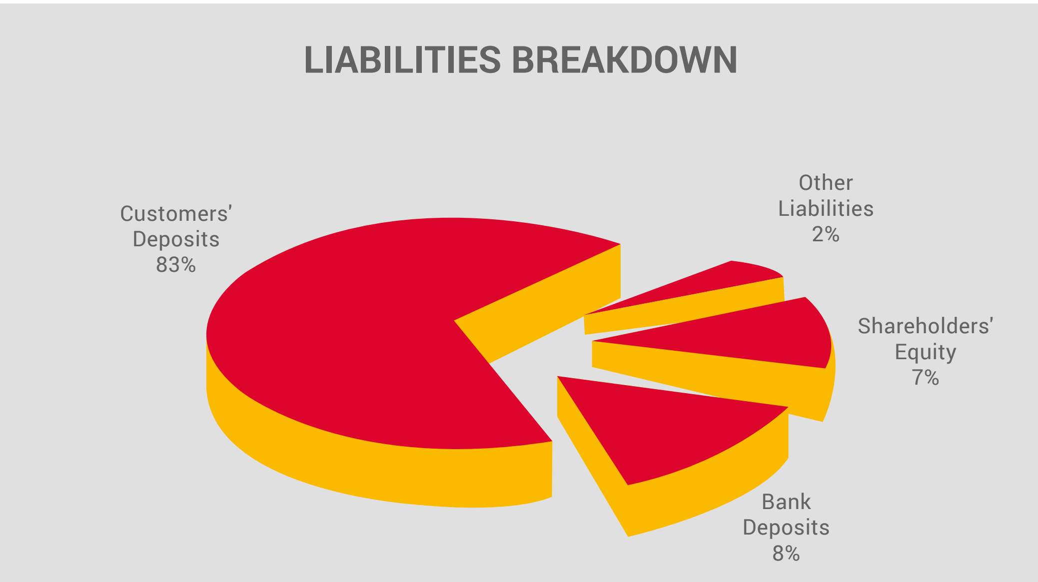
KEY PERFORMANCE METRICS	2013	2012	2011
Assets Quality			
Loans to deposits	30.19%	32.36%	33.57%
Net doubtful loans/ Total loans	0.65%	0.71%	0.73%
Loan loss provisions/ Gross loans	6.94%	7.32%	8.18%
Net doubtful loans/ Equity	2.32%	2.65%	3.18%
Gross doubtful loans/ Gross loans	6.54%	7.19%	8.03%
Capital Adequacy			
Average shareholders' equity to average assets	6.96%	6.63%	6.96%
Shareholders' equity to loans and acceptances	27.76%	26.51%	22.72%
Profitability			
ROAA	0.74%	0.63%	0.61%
ROAE	10.59%	10.13%	8.79%
Net interest income to average assets	1.92%	1.79%	1.69%
Total interest paid to total interest received	66.35%	68.24%	69.98%
Cost to income	58.68%	60.07%	62.11%

II. Financial Statements

STATEMENT OF FINANCIAL POSITION LBP MILLION	DEC-13	DEC-12	VARIANCE	GROWTH
Liquid assets	1,541,774	1,482,610	59,164	4.0%
Portfolio securities	2,345,577	2,208,423	137,154	6.2%
Loans to customers	1,341,289	1,309,322	31,966	2.4%
Other assets	54,086	47,454	6,632	14.0%
Fixed assets	65,702	47,597	18,105	38.0%
Total Assets	**5,348,427**	**5,095,406**	**253,021**	**5.0%**

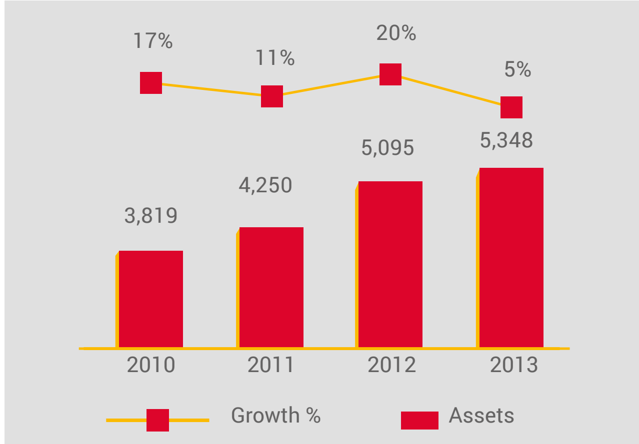
Bank deposits	442,757	628,957	(186,200)	-29.6%
Customers' deposits	4,442,654	4,046,670	395,984	9.8%
Other liabilities	86,518	69,905	16,613	23.8%
Shareholders' equity	376,498	349,873	26,624	7.6%
Total Liabilities and Sharholders' Equity	**5,348,427**	**5,095,406**	**253,021**	**5.0%**
Number of branches	24	21		
Number of staff	600	556		





III. Total Assets

The consolidated assets of the FNB Group as of December 31, 2013 amounted to approximately LBP 5,348 billion (USD 3.55 billion), a 5% increase moving from LBP 5,095 billion as of December 31,



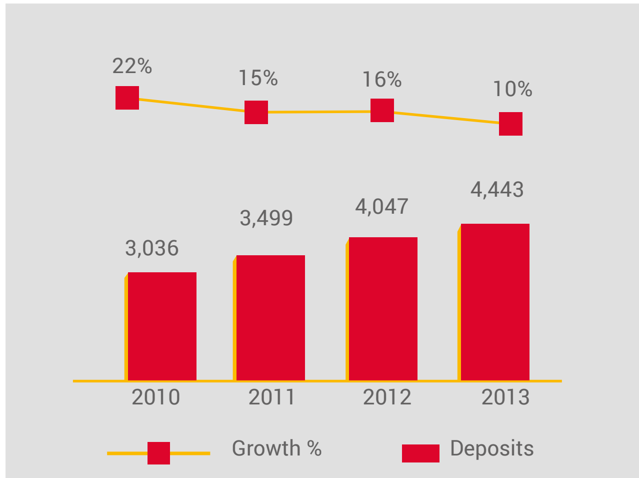
Billion LBP

SOURCES OF FUNDS

The FNB Group's source of funding comes mainly from deposits from customers representing approximately 83% of total sources. Other sources of funds are from banks and financial institutions which represent 8%, equity 7%, and other sources 2%.

I. Customers' Deposits

On December 31, 2013, the Group had accumulated a balance of LBP 4,443 billion (USD 2,947 million) in Customers' Deposits as compared to LBP 4,046 billion (USD 2,684 million) in 2012, reflecting a growth rate of 10%.



Billion LBP

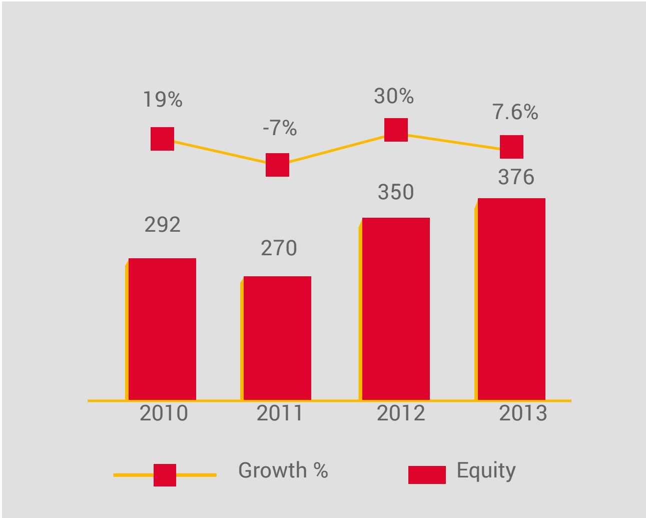
Dollarization
Deposits in Lebanese pounds increased by 11.75% in 2013 from LBP 1,429 billion as of December 31, 2012 to LBP 1,596 billion as of December 31, 2013, while deposits in foreign currency increased by 8.72% from LBP 2,618 billion as of December 31, 2012 to LBP 2,846 billion in December 31, 2013. The dollarization ratio in 2013 decreased to 64.1% as compared to 64.7% in 2012.

I I. *Banks and Financial Institutions*

As of December 31, 2013, deposits and borrowings from banks and financial institutions equaled LBP 442.8 billion.

I I I. *Equity*

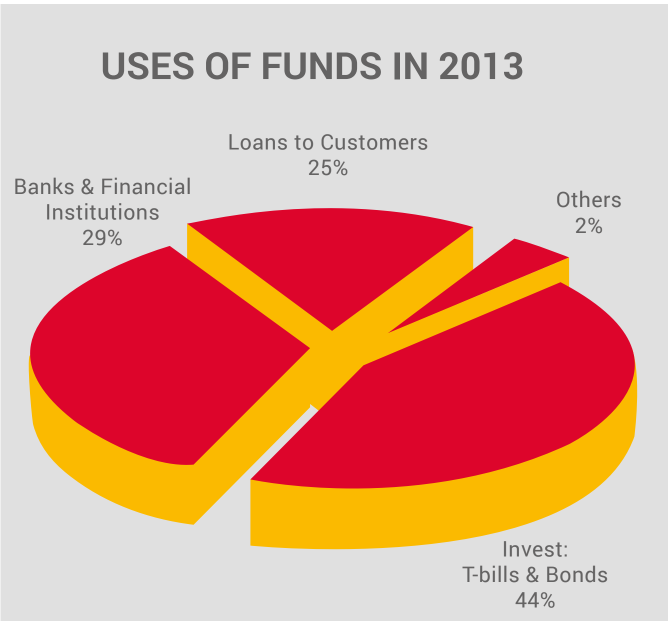
As of December 31, 2013, the Group Shareholders' Equity stood at LBP 376 billion (USD 250 million) compared to LBP 350 billion (USD 232 million) as of December 31, 2013.

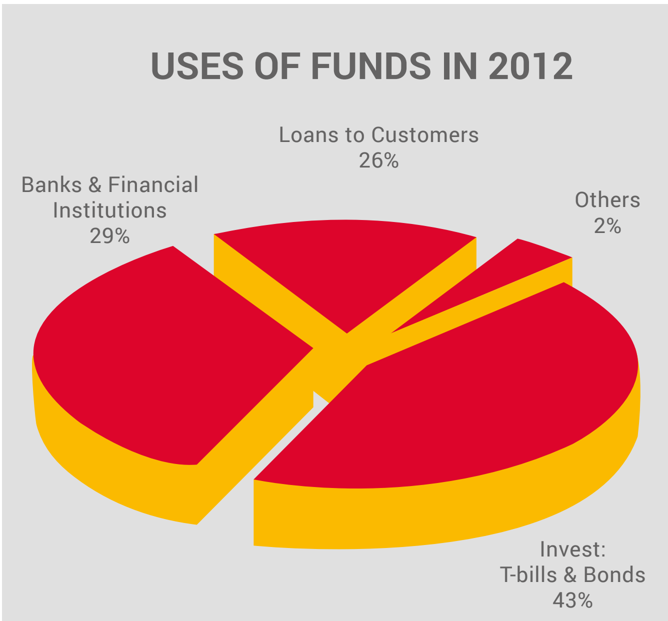


Billion LBP

USES OF FUNDS

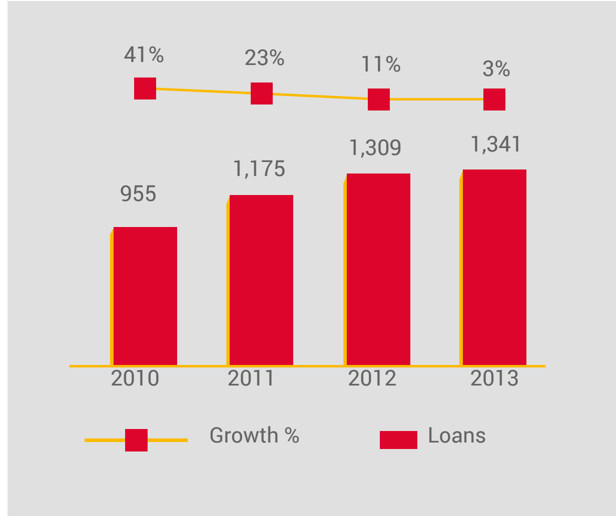
The FNB Group's use of funding is classified in 3 main categories: Investments (T-bills & Bonds), Banks and Financial Institutions, and Loans and Advances to Customers.





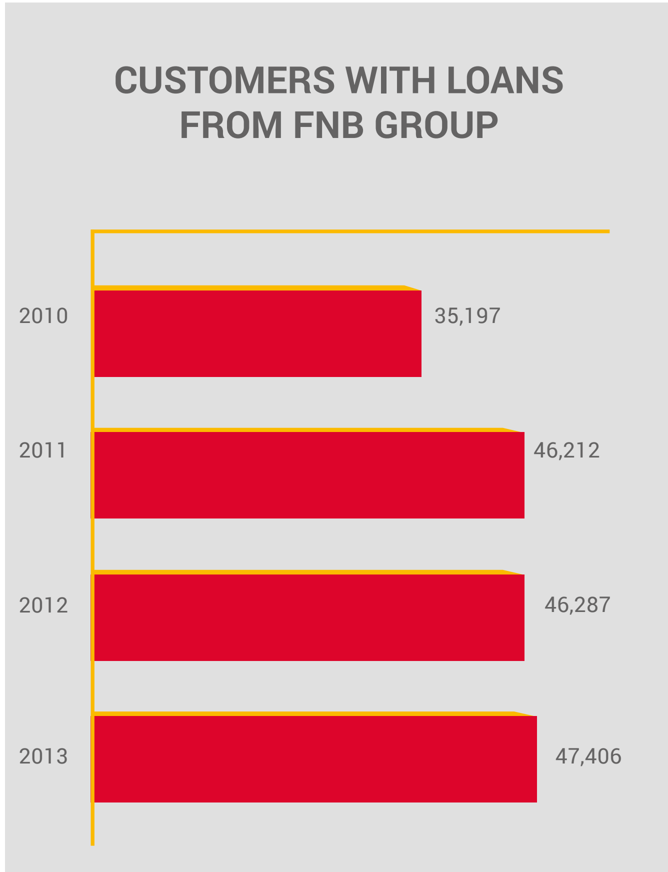
I. *Loans and Advances to Customers*

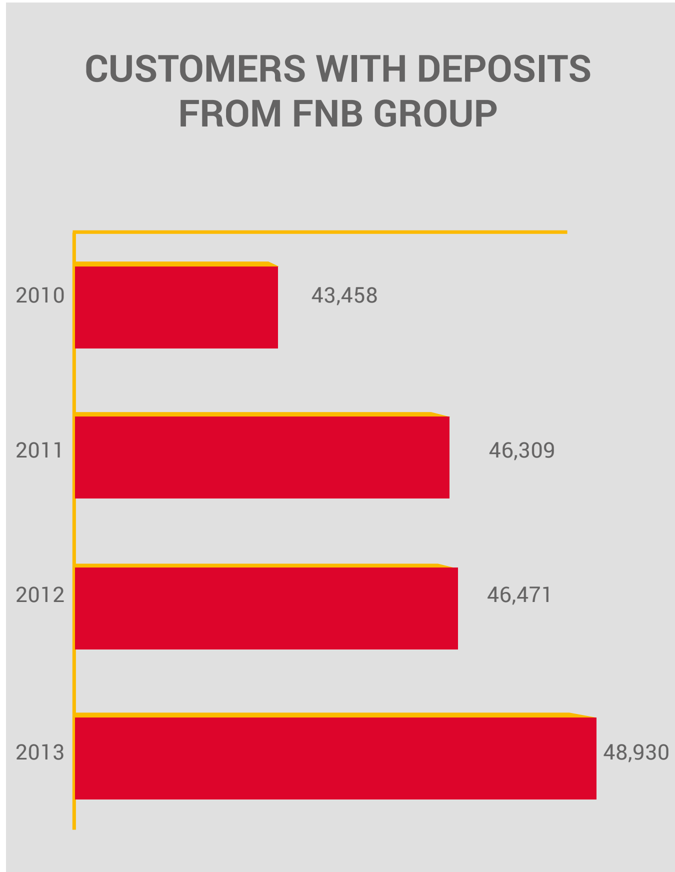
The Group was also successful in developing its retail, SME, and corporate lending sector. Loans and Advances to Customers increased by LBP 32 billion (USD 21 million) during 2013 to reach LBP 1,341 billion (USD 890 million) as of December 31, 2013, reflecting a growth rate of 2.5%.



Billion LBP

a) Number of Customers at the End of 2013

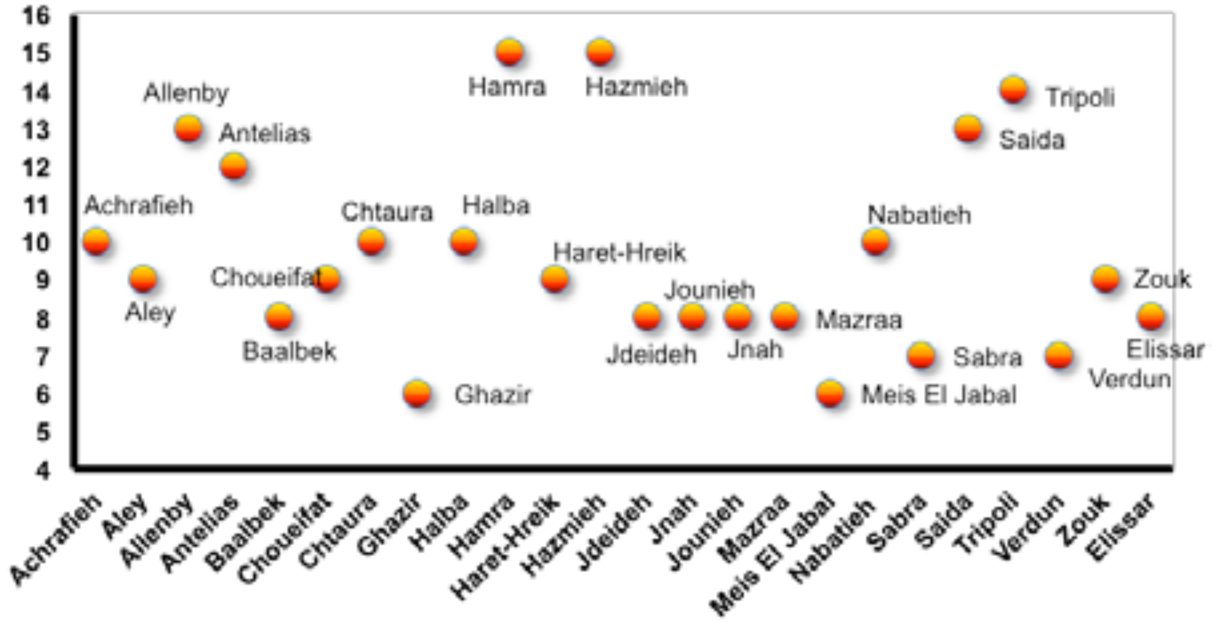




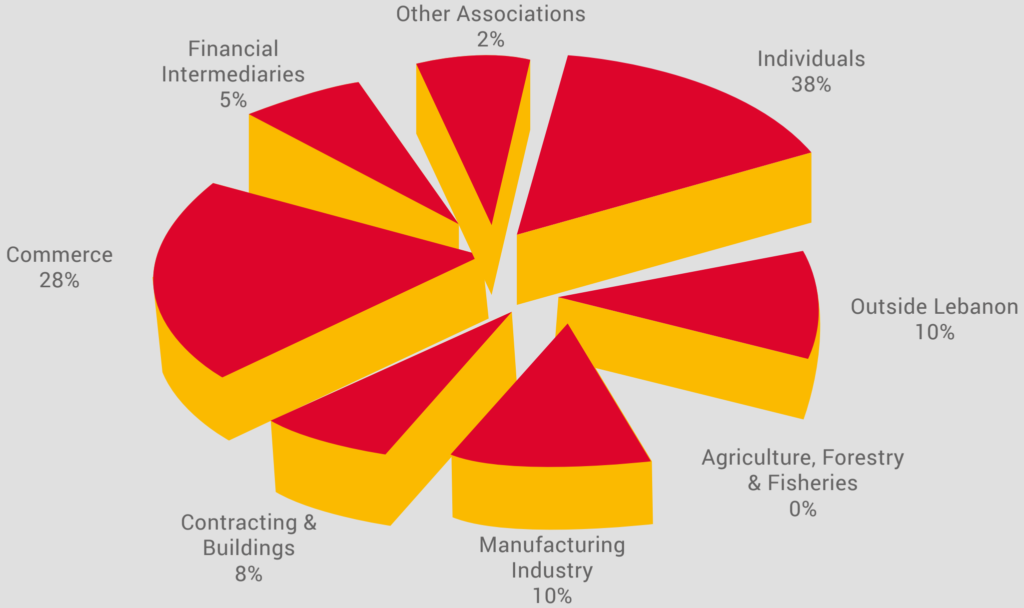
a) Branches

The bank operates 26 ATMs within the 24 branches and there are 15 additional free-standing ATMs in order to allow banking access throughout Lebanon.

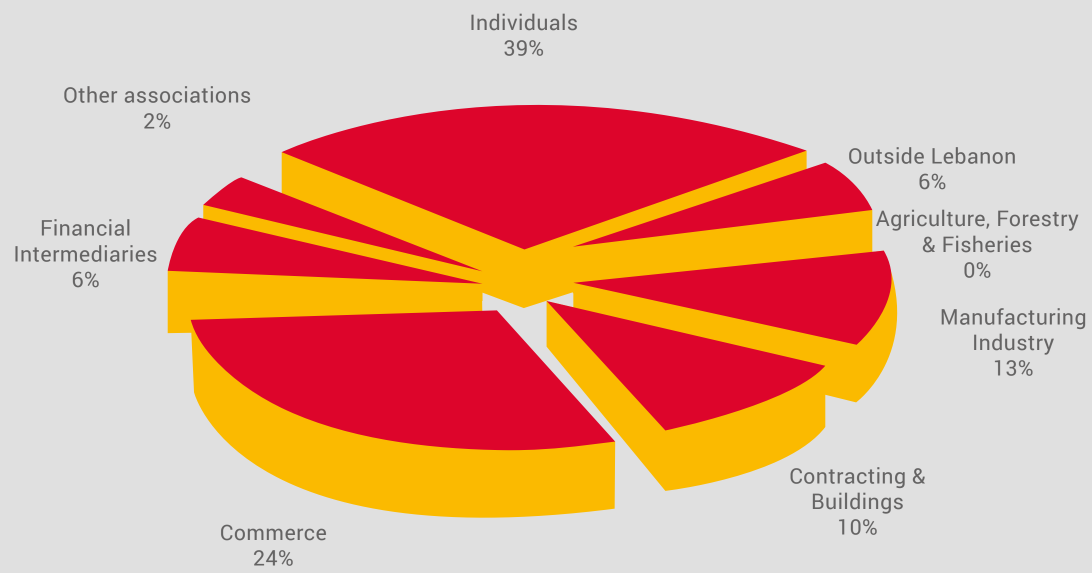
BRANCHES BY NUMBER OF EMPLOYEES



LOAN PORTFOLIO BY ECONOMIC SECTOR IN 2013



LOAN PORTFOLIO BY ECONOMIC SECTOR IN 2012

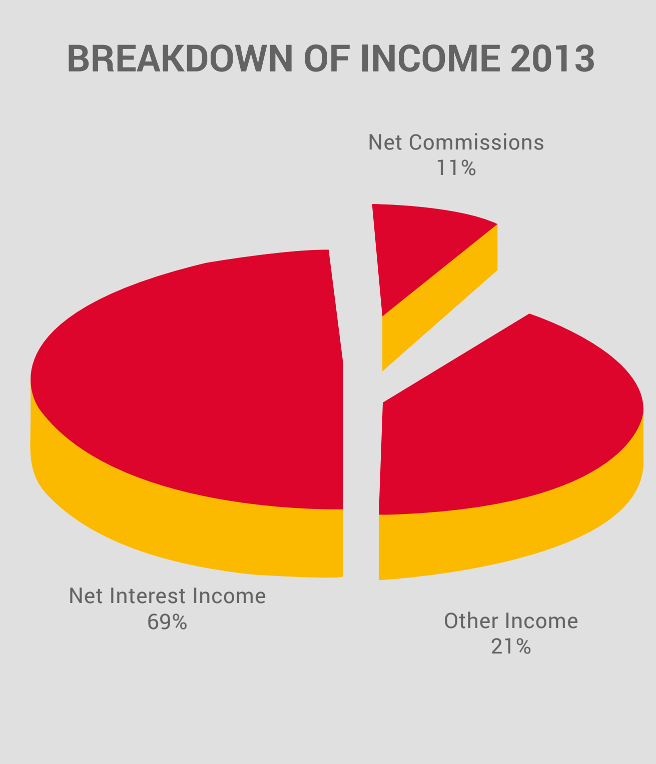


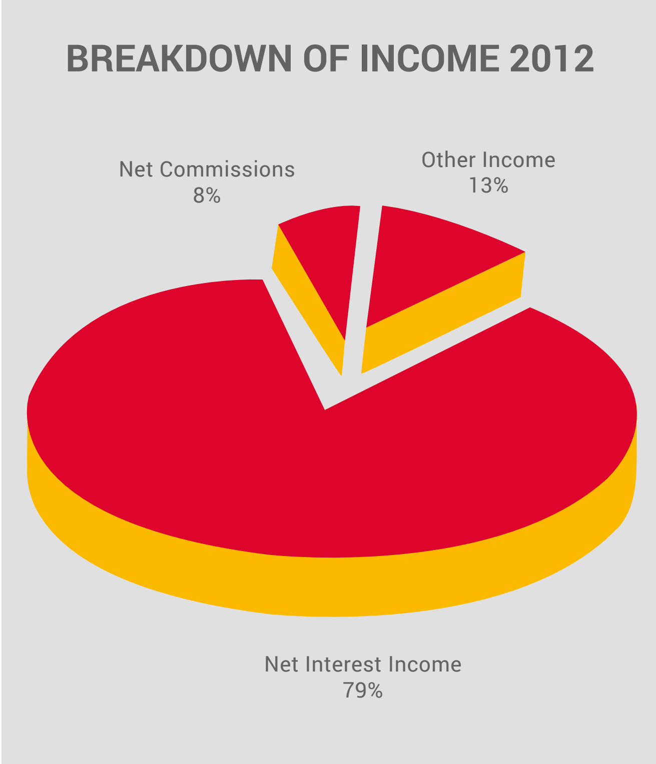
PROFITABILITY

Despite the stagnation of the markets, the massive efforts employed by FNB members resulted in financial success. The footing of the FNB Group recorded on December 31, 2013 a net income of LBP 38.4 billion (USD 25.5 million) as compared to LBP 29.5 billion (USD 19.6 million) at the end of 2012, reflecting an annual growth rate of 30.4%.

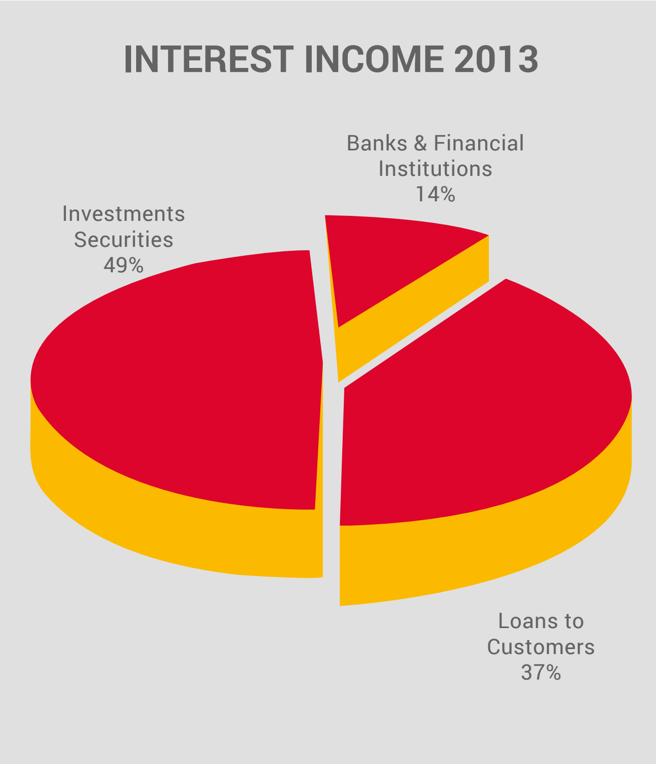
INCOME STATEMENT LBP MILLION	DEC-2013	DEC-2012	VARIANCE	GROWTH
Interest income	82,041	81,173	868	1.1%
Non-interest income	37,443	21,130	16,313	77.2%
Total Income	**119,484**	**102,303**	**17,181**	**16.8%**
Operating expenses	(70,111)	(61,451)	(8,661)	14.1%
Loan loss provisions	(3,071)	(4,879)	1,809	-37.1%
Write-off of bad debts		(511)	511	-100.0%
Tax	(7,848)	(5,962)	(1,886)	31.6%
Total Expenses	**(81,030)**	**(72,804)**	**(8,226)**	**11.3%**
Net Income	**38,455**	**29,500**	**8,955**	**30.4%**

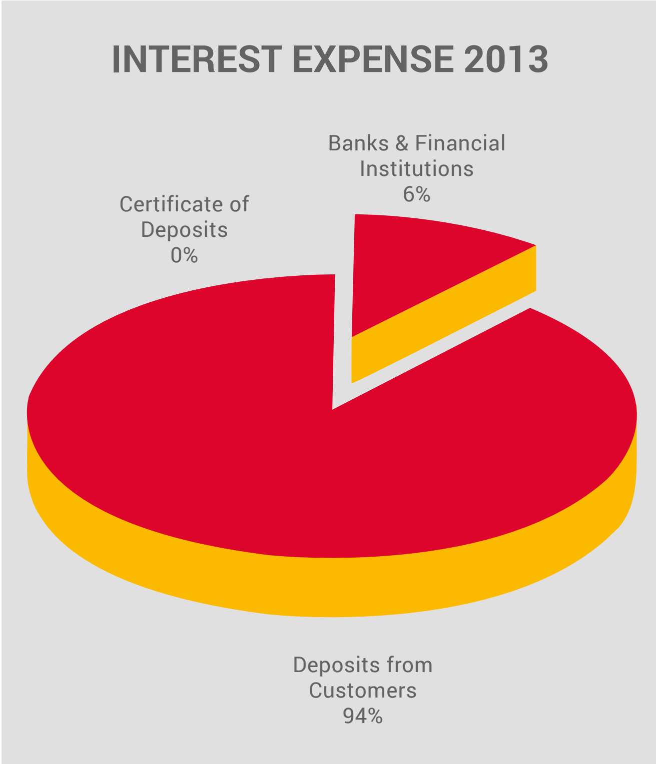
The breakdown of income is shown below:





The distribution of both interest income and interest expense is illustrated as follows:





Net Fees and Commissions reached LBP 12.6 billion as of December 31, 2013.

CAPITAL MEASUREMENT

The Central Bank of Lebanon addresses the regulatory capital requirements to assist the bank in preserving and monitoring a strong capital base. The FNB Group, operating under BDL jurisdictions, fully complies with this set of regulations (Basel II compliant and in line with the Basel III approach optimization by the year 2015).

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

	2013	2012	2011
Capital adequacy ratio Basel II:	10.42%	8.69%	7.78%

FINANCIAL AND NON-FINANCIAL DEVELOPMENTS

MARKETING

In 2013, FNB introduced the first regional credit card rewards program. Customers earn points on every dollar spent which can be redeemed for merchandise or travel packages.

FNB's high-net worth cardholders had their credit cards upgraded to the new prestigious MasterCard World. The MasterCard World Card, which targets high-net worth segments, provides access to select services including the World Privileged Access Program, World Privileged Access Nightlife, car rental, travel and accommodations, airport services (lounge access and MasterCard Airport Concierge), and protection (travel inconvenience and cancellation, travel accident and medical, extended warranty, card fraud protection, purchase protection and ATM robbery insurance).

In order to encourage the usage of the bank's credit and charge cards, the FNB Rewards Loyalty Program was implemented. This program enables customers to collect points each time they use their cards and in return redeem them with a wide variety of merchandise, including travel tickets. Furthermore, FNB credit cards now provide cash back on a semi-annual basis.

Due to the success of these programs, FNB's credit cards have become leaders in the market.

In regard to Bancassurance, there was a special summer campaign where clients were given one free monthly premium when applying for a retirement or educational saving plan. Employees were also motivated by a new incentive plan that contributes to a retail culture that improves the sales of Bancassurance products. As a result, FNB is number one in the market in sales in Bancassurance.

In an effort to achieve a customer focused strategy, the bank finalized phase 1of CRM (Customer Relationship Management) implementation and launched phase 2 focusing on customer needs and values.

An action plan was created in order to improve SEO (Search Engine Optimization) and as a result, traffic on the FNB website has increased by 42.5%. A new ATM unit was developed within the Marketing Department in order to handle all ATM related issues, increase profitability, and launch new products which add to customer convenience. In order to upgrade the electronic banking system, FNB added new advanced features such as personal account transfers and transfers to other FNB clients, among others. Customers are now able to check their accounts and execute transfer transactions securely.

Customers are now able to check their accounts and execute transfer transactions securely.

FNB is committed to making a difference in society by promoting corporate social responsibility. The bank participated in numerous events and activities throughout the year including the Zouk International Festival and Liban Jazz. Additionally, FNB supports a variety of scholastic, charitable, and humanitarian programs which not only aid the local community but the country as well.

COMPLIANCE & REVIEW

The Compliance & Review Department "(CRD)" has played an increasingly integral and important part in managing the compliance and anti-money laundering risks of the bank given the developments in the financial environment locally, regionally and internationally. Some of these developments involve:

- Office of Foreign Assets Control (OFAC) and the European Union's sanctions on Syria, Iran, Sudan, Ukraine and Russia.
- U.S. Treasury's Foreign Account Tax Compliance Act (FATCA).
- Banque du Liban Circular 128 requiring the banks operating in Lebanon to establish a compliance department with specific requirements as to its mission, authority, staff qualifications, and structure.

In response, the CRD and AML Units have successfully developed and implemented policies and procedures to ensure compliance with the OFAC and EU sanctions on the above listed countries. They have also updated the FNB policies and procedures manual to comply with FATCA and the BDL's Circular 128. These policies and procedures are being regularly updated as new regulations are issued by the respective authorities locally, regionally, and internationally.

In 2013, the bank continued to work with Deloitte on the implementation of the FATCA project at FNB. The CRD and AML Units conducted extensive training for the branches and the employees at the Head Office regarding the FATCA and AML regulations.

The CRD also prepared a detailed business plan to comply with the BDL's Circular 128 and Basel III for FNB and its subsidiaries, mainly the Middle East Capital Group (MECG) and Consumer Finance Company (CFC).

The AML Unit automated the screening process of new customers against the well-established lists such the Designated Name Filtering System (DNFS) and the Special Investigation Commission (SIC). In addition, the AML Unit modified the Know-Your-Customer (KYC) to comply with the requirements of the Special Investigation Commission's Notification # 13, FATCA, and the Risk Based Approach (RBA).

The CRD and AML Units continue to work on the above listed projects in order to centralize the compliance function for the FNB Group, and to conduct the necessary training to spread the compliance and the anti-money laundering culture among the FNB Group's employees and management.

TREASURY

The FNB Treasury Department manages the bank's balance sheet, related interest rates, and foreign exchange. As a leading financial institution providing a wide range of products and services, FNB Treasury is divided into three desks: Money Markets, Foreign Exchange, and Capital Markets.

Money Markets
- Access to the local and foreign interbank markets
- Access to the repo and reverse repo markets
- Structure funding transactions
- Yield enhancement through money market instruments

Foreign Exchange Desk
- Spot purchase / sale of foreign currencies against the Lebanese Pound
- Spot and forward purchase / sale of foreign exchange crosses
- Spot and forward purchase / sale of precious metals
- Hedging risk on foreign exchange and interest rates
- Dual currency and market linked deposits in various tenors and currencies

Capital Markets Desk (Global Markets Division)
- Access to primary and secondary government / corporate debt markets in local, regional, and international markets
- Access to all equity markets locally, regionally, and internationally

FNB's Treasury Department uses a conservative approach toward investments while abiding by the Central Bank's circulars. In addition, the department maintains a strict code of ethics which includes integrity, objectivity, and competence while keeping in mind the best interests of the customer.

The Treasury Department has worked diligently to achieve the set goals for 2013 while improving standards and professionalism As a result, FNB remains one of the leading commercial banks in the area of treasury services.

INFORMATION TECHNOLOGY

In 2013, the IT Department implemented a variety of projects in order to remain competitive in the banking industry. This requires a solid foundation that copes with rapid market changes and reacts to new business needs efficiently and effectively in a timely manner. Quality and customer satisfaction are two of the pillars that the IT Department focuses on when developing future plans.

Serving and satisfying customers are primary goals of the bank. In order to meet their needs, the IP telephony system was upgraded to a unified communication system that covered the implementation of the Call Centre. This allowed for a flexible integration with other applications such as Internet Banking and CRM. The CRM project is being under implementation and will cover the FNB affiliates (CFC & MECG).

Pursuing the trend of expansion, new branches were inaugurated (namely Baalback, Ghazir and Mazraat Yashou'), existing ones were renovated, and new ATMs were purchased and installed in off-site locations, thus broadening the bank's geographical presence.

The IBank CLEAR system was introduced which is an application required by the BDL in order to automate bulk credits and debits, check clearing, ATM settlements, and at a later stage, government payments.

The IT infrastructure was enhanced by applying storage and backup solutions to provide redundancy and a failover design for all IT systems and applications, being the primary requirements for the BCP and DR site.
For a prompt resolution of daily IT issues (software and hardware) that may hinder work and thus affect service, the Smart Cloud application was implemented to enable users to log IT requests via a user friendly web interface, providing a faster and more effective process in problem solving.

The SharePoint intranet portal implementation provided the employees with collaboration and information sharing tools, keeping them aware of all updated activities, events, news, regulations, policies, and procedures at the bank.

AUDIT

The Internal Audit Department of FNB Group has extensive experience and knowledge in auditing techniques, and is composed of dynamic, qualified, and skilled staff.

The IT auditors are holders of CCNA (Cisco Certified Network Associate), CCNP (Cisco Certified Network Professional) and ISO/IEC 27001 Lead Implementer. The internal audit officers responsible for the AML audit are CAMS-certified.

During 2013, the Internal Audit Department successfully completed all planned audits within the mandated timeframes. While performing their assignments, the staff stayed abreast of the constant changes in the audit and control fields through internal and external training sessions pertaining to different business and banking topics. They tackled new areas to introduce improvements to the existing controls and to the audit methodology.

In 2014, the Internal Audit Department intends to increase the depth of its audits, identify new areas, and stay well-informed of updates and changes, new regulations, internal and external requirements, and new standards. New software audit tools will be introduced during the year to automate, manage, track, maintain, and standardize the work and reporting of the department.

HUMAN RESOURCES

In 2013, the Human Resources Department implemented and reviewed many policies and procedures and introduced a variety of new tools and systems. The organizational status of the bank was reviewed with all heads of organizational units. As a result, the organization was redefined and all terminology was aligned and integrated.
All HR policies and procedures, along with corresponding HR forms, were revised and updated, and management approval was solicited on all information. The hiring process was reviewed to render it more competitive and selective, and to provide opportunities for internal staff. This project is in the process of being fully introduced.

HR files were revamped to ensure that all requested documents were available and authenticated. A new grading system that has three occupational categories, technical, cadre and management, was created and the old grading system is currently being converted to the new system.

Abnormalities in the HR system were resolved to render the system more professional. Amongst these issues were overtime rules and practices, annual leave accumulations and carry forward rules, educational benefits and their implementations, and continuing employment of staff who reached retirement age, among others.

A new e-Learning solution was introduced and implemented, which provides a low-cost and highly efficient learning method for all employees.
A new capacity planning tool was introduced and is being implemented in all the bank departments. The goal of this project is to draft clear and accurate job descriptions for all positions in the bank, and to assess the bank's future staffing needs.

The old Sets HR and Payroll system is being upgraded to the new online People 365 system. This project is expected to be completed before the end of 2014.

In addition, the performance management system was revamped and a new performance appraisal tool was introduced. All departments were requested to provide clear and achievable objectives for their staff. The new system uses a balanced Management by Objectives (MBO) and Competency Based Management (CBM) approach.

The "We Connect" portal project was completed and launched throughout the company. This application serves as a communication tool that keeps all staff informed of developments at the bank.

Lastly, the BDL 103 certification requirements, which have been delayed since 2006, were revived and a monumental effort was made to meet these requirements. Currently back on track, it is expected to meet the new deadlines by the end of 2014.

RISK MANAGEMENT

The Risk Department at FNB operates independently and provides oversight on risk management and controls on a group level. The risk function is headed by the Chief Risk Officer who reports directly to the General Manager, with access to the Board of Directors through the Board Risk Committee.

The main objectives for 2013 were to increase the convergence of risk management principles to cover the entire group and to continue moving toward formalizing and aligning the risk management framework across the bank's entities. In the process, the department aimed to further strengthen awareness of risk management and foster the bank's risk culture.

In times of significant change and uncertainty, the department continued to meet new regulatory requirements and improve risk management effectiveness. The aim was to maintain the risk appetite for various risks across the group. Performance against these limits was being monitored regularly and all deviation from the targets were brought to the attention of the Risk Committee and consequently the Board of Directors.

Diligent adherence to the core credit principles of proactive and prudent risk management has resulted in low credit losses, thus maintaining the good quality of the credit portfolio. This has been achieved by the stringent application of the existing risk management philosophy of strict underwriting standards, active concentration risk management, and risk mitigation strategies. In addition, proper portfolio monitoring and credit risk appraisal are currently performed by two separate divisions.

While the day-to-day responsibility for the operational risk management lies with the bank's operating units, the operational risk function has provided the operational risk framework across the group, based on a board approved operational risk policy and strategy. Accordingly, the Operational Risk Unit is committed to enhancing and strengthening the operational risk management processes on a continual basis by proper loss collection, and risk and control self-assessment workshops.

The risk and capital strategy is being developed annually through the Internal Capital Adequacy Assessment Process (ICAAP), ensuring group-wide alignment of risk with the capital position. During 2013, the bank submitted its third ICCAP report, the first performed on a consolidated basis, to Senior Management and the Board of Directors.

CORRESPONDENT BANKING

In 2013, our concentrated efforts were dedicated to widening the scope of our Correspondent Banking network, with strong emphasis to expanding our trade finance business globally.

Consequently, FNB has developed multiple correspondent banking relationships with prime international banks worldwide, bearing in mind market risk, political and economic risk, in addition to country and banks ratings.

FNB continues for the second year its active role in the secondary market business with both local and international banks in numerous countries.

We are well equipped in organizing our correspondent network as this is an integral part of our operation; with all accounts monitored on an on-going basis.

Continued efforts will be exerted to relentlessly identify new market opportunities as we are most keen to serve our customers and to comply with their business requirements.

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Deloitte.

DFK FIDUCIAIRE DU MOYEN-ORIENT
A member firm of DFK International

To The Shareholders
First National Bank S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of First National Bank S.A.L. (the "Bank") 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 consolidated financial statements, within the framework of banking laws in Lebanon. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the 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 financial position of First National Bank S.A.L. and its Subsidiaries as of December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 30, 2014

DFK Fiduciaire du Moyen-Orient   Deloitte & Touche

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	DECEMBER 31, 2013	DECEMBER 31, 2012
		LBP'000	
ASSETS			
Cash and deposits with Central Bank of Lebanon	5	1,042,899,090	1,106,525,245
Deposits with banks and financial institutions	6	487,814,954	372,552,406
Trading asset at fair value through profit or loss	7	297,770,239	69,744,712
Loans to banks	8	11,059,989	3,532,663
Loans and advances to customers	9	1,341,288,674	1,309,322,180
Financial assets at fair value through other comprehensive income	10	2,415,724	2,415,724
Financial assets at amortized cost	11	2,045,390,943	2,136,262,064
Customers' liability under acceptances	12	14,790,430	10,353,714
Investment in and loan to an associate	13	241,212	575,036
Assets acquired in satisfaction of loans	14	2,489,951	3,898,676
Property and equipment	15	65,142,032	47,105,467
Intangible and other assets	16	15,243,910	11,238,010
Regulatory blocked fund	17	1,500,000	1,500,000
Goodwill	18	20,379,656	20,379,656
Total Assets		**5,348,426,804**	**5,095,405,553**

	NOTES	DECEMBER 31, 2013	DECEMBER 31, 2012
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:			
Guarantees and standby letters of credit	35	150,926,983	65,511,569
Documentary and commercial letters of credit	35	37,650,499	36,861,852
Forward exchange contracts	35	27,120,743	35,400,660
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	36	436,283,383	391,363,092

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cpd)

	NOTES	DECEMBER 31, 2013	DECEMBER 31, 2012
		LBP'000	
LIABILITIES			
Deposits from banks and financial institutions	19	442,756,575	628,956,873
Customers' deposits and credit accounts	20	4,442,654,235	4,046,669,967
Liability under acceptances	12	14,790,430	10,353,714
Certificates of deposit	21	–	5,782,837
Other liabilities	22	62,231,012	46,678,565
Provisions	23	9,496,896	7,090,291
Total liabilities		**4,971,929,148**	**4,745,532,247**
Deposits blocked for issuance of preferred shares	25	–	37,687,500
EQUITY			
Share capital	24	154,500,000	154,500,000
Additional paid-in capital	24	28,173,355	28,173,355
Preferred shares	25	60,292,500	22,605,000
Legal reserve	26	11,776,042	8,881,136
Reserve for general banking risks	26	31,222,012	24,376,564
Reserve for assets acquired in satisfaction of loans	14	1,125,115	1,423,669
Cumulative change in fair value of equity securities at fair value through other comprehensive income	10	(3,255,779)	(3,255,779)
Retained earnings		53,767,466	45,558,161
Profit for the year		38,429,877	29,480,995
Equity attributable to owners of the Bank		**376,030,588**	**311,743,101**
Non-controlling interests	27	467,068	442,705
Total equity		**376,497,656**	**312,185,806**
Total Liabilties and Equity		**5,348,426,804**	**5,095,405,553**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	NOTES	YEAR ENDED DECEMBER 31, 2013	2012
		LBP'000	
Interest income	28	279,194,137	261,195,782
Interest expense	29	(197,153,299)	(180,022,496)
Net interest income		**82,040,838**	**81,173,286**
Fee and commission income	30	17,856,966	12,719,540
Fee and commission expense	31	(5,268,996)	(4,725,150)
Net fee and commission income		**12,587,970**	**7,994,390**
Net interest and gain or loss on financial assets at fair value through profit or loss	32	20,436,865	4,677,380
Other operating income (net)	33	4,077,847	7,683,385
Net financial revenues		**119,143,520**	**101,528,441**
Allowance for impairment of loans and advances to customers (net)	9	(3,070,503)	(4,879,390)
Write-off of bad debts		–	(511,261)
Net financial revenues after allowance for impairment		**116,073,017**	**96,137,790**
Staff costs		(43,209,851)	(37,825,881)
Administrative expenses		(23,470,928)	(19,738,396)
Depreciation and amortization	34	(3,430,409)	(3,886,378)
Net gain on disposal of assets acquired in satisfaction of loans	14	340,750	775,020
Profit before income tax		**46,302,579**	**35,462,155**
Income tax expense		(7,848,065)	(5,962,468)
Profit for the year		**38,454,514**	**29,499,687**
Attributable to:			
Owners of the Bank		38,429,877	29,480,995
Non-controlling interests		24,637	18,692
		38,454,514	**29,499,687**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31, 2013	2012
	LBP'000	
Profit for the year	**38,454,514**	**29,499,687**
Other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss:		
Unrealized loss on financial assets at fair value through other comprehensive income	–	(2,699,024)
Deferred tax	–	404,853
Other comprehensive income	–	(2,294,171)
Total comprehensive income for the year	**38,454,514**	**27,205,516**
Attributable to:		
Owners of the Bank	38,429,877	27,186,824
Non-controlling interests	24,637	18,692
	38,454,514	**27,205,516**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

LBP'000

	SHARE CAPITAL	ADDITIONAL PAID-IN- CAPITAL	PREFERRED SHARES	LEGAL RESERVE	RESERVE FOR GENERAL BANKING RISKS	RESERVE FOR ASSETS ACQUIRED IN SATISFACTION OF LOANS	CUMULATIVE CHANGE IN FAIR VALUE OF EQUITY SECURITIES	RETAINED EARNINGS	PROFIT FOR THE YEAR	EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balances at December 31, 2011	**131,439,820**	**28,173,355**	**22,605,000**	**6,873,957**	**18,653,110**	**1,700,173**	**(961,608)**	**36,397,168**	**24,660,651**	**269,541,626**	**424,013**	**269,965,639**
Increase in capital (Note 24)	23,060,180	–	–	–	–	–	–	–	–	23,060,180	–	23,060,180
Allocation of 2011 profit	–	–	–	2,007,179	5,723,454	106,546	–	16,823,472	(24,660,651)	–	–	–
Dividends paid (Note 38)	–	–	–	–	–	–	–	(8,045,529)	–	(8,045,529)	–	(8,045,529)
Write back of provision of assets acquired in satisfaction of loans	–	–	–	–	–	(383,050)	–	383,050	–	–	–	–
Total comprehensive income for the year 2012	–	–	–	–	–	–	**(2,294,171)**	–	**29,480,995**	**27,186,824**	**18,692**	**27,205,516**
Balances at December 31, 2012	**154,500,000**	**28,173,355**	**22,605,000**	**8,881,136**	**24,376,564**	**1,423,669**	**(3,255,779)**	**45,558,161**	**29,480,995**	**311,743,101**	**442,705**	**312,185,806**
Issuance of preferred shares	–	–	37,687,500	–	–	–	–	–	–	37,687,500	–	37,687,500
Allocation of 2012 profit	–	–	–	2,894,906	6,845,448	7,657	–	19,732,984	(29,480,995)	–	–	–
Dividends paid (Note 38)	–	–	–	–	–	–	–	(11,804,720)	–	(11,804,720)	–	(11,804,720)
Effect of a newly consolidated subsidiary	–	–	–	–	–	–	–	(25,170)	–	(25,170)	(274)	(25,444)
Write back of provision of assets acquired in satisfaction of loans	–	–	–	–	–	(306,211)	–	306,211	–	–	–	–
Total comprehensive income for the year 2013	–	–	–	–	–	–	–	–	**38,429,877**	**38,429,877**	**24,637**	**38,454,514**
Balances at December 31, 2013	**154,500,000**	**28,173,355**	**60,292,500**	**11,776,042**	**31,222,012**	**1,125,115**	**(3,255,779)**	**53,767,466**	**38,429,877**	**376,030,588**	**467,068**	**376,497,656**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	YEAR ENDED DECEMBER 31, 2013	2012
		LBP'000	
Cash Flow from operating activities:			
Profit for the year		38,454,513	29,499,687
Adjustments for:			
Interest income		(279,194,137)	(261,195,782)
Interest expense		197,153,299	180,022,496
Income tax expense		7,848,065	5,962,468
Depreciation and amortization	34	3,430,409	3,886,378
Allowance for impairment of loans and advances to customers		3,070,487	4,879,390
Write-off of bad debts		—	511,261
Loss on disposal of equipment	33	40,084	18,444
Gain on sale of assets acquired in satisfaction of loans		(340,750)	(775,020)
Net change in fair value of financial asset at FVTPL	32	(1,192,354)	(846,807)
Provisions set up during the year	23	2,626,961	1,143,726
Effect of a newly consolidated subsidiary		(25,444)	—
Share of (gain)/loss of an associate	33	(255,479)	8,122
		(28,384,346)	**(36,885,637)**
Net increase in term placements with banks and compulsory reserve		(35,344,643)	(663,219,360)
Net (increase)/decrease in loans to banks		(7,527,557)	14,129,177
Net increase in loans and advances to customers		(37,133,469)	(133,919,909)
Net increase in other assets		(4,207,442)	(976,606)
Net (decrease)/increase in deposits from banks and financial institutions		(185,692,637)	209,366,135
Net increase in customers' deposits and credit accounts		394,737,207	524,925,141
Settlement of certificates of deposit		(5,782,837)	—
Net increase in other liabilities	39	13,179,268	7,944,147
Settlement of provisions	23	(220,357)	(577,495)
Net cash generated from/(used in) operations		**103,623,187**	**(79,214,407)**
Income tax paid		(5,311,686)	(5,469,338)
Interests received		277,536,150	245,681,962
Interests paid		(196,413,899)	(155,610,200)
Net cash generated by operating activities		**179,433,752**	**5,388,017**

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

	NOTES	YEAR ENDED DECEMBER 31, 2013	2012
		LBP'000	
Cash flows from investing activities:			
Decrease in investing in and loans to an associate	13	589,303	—
Net increase in investment securities		(135,962,052)	(14,934,042)
Purchase of property and equipment	15	(21,327,980)	(14,560,441)
Proceeds from disposal of equipment	15	22,465	38,860
Proceeds from disposal of assets acquired in satisfaction of loans	14	2,595,905	2,649,920
Net cash used in investing activities		**(154,082,359)**	**(26,805,703)**
Cash flows from financing activities:			
Proceeds from capital increase		—	23,060,180
Blocked deposits for issuance of preferred shares	39	—	37,687,500
Dividends paid	38	(11,804,720)	(8,045,529)
Net cash (used in)/generated by financing activities		**(11,804,720)**	**52,702,151**
Net increase in cash and cash equivalents		13,546,673	31,284,465
Cash and cash equivalents - Beginning of year		420,139,540	388,855,075
Cash and cash equivalents-End of year	**39**	**433,686,213**	**420,139,540**

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

1. GENERAL INFORMATION

First National Bank S.A.L. (the "Bank") is a Lebanese joint stock company established in 1991 and registered in the Commercial Register under the Number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of twenty two branches in various Lebanese regions. The consolidated financial statements of the Bank as at December 31, 2013 comprise the Bank and its subsidiaries, Middle East Capital Group and its Subsidiaries ("MECG") and Capital Finance Company S.A.L. ("CFC") and are hereafter referred to as (the "Group").

The Bank's headquarters are located in Beirut, Lebanon.

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

2.1 APPLICATION OF NEW AND REVISED IFRSs

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

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

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.

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.

New standards with impact on the Group's financial statements disclosures:

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.

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. 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. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in these financial statements.

2.2 NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

The Group has not applied the following 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.
- 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 do not anticipate that the application of these amendments will have a significant effect on the Group's consolidated financial statements, in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value as set out in the accounting policies below.

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 applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of First National Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (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 interests 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 and 2012 comprise:

COMPANY NAME	COUNTRY OF INCORPORATION	DATE OF INCORPORATION/ ACQUISITION	PERCENTAGE OF OWNERSHIP	BUSINESS ACTIVITY
Capital Finance Company S.A.L.	Lebanon	January 8, 2010	100%	Retail loans
Middle East Capital Group Limited (MECG Group)	Guernsey	December 8, 1995	98.92%	Finance
SUBSIDIARIES OF MECG GROUP:				
Middle East Capital Group Holding S.A.L.	Lebanon	December 1, 1995	100%	Holding company
Middle East Capital Group S.A.L.	Lebanon	August 3, 1996	100%	Finance
Middle East Capital Group (Offshore) S.A.L.	Lebanon	July 22, 1996	100%	Finance
Middle East Capital Asset Management Limited	Guernsey	March 19, 1999	100%	Dormant company
MECG Development S.A.L	Lebanon	July 28, 2005	99%	Management company
Real Estate Management Company S.A.L	Lebanon	May 24, 2004	100%	Management company

During 2013, Real Estate Management Company S.A.L. was included in the scope of consolidation effective January 1, 2013. The said Company was not previously consolidated on the ground of immateriality.

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 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, a bargain purchase gain is recognized immediately in profit or loss.

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.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Goodwill:

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

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

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.

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP") which is the reporting currency of the Group. 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 since many 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 at 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 equity.

E. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

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

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.

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

F. Classification of Financial Assets:

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

Debt Instruments:

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

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

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

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at

FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Equity Instruments:

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

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

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

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

A financial asset is held for trading if:

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

Reclassification:

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

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.

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

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

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

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 Amortized Cost:

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized 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. Offsetting:

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

I. Fair Value Measurement of Financial Instruments:

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

J. Impairment of Financial Assets:

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

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

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

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

K. Derivative Financial Instruments:

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

L. Loans and Advances:

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

M. Investments in Associates:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. 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, which 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.

N. Property and Equipment:

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

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

	RATES
Buildings	2%
Office improvements and installations	15%
Furniture, fixtures and equipment	8%
Computer equipment	20%
Vehicles	10%

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

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

O. Intangible Assets:

Intangible assets are amortized on a straight-line basis over the period of 3 years. Intangible assets are subject to impairment testing.

P. Assets acquired in satisfaction of loans:

Real estate properties acquired through the enforcement of collateral over loans and advances, in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267, are initially recognized at their fair value as approved by Banking Control Commission and are subsequently measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities that require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation, the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

Upon sale of repossessed assets, any gain or loss realized is recognized as a separate line item in the consolidated statement of profit or loss.

Q. Operating Lease Agreements:

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

The fair value of the Group's owned properties and of properties acquired in satisfaction of loans 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 of an illiquidity factor and market constraints.

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

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

T. Provisions:

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

U. Revenue and Expense Recognition:

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

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

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

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

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

Interest income, dividend income, realized and unrealized fair value changes and foreign exchange differences on financial assets at fair value through profit or loss are presented separately in the consolidated statement of profit or loss.

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

V. Income Tax:

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit, 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.

W. Fiduciary Accounts:

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

X. Cash and Cash Equivalents:

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

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 carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Classification of Financial Assets:

Business Model:

The business model test requires the 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 reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowances for Credit Losses - Loans and Advances to Customers:

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

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

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 a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data.

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.

5. CASH AND DEPOSITS WITH CENTRAL BANK OF LEBANON

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	LBP'000
Cash on hand	29,609,442	27,875,184
Current accounts with Central Bank of Lebanon	132,433,856	204,573,664
Term placements with Central Bank of Lebanon	870,057,750	866,090,050
Accrued interest receivable	10,798,042	7,986,347
	1,042,899,090	**1,106,525,245**

Current accounts at Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP 76 billion (LBP 67 billion as of December 31, 2012) computed on the basis of 25% and 15% of the weekly average of demand deposits and term deposits in Lebanese Pound respectively, in accordance with local banking regulations. This compulsory reserve is not available for use in the daily banking activities.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP 461 billion (LBP 641 billion in 2012) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturity of less than one year.

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

	DECEMBER 31, 2013			
	LBP BASE ACCOUNTS		F/Cy BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2014	22,500,000	2.86	45,225,000	1.15
2015	–	–	52,762,500	0.74
2016	–	–	60,300,000	1.14
2017	–	–	359,120,250	1.49
2018	–	–	30,150,000	1.14
2021	75,000,000	8.60	–	–
2022	200,000,000	8.51	–	–
2023	25,000,000	8.24	–	–
	322,500,000		**547,557,750**	

	DECEMBER 31, 2012			
	LBP BASE ACCOUNTS		F/Cy BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2013	–	–	130,205,800	0.38
2014	–	–	45,225,000	1.21
2015	–	–	52,762,500	0.81
2016	–	–	60,300,000	1.21
2017	–	–	352,596,750	1.52
2021	75,000,000	8.60	–	–
2022	150,000,000	8.60	–	–
	225,000,000		**641,090,050**	

Interest rates on term placements with the Central Bank of Lebanon are reset periodically.

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	
Checks in course of collection	10,704,692	5,888,613
Current accounts with banks and financial institutions	180,368,257	105,624,663
Term placements with banks and financial institutions	288,712,863	250,906,686
Cash margin against facilities	7,195,790	9,232,474
Accrued interest receivable	833,352	899,970
	487,814,954	**372,552,406**

Cash margin against facilities represents cash margin against trade finance and foreign exchange transactions with non-resident banks.

Term placements bear the following maturities:

	DECEMBER 31, 2013			
	LBP BASE ACCOUNTS		F/Cy BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2014	22,840,880	6.90	234,289,858	1.84
2015	–		31,582,125	2.30
	22,840,880		**265,871,983**	

	DECEMBER 31, 2012			
	LBP BASE ACCOUNTS		F/Cy BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2013	17,506,509	5.55	213,802,677	1.49
2014	–	–	19,597,500	2.21
	17,506,509		**233,400,177**	

7. TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	
Quoted equity securities	9,037,749	4,008,764
Unquoted equity securities	16,234,499	12,629,982
Lebanese treasury bills	35,732,453	44,199,147
Lebanese government bonds	21,791,631	6,245,667
Certificates of deposit issued by the Central Bank of Lebanon	206,194,600	856,449
Corporate bonds	2,820,609	997,157
	291,811,541	**68,937,166**
Accrued interest receivable	5,958,698	807,546
	297,770,239	**69,744,712**

The change in fair value gain of the trading assets at fair value through profit or loss amounted to LBP 1.2 billion in 2013 (LBP 846 million in 2012) and is reflected in the consolidated statement of profit or loss under "Net interest and gain or loss on trading assets at fair value through profit or loss" (Note 32).

8. LOANS TO BANKS

Loans to banks are reflected at amortized cost and consist of the following:

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	
Loans to banks	10,487,500	3,500,000
Discounted documentary letters of credit	540,057	–
Accrued interest receivable	32,432	32,663
	11,059,989	**3,532,663**

Loans to banks mature as follows:

MATURITY	DECEMBER 31, 2013 LBP BASE ACCOUNTS AMOUNT	LBP BASE ACCOUNTS AVERAGE INTEREST RATE	F/Cy BASE ACCOUNTS AMOUNT	F/Cy BASE ACCOUNTS AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2014	7,537,500	1.10	–	–
2016	–	–	300,000	4.35
2019	–		2,650,000	4.35
	7,537,500		**2,950,000**	

MATURITY	DECEMBER 31, 2012 LBP	INTEREST RATE
	LBP'000	%
2016	450,000	3.89
Beyond 5 years	3,050,000	3.75
	3,500,000	

9. LOANS AND ADVANCES TO CUSTOMERS

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	
Loans and advances to customers	1,316,710,041	1,249,889,987
Loans and advances to related parties	6,770,661	43,204,979
Bills discounted (net)	2,669,528	3,415,513
Creditors accidentally debtors	8,966,716	4,880,385
Substandard loans (net of unearned interest)	8,954,120	7,568,629
Bad and doubtful debts (net of unearned interest)	31,856,301	33,189,750
Less: Allowance for impairment	(19,226,539)	(20,118,601)
Provision for impairment of collectively assessed loans	(11,531,599)	(8,911,411)
	1,345,169,229	**1,313,119,231**
Less: Pledged guarantee funds to cover shortage in provision	(3,880,555)	(3,797,051)
	1,341,288,674	**1,309,322,180**

Loans and advances to customers are reflected at amortized cost and consist of the following:

	DECEMBER 31, 2013			
	LOAN BALANCE NET OF DEFERRED INTEREST	UNEARNED INTEREST	IMPAIRMENT ALLOWANCE	CARRYING VALUE
	LBP'000			
Corporate customers:				
Commercial loans	337,626,704	–	–	337,626,704
Overdrafts	345,603,838	–	–	345,603,838
Other corporate loans	107,355,606	–	–	107,355,606
Retail customers:				
Car loans	87,495,485	–	–	87,495,485
Credit cards	19,196,436	–	–	19,196,436
Housing loans	213,738,298	–	–	213,738,298
Overdrafts	67,846,785	–	–	67,846,785
Personal loans and other	156,254,486	–	–	156,254,486
Substandard loans	11,868,318	(2,914,198)	–	8,954,120
Doubtful loans	94,309,409	(62,453,800)	(19,226,539)	12,629,070
Less: Provisions for collectively assessed loans	–	–	(11,531,599)	(11,531,599)
	1,441,295,365	**(65,367,998)**	**(30,758,138)**	**1,345,169,229**

	DECEMBER 31, 2012			
	LOAN BALANCE NET OF DEFERRED INTEREST	UNEARNED INTEREST	IMPAIRMENT ALLOWANCE	CARRYING VALUE
	LBP'000			
Corporate customers:				
Commercial loans	327,755,613			327,755,613
Overdrafts	386,306,611			386,306,611
Other corporate loans	77,749,216			77,749,216
Retail customers:				
Car loans	67,103,177	–	–	67,103,177
Credit cards	20,016,465	–	–	20,016,465
Mortgage loans	181,619,824	–	–	181,619,824
Overdrafts	61,754,551	–	–	61,754,551
Personal loans and other	179,085,408	–	–	179,085,408
Substandard loans	9,735,455	(2,166,826)	–	7,568,629
Doubtful loans	101,633,205	(68,443,456)	(20,118,601)	13,071,148
Less: Provisions for collectively assessed loans	–	–	(8,911,411)	(8,911,411)
	1,412,759,525	**(70,610,282)**	**(29,030,012)**	**1,313,119,231**

The movement of unearned interest during 2013 and 2012 is summarized as follows:

	2013	
	SUBSTANDARD LOANS	DOUBTFUL LOANS
	LBP'000	
Balance, January 1	2,166,826	68,443,456
Additions	747,775	11,785,751
Settlements/recoveries	–	(6,731,537)
Transfer to off-balance-sheet	(403)	(11,043,870)
Balance, December 31	**2,914,198**	**62,453,800**

	2012	
	SUBSTANDARD LOANS	DOUBTFUL LOANS
	LBP'000	
Balance, January 1	2,051,873	70,645,345
Additions	506,669	11,810,721
Settlements/recoveries	(391,716)	(14,012,610)
Balance, December 31	**2,166,826**	**68,443,456**

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

	2013	2012
	LBP'000	
Balance, January 1	29,030,012	26,426,904
Additions	4,473,839	8,087,189
Recoveries	(1,403,352)	(3,207,799)
Write offs	(1,093,386)	(115,607)
Transfer to off-balance sheet	(85,776)	(1,728,808)
Transfer to other liabilities	(163,199)	(431,867)
Balance, December 31	**30,758,138**	**29,030,012**

Pledged guarantee funds were deposited by the shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for certain classified loans and advances to customers. The movement of pledged guarantee fund during 2013 and 2012 is summarized as follows:

	2013	2012
	LBP'000	
Balance, January 1	3,797,051	5,527,712
Interest charged to income	149,834	202,272
Settlements	(66,330)	(1,932,933)
Balance, December 31	**3,880,555**	**3,797,051**

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income outstanding at December 31, 2013 and 2012 consist of the following:

	DECEMBER 31, 2013		
	F/CY BASE ACCOUNT		CUMULATIVE CHANGE IN FAIR VALUE
	COST	FAIR VALUE	
	LBP'000		
Quoted equity securities	6,246,051	2,415,724	(3,830,327)
Deferred tax (Note 16)			574,548
			(3,255,779)

	DECEMBER 31, 2012		
	F/CY BASE ACCOUNT		CUMULATIVE CHANGE IN FAIR VALUE
	COST	FAIR VALUE	
	LBP'000		
Quoted equity securities	6,246,051	2,415,724	(3,830,327)
Deferred tax (Note 16)			574,548
			(3,255,779)

11. FINANCIAL ASSETS AT AMORTIZED COST

Financial assets at amortized cost outstanding at December 31, 2013 and 2012 consist of the following:

	DECEMBER 31, 2013				
	LBP		F/CY		
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE	TOTAL AMORTIZED COST
	LBP'000				
Lebanese treasury bills	549,773,415	571,323,512	–	–	549,773,415
Lebanese government bonds	–	–	828,724,333	812,788,683	828,724,333
Certificates of deposit issued by the Central Bank of Lebanon	275,369,831	273,044,906	274,165,667	268,997,849	549,535,498
Corporate bonds	–	–	73,628,254	79,837,144	73,628,254
Certificates of deposit issued by local banks	–	–	9,006,375	8,584,819	9,006,375
	825,143,246	**844,368,418**	**1,185,524,629**	**1,170,208,495**	**2,010,667,875**
Accrued interest receivable	17,999,876	17,999,876	16,723,192	16,723,192	34,723,068
	843,143,122	**862,368,294**	**1,202,247,821**	**1,186,931,687**	**2,045,390,943**

	DECEMBER 31, 2012				
	LBP		F/CY		
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE	TOTAL AMORTIZED COST
	LBP'000				
Lebanese treasury bills	533,481,790	557,352,027	–	–	533,481,790
Lebanese government bonds	–	–	794,691,265	796,395,515	794,691,265
Certificates of deposit issued by the Central Bank of Lebanon	410,068,553	431,417,778	258,118,662	253,177,156	668,187,215
Corporate bonds	–	–	94,361,351	101,017,462	94,361,351
Certificates of deposit issued by local banks	–	–	8,996,612	6,651,982	8,996,612
	943,550,343	**988,769,805**	**1,156,167,890**	**1,157,242,115**	**2,099,718,233**
Accrued interest receivable	21,201,682	21,201,682	15,342,149	15,342,149	36,543,831
	964,752,025	**1,009,971,487**	**1,171,510,039**	**1,172,584,264**	**2,136,262,064**

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

	DECEMBER 31, 2013						
	LBP			FOREIGN CURRENCY (C/V LBP)			
REMAINING PERIOD TO MATURITY	NOMINAL VALUE	AMORTIZED COST	FAIR VALUE	NOMINAL VALUE	AMORTIZED COST	FAIR VALUE	TOTAL AMORTIZED COST
	LBP'000						
Lebanese treasury bills:							
- Up to 1 year	50,000,000	50,180,353	52,272,972	–	–	–	50,180,353
- 1 year to 3 years	62,045,000	62,408,818	64,886,437	–	–	–	62,408,818
- 3 years to 5 years	360,428,748	363,008,977	378,188,444	–	–	–	363,008,977
- 5 years to 10 years	68,500,000	69,083,967	70,812,295	–	–	–	69,083,967
- More than 10 years	5,091,300	5,091,300	5,163,364	–	–	–	5,091,300
	546,065,048	549,773,415	571,323,512	–	–	–	549,773,415
Lebanese Government bonds:							
- Up to 1 year	–	–	–	39,350,912	39,731,738	39,524,532	39,731,738
- 1 year to 3 years	–	–	–	118,294,838	126,322,023	126,441,840	126,322,023
- 3 years to 5 years	–	–	–	322,509,296	322,808,579	317,351,926	322,808,579
- 5 years to 10 years	–	–	–	268,306,358	279,060,629	269,832,330	279,060,629
- More than 10 years	–	–	–	60,874,358	60,801,364	59,638,055	60,801,364
	–	–	–	809,335,762	828,724,333	812,788,683	828,724,333
Certificates of deposit issued by the Central Bank of Lebanon:							
- Up to 1 year	50,000,000	50,001,954	52,444,290	–	–	–	50,001,954
- 1 year to 3 years	52,000,000	53,844,108	54,273,464	228,791,974	228,791,974	225,267,398	282,636,082
- 3 years to 5 years	69,000,000	71,828,501	73,559,742	–	–	–	71,828,501
- 5 years to 10 years	100,000,000	99,695,268	92,767,410	45,373,693	45,373,693	43,730,451	145,068,961
	271,000,000	275,369,831	273,044,906	274,165,667	274,165,667	268,997,849	549,535,498
Corporate bonds							
- Up to 1 year	–	–	–	–	–	–	–
- 1 year to 3 years	–	–	–	36,652,295	36,611,063	38,705,510	36,611,063
- 3 years to 5 years	–	–	–	13,266,000	12,410,656	12,418,830	12,410,656
- 5 years to 10 years	–	–	–	24,807,538	24,606,535	28,712,804	24,606,535
- More than 10 years	–	–	–	–	–	–	–
	–	–	–	74,725,833	73,628,254	79,837,144	73,628,254
Certificates of deposit issued by local banks:							
- 3 years to 5 years	–	–	–	9,045,000	9,006,375	8,584,819	9,006,375
			–	9,045,000	9,006,375	8,584,819	9,006,375
	817,065,048	825,143,246	844,368,418	1,167,272,262	1,185,524,629	1,170,208,495	2,010,667,875

REMAINING PERIOD TO MATURITY	DECEMBER 31, 2012						
	LBP		LBP	FOREIGN CURRENCY (C/V LBP)			
	NOMINAL VALUE	AMORTIZED COST	FAIR VALUE	NOMINAL VALUE	AMORTIZED COST	FAIR VALUE	TOTAL AMORTIZED COST
	LBP'000		LBP'000				
Lebanese treasury bills:							
- Up to 1 year	25,500,000	25,500,130	26,301,135	–	–	–	25,500,130
- 1 year to 3 years	114,300,000	115,585,502	120,046,029	–	–	–	115,585,502
- 3 years to 5 years	195,131,458	195,852,880	202,198,753	–	–	–	195,852,880
- 5 years to 10 years	194,042,290	196,543,278	208,806,110	–	–	–	196,543,278
	528,973,748	**533,481,790**	**557,352,027**	**–**	**–**	**–**	**533,481,790**
Lebanese Government bonds:							
- Up to 1 year	–	–	–	4,061,205	4,142,064	4,097,869	4,142,064
- 1 year to 3 years	–	–	–	35,240,982	35,968,204	35,369,240	35,968,204
- 3 years to 5 years	–	–	–	188,668,514	207,530,715	210,298,978	207,530,715
- 5 years to 10 years	–	–	–	495,647,169	497,892,578	495,452,254	497,892,578
- More than 10 years	–	–	–	49,417,358	49,157,704	51,177,174	49,157,704
	–	**–**	**–**	**773,035,228**	**794,691,265**	**796,395,515**	**794,691,265**
Certificates of deposit issued by the Central Bank of Lebanon:							
- Up to 1 year	145,000,000	146,644,186	158,281,516	30,150,000	30,153,465	28,855,058	176,797,651
- 1 year to 3 years	135,000,000	137,280,557	145,768,470	208,125,450	227,965,197	224,322,098	365,245,754
- 3 years to 5 years	121,000,000	126,143,810	127,367,792	–	–	–	126,143,810
- 5 years to 10 years	–	–	–	–	–	–	–
	401,000,000	**410,068,553**	**431,417,778**	**238,275,450**	**258,118,662**	**253,177,156**	**668,187,215**
Corporate bonds							
- Up to 1 year	–	–	–	15,075,000	15,075,000	15,185,198	15,075,000
- 1 year to 3 years	–	–	–	22,923,001	22,923,001	24,958,126	22,923,001
- 3 years to 5 years	–	–	–	28,642,501	27,453,994	27,352,788	27,453,994
- 5 years to 10 years	–	–	–	29,106,965	28,909,356	33,521,350	28,909,356
- More than 10 years	–	–	–	–	–	–	–
	–	**–**	**–**	**95,747,467**	**94,361,351**	**101,017,462**	**94,361,351**
Certificates of deposit issued by local banks:			–	9,045,000	8,996,612	6,651,982	8,996,612
- 3 years to 5 years	–	–	–	9,045,000	8,996,612	6,651,982	8,996,612
	929,973,748	**943,550,343**	**988,769,805**	**1,116,103,145**	**1,156,167,890**	**1,157,242,115**	**2,099,718,233**

The movement of financial assets at amortized cost is as follows:

	LBP	F/Cy	TOTAL
	LBP'000		
Balance at January 1, 2013	943,550,343	1,156,167,890	2,099,718,233
Additions	152,879,451	136,986,814	289,866,265
Redemptions	(40,500,000)	(95,883,230)	(136,383,230)
Amortization of premiums and discounts	(6,786,548)	(11,746,845)	(18,533,393)
Swaps	(224,000,000)	–	(224,000,000)
Balance at December 31, 2013	**825,143,246**	**1,185,524,629**	**2,010,667,875**

As of December 31, 2013, the Group had corporate bonds issued by non-resident banks in the amount of LBP 32 billion (USD 21 million) (USD 49 million in 2012) and Lebanese government bonds in the amount of LBP 50 billion (USD 33 million) classified as financial assets at amortized cost and pledged against repurchase agreements with a non-resident bank (Note 19).

As of December 31, 2013 and 2012, the Group had Lebanese treasury bills in the amount of LBP 2.7 billion that are pledged against a soft loan granted by the Central Bank of Lebanon (Note 19D).

Certificates of deposits issued by the Central Bank of Lebanon include as of December 31, 2013 an aggregate amount of LBP 33.56 billion (USD 22.26 million) maturing in 2015 with a put option exercisable at an early redemption value of 91.63% of par in year 2012. The Group followed the policy of providing for the difference of 8.37% between the nominal value and the early redemption value in 2012. During 2012, the Group exercised the put option on part of these certificates of deposit with a nominal value of USD 10 million which resulted in a gain of LBP 3.7 billion recognized under "Other operating income" in the consolidated statement of profit or loss (Note 33). The remaining balance of these certificates of deposit is held until maturity. The remaining balance of the provision already set up in previous years amounted to LBP 1.23 billion as of December 31, 2013 (LBP 2.16 billion as of December 31, 2012) and reflected under "Other liabilities" (Note 22). During 2013, provision in the amount of LBP 936 million was written back to income.

During 2013, the Group exchanged Lebanese treasury bills and certificates of deposit issued by the Central Bank of Lebanon in the amount of LBP 139 billion maturing in 2013 and LBP 85 billion maturing in 2014, against Lebanese treasury bills and certificates of deposit issued by the Central Bank of Lebanon with longer maturities, out of which LBP 192 billion were classified as trading assets at fair value through profit or loss, which resulted in a gain in the amount of LBP 4.08 billion that was recognized in the consolidated statement of profit or loss.

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

13. INVESTMENT IN AND LOAN TO AN ASSOCIATE

This caption represents a 12.77% equity stake in Park View Realty Company S.A.L., currently under liquidation, as at December 31, 2013 and 2012:

	DECEMBER 31,	
	2013	2012
	LBP'000	
Value of the investment	228,094	410,118
Loan	13,118	164,918
	241,212	**575,036**

The investment in Park View Realty S.A.L. is classified as an investment in an associate since the Group is represented on the investee's Board of Directors and significant influence is demonstrated in 2013 and 2012.

The movement of the investment in Park View Realty S.A.L. was as follows:

	2013	2012
	LBP'000	
Balance, January 1	410,118	418,240
Dividends received	(437,503)	–
Group's share of associate gains/(losses) – (Note 33)	255,479	(8,122)
Balance, December 31	**228,094**	**410,118**

14. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate properties and vehicles that have been acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in satisfaction of loans during 2013 and 2012 was as follows:

	2013	2012
	LBP'000	
Balance at January 1	3,898,676	4,824,182
Additions	896,127	982,015
Disposals	(2,255,155)	(1,874,900)
Reversals	(49,697)	(32,621)
Balance at December 31	**2,489,951**	**3,898,676**

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits after deduction of legal reserves and reserves for general banking risk over a period of 5 years and accumulated under equity. This reserve was reduced to 5% when certain conditions linked to the restructuring of non performing loan's portfolio were met as per local banking regulations. During 2013, the Group appropriated a reserve of LBP 7.7 million from 2012 profits (LBP 107 million in 2012 from 2011 profits). An amount of LBP 306 million was transferred in 2013 to retained earnings upon the sale of the related foreclosed assets (LBP 383 million in 2012)

During 2013, the Group sold assets acquired in satisfaction of loans for an aggregate consideration of LBP 2.6 billion resulting in a net gain of LBP 341 million. During 2012, the Group sold assets acquired in satisfaction of loans for an aggregate consideration of LBP 2.65 billion resulting in a net gain of LBP 775 million.

15. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2013 and 2012 was as follows:

	LAND	BUILDINGS	FURNITURE, OFFICE AND COMPUTER EQUIPMENT	VEHICLES	IMPROVEMENTS AND INSTALLATIONS	ADVANCE PAYMENT	TOTAL
	LBP'000			LBP'000			
Cost:							
Balance, January 1, 2012	7,533,312	13,162,244	24,924,635	592,829	10,065,222	3,104,811	59,383,053
Additions and transfers	6,426,426	–	1,441,374	23,310	1,111,644	5,557,686	14,560,440
Disposals	–	–	(819,724)	–	–	–	(819,724)
Balance, December 31, 2012	**13,959,738**	**13,162,244**	**25,546,285**	**616,139**	**11,176,866**	**8,662,497**	**73,123,769**
Additions and transfers	5,460,991	–	3,758,335	2,074	2,759,571	9,347,009	21,327,980
Disposals	–	–	(226,194)	–	–	–	(226,194)
Balance, December 31, 2013	**19,420,729**	**13,162,244**	**29,078,426**	**618,213**	**13,936,437**	**18,009,506**	**94,225,555**
Accumulated Depreciation:							
Balance, January 1, 2012	–	(2,973,401)	(15,176,450)	(207,919)	(5,450,655)	–	(23,808,425)
Depreciation expense	–	(311,325)	(1,943,246)	(57,371)	(660,355)	–	(2,972,297)
Eliminated on disposals	–	–	762,420	–	–	–	762,420
Balance, December 31, 2012	–	**(3,284,726)**	**(16,357,276)**	**(265,290)**	**(6,111,010)**	–	**(26,018,302)**
Depreciation expense	–	(310,475)	(2,060,606)	(58,812)	(798,974)	–	(3,228,867)
Eliminated on disposals	–	–	163,646	–	–	–	163,646
Balance, December 31, 2013	–	**(3,595,201)**	**(18,254,236)**	**(324,102)**	**(6,909,984)**	–	**(29,083,523)**
Net Carrying Value:							
December 31, 2013	**19,420,729**	**9,567,043**	**10,824,190**	**294,111**	**7,026,453**	**18,009,506**	**65,142,032**
December 31, 2012	**13,959,738**	**9,877,518**	**9,189,009**	**350,849**	**5,065,856**	**8,662,497**	**47,105,467**

Additions to land in 2013 represent the acquisition of the plot number 229 in Kornet Chehwan by the Group.

Advance payment represents the cost of the renovation and construction of the Bank branches and new headquarters. The movement of these payments on the account during the years 2013 and 2012 are as follows:

	HAZMIEH BRANCH	VERDUN BRANCH	BAALBEK BRANCH	JAL EL DIB BRANCH	MATHAF NEW HEAD OFFICE	OTHER BRANCHES	TOTAL
	LBP'000						
Balance, January 1, 2012	755,000	–	1,212,781	–	45,390	1,091,641	3,104,812
Additions	453,000	–	307,732	–	–	6,187,398	6,948,130
Transfers	–	–	–	–	–	(1,390,445)	(1,390,445)
Balance, December 31, 2012	**1,208,000**	**–**	**1,520,513**	**–**	**45,390**	**5,888,594**	**8,662,497**
Additions	1,363,500	5,967,679	151,307	1,307,015	771,328	4,820,618	14,381,447
Transfers	–	–	(1,671,820)	–	–	(3,362,618)	(5,034,438)
Balance, December 31, 2013	**2,571,500**	**5,967,679**	**–**	**1,307,015**	**816,718**	**7,346,594**	**18,009,506**

16. INTANGIBLE AND OTHER ASSETS

	DECEMBER 31,	
	2013	2012
	LBP'000	
Prepaid expenses	6,335,318	5,917,970
Deferred charges	444,836	406,178
Refundable guarantee deposits	168,841	167,461
Stamps	54,994	55,741
Change in fair value of forward exchange contracts	–	52,584
Deferred tax assets	574,548	574,548
Intangible assets	559,553	491,128
Due from Social Security Fund	3,118,747	2,433,024
Other debit balances	4,654,183	1,806,486
Provision for doubtful receivables	(667,110)	(667,110)
	15,243,910	**11,238,010**

The movement of intangible assets during 2013 and 2012 was as follows:

	LBP'000
Cost:	
Balance, January 1, 2012	1,800,835
Additions	100,113
Balance, December 31, 2012	**1,900,948**
Additions	269,967
Balance, December 31, 2013	**2,170,915**
Accumulated Amortization:	
Balance, January 1, 2012	(1,219,025)
Additions	(190,795)
Balance, December 31, 2012	**(1,409,820)**
Additions	(201,542)
Balance, December 31, 2013	**(1,611,362)**
Net Carrying Value:	
December 31, 2013	**559,553**
December 31, 2012	**491,128**

17. REGULATORY BLOCKED FUND

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon establishment of "First National Bank S.A.L.". This deposit is refundable in case of cease of operations, according to article 132 of the Money and Credit Law.

18. GOODWILL

This caption consists of the following:

	DECEMBER 31,	
	2013	2012
	LBP'000	
Goodwill on acquisition of Société Bancaire du Liban ("SBL") (Note 16)	2,400,000	2,400,000
Goodwill on acquisition of Capital Finance Company S.A.L. in 2009	17,979,656	17,979,656
	20,379,656	**20,379,656**

19. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

Deposits and borrowings from banks and financial institutions are reflected at amortized cost and consist of the following:

	DECEMBER 31,	
	2013	2012
	LBP'000	
Current deposits of banks and financial institutions	67,688,020	165,425,213
Money market deposits – A	279,750,336	390,818,415
Short term borrowings – B	45,082,357	21,881,996
Borrowings under sale and repurchase agreements – C	45,225,000	45,225,000
Other short term borrowings – D	3,447,562	3,535,288
Accrued interest payable	1,563,300	2,070,961
	442,756,575	**628,956,873**

A. The maturities of money market deposits are as follows:

	DECEMBER 31, 2013			
	LBP BASE ACCOUNTS		F/CY BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2014	63,554,533	4.42	189,060,803	1.88
2015	–	–	13,567,500	5.40
2016	–	–	13,567,500	5.43
	63,554,533		**216,195,803**	

	DECEMBER 31, 2012			
	LBP BASE ACCOUNTS		F/CY BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2013	69,976,026	4.62	315,566,139	1.32
2014	2,261,250	5.25	–	–
2015	3,015,000	5.25	–	–
	75,252,276		**315,566,139**	

B. Short term borrowings are denominated in foreign currencies, carry interest at the rate of 4.2% per annum (4.75% per annum in 2012) and mature within one year.

C. Sale and repurchase agreements consist of repurchase agreement contract with a non-resident bank in the amount of LBP 45.23 billion (C/V USD 30 million) maturing on August 20, 2015 and bearing interest at the rate of six month Libor plus 2.4% per annum against pledged corporate bonds issued by foreign banks and Lebanese treasury bills with a nominal value of USD 54 million (LBP 81.4 billion) (USD 49 million in 2012) classified under financial assets at amortized cost as at December 31, 2013 and 2012 (Note11).

D. Other short term borrowings consist of the following:

	DECEMBER 31,	
	2013	2012
	LBP'000	
Loan from the European Investment Bank	702,562	790,288
Soft loan from the Central Bank of Lebanon	2,745,000	2,745,000
	3,447,562	**3,535,288**

Borrowings from the European Investment Bank are managed by the Central Bank of Lebanon and financed by the European Investment Bank upon the agreement signed between the Lebanese Republic and the European Investment Bank on December 14, 1999. The purpose of these loans is to finance projects in the industrial sector.

During 2011, the Central Bank of Lebanon ("BDL") granted the Group a soft loan in the amount of LBP 2.7 billion in accordance with Decision number 6116 dated March 7, 1996. The loan proceeds are invested in Lebanese treasury bills for the same amount classified as at amortized cost and maturing in January 2016. The treasury bills are pledged in favor of BDL until full repayment of the loan. The present value of the net investment proceeds will be used to finance the write-off of a debtor's exposure under credit facilities used to refinance the construction of property and acquisition of equipment damaged during the July 2006 war.

The maturities of other short term borrowings are as follows:

	DECEMBER 31, 2013			
	LBP BASE ACCOUNTS		F/CY BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2016	2,745,000	2.20	–	–
2020	–	–	702,562	3.34
	2,745,000		702,562	

	DECEMBER 31, 2012			
	LBP BASE ACCOUNTS		F/CY BASE ACCOUNTS	
MATURITY	AMOUNT	AVERAGE INTEREST RATE	AMOUNT	AVERAGE INTEREST RATE
	LBP'000	%	LBP'000	%
2016	2,745,000	2.20	–	–
2020	–	–	790,288	3.34
	2,745,000		790,288	

20. CUSTOMERS' DEPOSITS AND CREDIT ACCOUNTS

Customers' deposits and credit accounts are stated at amortized cost and are detailed as follows:

	DECEMBER 31,	
	2013	2012
	LBP'000	
Current and demand deposits	350,667,543	306,810,338
Term deposits	655,230,547	528,523,552
Saving accounts	2,637,909,146	2,462,327,238
Related party deposits	99,301,621	138,686,410
Collateral against loans and advances - Related parties	42,754,209	50,681,184
Collateral against loans and advances	337,891,088	321,026,753
Fiduciary accounts	216,866,725	188,628,313
Margins for irrevocable letters of credit	10,361,128	14,208,416
Margins on letters of guarantee	68,083,832	13,436,428
	4,419,065,839	**4,024,328,632**
Accrued interest payable	23,588,396	22,341,335
	4,442,654,235	**4,046,669,967**

Customers' deposits include coded accounts as at December 31, 2013 amounting to LBP 33 billion (LBP 19 billion as at December 31, 2012). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Group's management cannot reveal the identities of the depositors to third parties, including its independent auditors.

Customers' deposits include an escrow account deposited by the former shareholders of Société Bancaire du Liban S.A.L. ("SBL") to cover any shortage in the transferred allowance for bad and doubtful debts accounts or for those accounts that needed to be downgraded at the merger date. The balance of this pledged deposit as at December 31, 2013and 2012 amounted to USD 207,000 equivalent to LBP 312 million. There has been no transfer to "Escrow account to cover shortage in provisions" under "Loans and advances" during 2013 and 2012. This escrow account earned interest at the rate of 3.21% per annum during 2013 and 2012.

Deposits are allocated by brackets as follows:

	DECEMBER 31, 2013			
	DEPOSITS IN LBP		DEPOSITS IN F/CY	
	TOTAL DEPOSITS	% TO TOTAL DEPOSITS	TOTAL DEPOSITS	% TO TOTAL DEPOSITS
	LBP'000		LBP'000	
Related parties	**49,710,700**	**3.24**	**92,345,130**	**3.58**
Customers:				
Less than LBP 200 million	382,366,551	23.92	442,226,588	15.48
Between LBP 200 million and LBP 1.5 billion	499,049,837	31.22	830,867,109	29.09
More than LBP 1.5 billion	665,228,758	41.62	1,480,859,562	51.85
	1,546,645,146		**2,753,953,259**	
	1,596,355,846	**100.00**	**2,846,298,389**	**100.00**

	DECEMBER 31, 2012			
	DEPOSITS IN LBP		DEPOSITS IN F/CY	
	TOTAL DEPOSITS	% TO TOTAL DEPOSITS	TOTAL DEPOSITS	% TO TOTAL DEPOSITS
	LBP'000		LBP'000	
Related parties	**95,580,785**	**6.90**	**93,786,809**	**3.60**
Customers:				
Less than LBP 200 million	357,460,046	25.00	408,539,154	15.60
Between LBP 200 million and LBP 1.5 billion	420,073,417	29.40	764,407,260	29.20
More than LBP 1.5 billion	554,629,834	38.70	1,352,192,662	51.60
	1,332,163,297		**2,525,139,076**	
	1,427,744,082	**100.00**	**2,618,925,885**	**100.00**

The average balances of deposits and related cost of funds over the last three years were as follows:

YEAR	AVERAGE BALANCE OF DEPOSITS	ALLOCATION OF DEPOSITS		COST OF FUNDS	AVERAGE INTEREST RATE
		LBP	F/CY		
	LBP'000	%	%	LBP'000	%
2013	4,237,592,851	36	64	185,055,198	4.06
2012	3,798,554,565	34	66	167,969,935	4.37
2011	3,242,234,623	33	67	150,700,147	4.65

21. CERTIFICATES OF DEPOSIT

On February 20, 2010, the Group issued certificates of deposit with a nominal value amounting to USD 10 million (C/V LBP 15 billion) of which USD3.75million(C/VLBP5.65billion)weresubscribed into as at December 31, 2012, matured and settled on February 20, 2013 with a fixed interest rate of 6.25% per annum. Related interest expense amounted to LBP 48 million during 2013 (LBP 396 million during 2012).

22. OTHER LIABILITIES

This caption consists of the following:

	DECEMBER 31,	
	2013	2012
	LBP'000	
Withheld taxes and other taxes payable	1,741,092	2,625,787
Corporate income tax payable	4,457,169	1,920,790
Due to the National Social Security Fund	651,999	534,024
Checks and incoming payment orders in course of settlement	11,220,413	6,832,854
Accrued expenses	9,101,778	7,901,915
Provision for early redemption of investment securities (Note 11)	1,231,218	2,167,457
Deferred income	9,410,768	6,975,888
Due to insurance companies and collectors of bills	10,901,505	10,363,228
Sundry accounts payable	13,515,070	7,356,622
	62,231,012	**46,678,565**

The maturity of the dues to insurance companies and collectors of bills related to retail loans are allocated based on the maturity of the related outstanding loans.

Deferred income includes unearned commission on insurance policies related to outstanding retail loans maturing after year end. These unearned commissions are recognized to income over the term of the related loans. Furthermore, it includes file fees and difference on collection charges that are recognized as yield adjustment over the loan repayment period.

During 2013, the tax returns of 2 subsidiaries were subject to examination by tax authorities. This examination resulted in an additional tax liability of LBP1billion including penalties that was accrued for as of December 31, 2013. The said subsidiary objected the additional tax claim in front of the tax department. The result of the objection is still pending.

The tax returns of the Bank since 2009 remain subject to examination and final assessment by the tax authorities and any additional tax liability depends on the outcome of such review.

The Bank's social security declarations since 2010 remain subject to review by the National Social Security Fund.

The Group's management does not anticipate significant additional tax and social security liabilities with regard to years still open for review related to the Bank and its subsidiaries.

23. PROVISIONS

Provisions consist of the following:

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	LBP'000
Provision for staff end-of-service indemnities	8,258,225	6,773,788
Provision for contingencies	1,143,603	311,682
Provision for foreign currency fluctuations	95,068	4,821
	9,496,896	7,090,291

The movement of the provision for staff end-of-service indemnities is as follows:

	2013	2012
	LBP'000	LBP'000
Balance, January 1	6,773,788	6,262,219
Additions	1,633,393	1,089,064
Settlements	(148,956)	(577,495)
Balance, December 31	**8,258,225**	**6,773,788**

The movement of the provision for contingencies was as follows:

	2013	2012
	LBP'000	LBP'000
Balance, January 1	311,682	260,056
Additions	903,321	51,626
Write offs	(71,400)	–
Balance, December 31	**1,143,603**	**311,682**

24. SHARE CAPITAL

The Extraordinary General Assembly of the Bank approved in its meeting held on January 12, 2012 the increase of capital from LBP 131 billion to LBP 154.5 billion through the issuance of 2,306,018 nominative shares of LBP 10,000 par value each, to become composed of 15,450,000 shares of par value of LBP 10,000 each fully paid.

25. PREFERRED SHARES

The Extraordinary General Assembly held on November 23, 2009 approved the issuance of 150,000 non- cumulative perpetual redeemable series 1 Preferred shares, with a nominal value of LBP 10,000 each, and an aggregate premium of USD 14 million on the entire issued shares. The preferred shares earn dividends of USD 4.25 each for the year 2009 and USD 8.25 for the years thereafter.

The Extraordinary General Assembly held on November 28, 2012 decided to issue 250,000 non cumulative perpetual redeemable series 2 preferred shares with a nominal value of LBP 10,000 each and an aggregate premium of LBP 35.2 billion (USD 23.34 million) on the entire issued shares to be paid in cash by the subscribers in accordance with the terms and conditions specified in the Extraordinary General Assembly indicated above. It is to be noted that the cash settlement was made by the subscribers during 2012 and deposited in an escrow account pending the completion of the required legal formalities to issue these shares. These preferred shares were issued in 2013 after the completion of the required legal formalities.

26. RESERVES

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

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve 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.

27. NON-CONTROLLING INTERESTS

This caption comprises the following:

	DECEMBER 31, 2013	DECEMBER 31, 2012
	LBP'000	LBP'000
Capital	436,211	436,211
Legal reserves	13,408	10,700
Accumulated gain / (losses)	17,449	(4,206)
	467,068	442,705

28. INTEREST INCOME

This caption consists of the following:

	2013	2012
	LBP'000	
Interest income from:		
Term deposits with Central Bank	32,738,854	18,437,322
Deposits with banks and financial institutions	5,301,955	2,938,673
Financial assets at amortized cost	136,920,771	139,604,546
Loans to banks	315,484	724,797
Loans and advances to customers	102,556,987	96,548,750
Loans and advances to related parties	1,360,086	2,941,694
	279,194,137	**261,195,782**

29. INTEREST EXPENSE

This caption consists of the following:

	2013	2012
	LBP'000	
Interest expense on:		
Deposits and borrowings from banks and financial institutions	12,049,701	10,645,145
Customer's deposits	177,650,100	159,492,024
Related parties' deposits	7,405,098	9,488,887
Certificates of deposit	48,400	396,440
	197,153,299	**180,022,496**

30. FEE AND COMMISSION INCOME

This caption consists of the following:

	2013	2012
	LBP'000	
Commission on documentary credits	2,519,293	1,593,513
Commission on letters of guarantee	1,986,240	1,044,048
Commission on certificates of deposit	18,440	28,992
Service fees on customers' transactions	10,398,731	7,287,008
Brokerage fees	2,602,096	2,512,818
Commission on transactions with banks	332,166	253,161
	17,856,966	**12,719,540**

31. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	2013	2012
	LBP'000	
Commission on transactions with banks	2,296,598	4,171,668
Commission on private banking transactions	2,972,398	553,482
	5,268,996	**4,725,150**

32. NET INTEREST AND GAIN AND LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2013	2012
	LBP'000	
Interest income	16,755,487	1,718,564
Unrealized gain (Note 7)	1,192,354	846,807
Net realized gain on sold securities	1,280,440	1,213,326
Dividend income	1,208,584	898,683
	20,436,865	**4,677,380**

33. OTHER OPERATING INCOME (NET)

This caption consists of the following:

	2013	2012
	LBP'000	
Gain on exercising the call option on certificates of deposit issued by the Central Bank of Lebanon (Note 11)	–	3,741,564
Share of losses of an associate (Note 13)	255,479	(8,122)
Net loss on disposal of equipment	(40,084)	(18,444)
Net foreign exchange gains	3,393,458	3,121,254
Other	468,994	847,133
	4,077,847	**7,683,385**

34. DEPRECIATION AND AMORTIZATION

This caption consists of the following:

	2013	2012
	LBP'000	
Depreciation of property and equipment (Note 15)	3,228,867	2,972,297
Amortization of deferred accounts for merged bank	–	723,286
Amortization of intangible assets (Note 16)	201,542	190,795
	3,430,409	**3,886,378**

Amortization of deferred accounts for merged bank represents losses related to a bank (SBL) that was merged in previous years.

35. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

Forward exchange contracts outstanding as of December 31, 2013 and 2012 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

36. FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

Fiduciary assets are invested as follows:

	DECEMBER 31, 2013		
	RESIDENT	NON-RESIDENT	TOTAL
	LBP'000		
Debt and equity securities	334,401,029	95,991,540	430,392,569
Deposits with financial institutions	5,990,654	–	5,990,654
	340,391,683	**95,991,540**	**436,383,223**

	DECEMBER 31, 2012		
	RESIDENT	NON-RESIDENT	TOTAL
	LBP'000		
Deposits with financial institutions	13,082,363	3,082,020	16,164,383
Debt and equity securities	229,043,439	146,155,270	375,198,709
	242,125,802	**149,237,290**	**391,363,092**

37. BALANCES / TRANSACTIONS WITH RELATED PARTIES

	DECEMBER 31,	
	2013	2012
	LBP'000	
Shareholders, directors and other key management personnel and close family members and related companies:		
Direct facilities and credit accounts:		
Secured loans and advances	4,518,607	26,450,713
Unsecured loans and advances	2,252,054	16,754,266
Deposits	142,055,830	189,367,594
Indirect facilities	42,649,000	1,559,000

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP 43 billion (LBP 51 billion as of December 31, 2012). In addition, loans and advances were covered by real estate mortgages to the extent of LBP 2.8 billion as of December 31, 2013 (LBP 5.4 billion as of December 31, 2012).

Directors' and senior staff remuneration amounted to LBP 2.39 billion during 2013 (LBP 2.7 billion during 2012).

38. DIVIDENDS PAID

	DECEMBER 31,	
	2013	2012
	LBP'000	
Preferred shares	4,465,970	1,865,529
Ordinary shares	7,338,750	6,180,000
	11,804,720	8,045,529

The general assembly of the Bank held on June 20, 2013 approved the dividend distribution of USD 8.25 (c/v LBP 12,437) for each preferred share - Series 1.

The general assembly of the Bank held on July 30, 2013 approved the dividend distribution of LBP 475 for each common share and USD 6.9 (c/v LBP 10,400) for each preferred share - Series 2.

The general assembly of the Bank held on June 4, 2012 approved the dividends distribution of LBP 400 for each common share and USD 8.25 (c/v LBP 12,437) for each preferred share - Series 1.

39. CASH AND CASH EQUIVALENTS

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

	DECEMBER 31,	
	2013	2012
	LBP'000	
Cash	29,609,442	27,875,184
Current accounts with Central Bank of Lebanon	56,668,823	137,494,552
Time deposits with Central Bank of Lebanon	22,500,000	—
Current accounts with banks and financial institutions and purchased checks	193,249,551	111,513,276
Time deposits with banks and financial institutions	131,658,397	143,256,528
	433,686,213	420,139,540

Time deposits with and from Central Bank of Lebanon and banks and financial institutions included above represent inter-bank placements and borrowings with an original term of 90 days or less.

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows as follows:

(a) The issuance of preferred shares in the amount of LBP 37.69 billion during 2013 against the deposits blocked for issuance of preferred shares.

(b) The transfer of provision for doubtful debts for the amount of LBP163million for the year ended December 31, 2013 (LBP 432 million for the year ended December 31, 2012) to other liabilities.

(c) The change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP 2.3 billion for the year ended December 31, 2012 against financial assets at fair value through other comprehensive income in the amount of LBP 2.7 billion and deferred tax asset in the amount of LBP 405 million.

40. 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 hold a minimum level of regulatory capital of LBP 10 billion for the head office and LBP 500 million for each local branch and LBP 1.5 billion for each branch abroad. In addition, the bank is required to observe the minimum capital adequacy ratio set by the regulator.

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 available-for-sale securities / financial assets classified through other comprehensive income.

Tier II Capital:

Comprises qualifying subordinated liabilities, cumulative favorable change in fair value of available-for-sale securities / financial assets classified through other comprehensive income.

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

Also, 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.

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

The Group's capital adequacy ratio was as follows:

	DECEMBER 31, 2013	DECEMBER 31, 2012
	IN MILLIONS OF LBP	
Common equity Tier I	316,530	297,502
Additional Tier I capital	–	–
Net Tier I capital	**316,530**	**297,502**
Tier II capital	–	–
Total regulatory capital (Tier I + Tier II)	**316,530**	**297,502**
Credit risk	2,636,868	3,186,287
Market risk	220,652	83,417
Operational risk	181,332	153,020
Risk-weighted assets and risk-weighted off-balance sheet items	**3,038,852**	**3,422,724**
Common equity Ratio	10.42%	8.69%
Tier I Ratio	10.42%	8.69%
Risk based capital adequacy ratio- Tier I and Tier II capital	**10.42%**	**8.69%**

41. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

A. Credit Risk

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

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

1 – Management of credit risk

The Board of Directors has the responsibility to approve the Group's general credit policy as recommended by the Credit Committee. The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

2 – Measurement of credit risk

Policies and principles that the Group follows on loans and advances are included in "Management of Credit Risk" which stipulates the Group's general credit policy.

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

A. Managing credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

B. Measuring credit risk through reviewing the following:

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

In accordance with Central Bank of Lebanon circular No.58 the Group's customers are categorized into five classifications as described below:

CLASSIFICATION		DESCRIPTION
1	Standard monitoring	Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and / or sufficient collateral.
2	Special monitoring (Watch list)	Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring. Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and/or declining profitability.
3	Substandard	Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
4	Doubtful	Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
5	Bad	Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. Some signals of this category would be inexistence of collateral, low value of collateral, and / or losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

If the debtor's default on the loan is temporary, management of the Group identifies and manages to work a plan to reschedule the payments due and/or obtain additional collateral before downgrading the loan to substandard or doubtful.

3 – Risk mitigation policies

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Business other assets (such as inventories and accounts receivable)

4 - Financial assets with credit risk exposure and related concentrations

Concentration of financial assets and liabilities by geographical area:

	DECEMBER 31, 2013					
	LEBANON	MIDDLE EAST AND AFRICA	NORTH AMERICA	EUROPE	OTHER	TOTAL
	LBP'000					
Financial Assets						
Cash and central bank of Lebanon	1,042,899,090	–	–	–	–	1,042,899,090
Deposits with banks and financial institutions	202,450,256	38,186,168	114,544,898	131,947,435	674,752	487,803,509
Trading asset at fair value through profit or loss	293,190,569	520,797	1,781,473	2,277,400	–	297,770,239
Loans to banks	2,982,432	8,077,557	–	–	–	11,059,989
Loans and advances to customers	1,208,125,416	119,476,333	384,055	12,854,680	448,190	1,341,288,674
Financial assets at fair value through other comprehensive income	–	2,415,724	–	–	–	2,415,724
Financial assets at amortized cost	1,975,928,570	–	–	68,910,590	551,783	2,045,390,943
Customers' liability under acceptances	13,477,056	1,313,374	–	–	–	14,790,430
Other financial assets	6,980,836	–	–	–	–	6,980,836
Total	**4,746,034,225**	**169,989,953**	**116,710,426**	**215,990,105**	**1,674,725**	**5,250,399,434**
Financial Liabilities						
Deposits from banks and financial institutions	188,838,931	195,532,848	25,046	57,493,911	865,839	442,756,575
Customers' deposits	4,066,778,122	312,949,311	12,351,533	29,826,364	20,748,905	4,442,654,235
Liability under acceptances	1,370,579	701,229	6,042,680	5,327,549	1,348,393	14,790,430
Other financial liabilities	23,734,848	–	–	–	–	23,734,848
Total	**4,280,722,480**	**509,183,388**	**18,419,259**	**92,647,824**	**22,963,137**	**4,923,936,088**

	DECEMBER 31, 2012					
	LEBANON	MIDDLE EAST AND AFRICA	NORTH AMERICA	EUROPE	OTHER	TOTAL
	LBP'000					
Financial Assets						
Cash and central bank of Lebanon	1,091,999,480	–	–	–	14,525,765	1,106,525,245
Deposits with banks and financial institutions	158,186,278	36,072,214	11,921,009	135,255,613	31,117,292	372,552,406
Trading asset at fair value through profit or loss	68,345,490	977,031	82,124	340,067	–	69,744,712
Loans to banks	3,532,663	–	–	–	–	3,532,663
Loans and advances to customers	1,251,384,192	47,940,905	13,729	7,943,537	2,039,817	1,309,322,180
Financial assets at fair value through other comprehensive income	–	2,415,724	–	–	–	2,415,724
Financial assets at amortized cost	2,049,459,441	–	–	86,551,716	250,907	2,136,262,064
Customers' liability under acceptances	10,353,714	–	–	–	–	10,353,714
Other financial assets	4,459,555	–	–	–	–	4,459,555
Total	**4,637,720,813**	**87,405,874**	**12,016,862**	**230,090,933**	**47,933,781**	**5,015,168,263**
Financial Liabilities						
Deposits from banks and financial institutions	214,388,270	359,778,069	32,988	53,435,558	1,321,988	628,956,873
Customers' deposits	3,493,146,831	427,141,169	18,995,343	41,987,505	65,399,119	4,046,669,967
Liability under acceptances	10,353,714	–	–	–	–	10,353,714
Cetificates of deposit	5,782,837	–	–	–	–	5,782,837
Other financial liabilities	17,719,849	–	–	–	–	17,719,849
Total	**3,741,391,501**	**786,919,238**	**19,028,331**	**95,423,063**	**66,721,107**	**4,709,483,240**

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1- Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels. Through ALCO, the Board of Directors is responsible for establishing the liquidity policy which includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Diversification of funding; and
- Maintenance of adequate contingency plans.

2- Exposure to liquidity risk

The Group ensures that its local entities are in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

The tables below show the Group's financial liabilities segregated by maturity:

	DECEMBER 31, 2013						
	NOT SUBJECT TO MATURITY	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
	LBP'000						
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	61,573,246	297,084,517	8,291,250	61,537,500	13,567,500	702,562	442,756,575
Customer's deposits	954,334,721	2,833,392,514	598,399,399	48,256,489	8,271,112	—	4,442,654,235
Liability under acceptances	—	—	14,790,430	—	—	—	14,790,430
Other financial liabilities	12,833,343	2,879,985	3,175,628	4,243,951	601,941	—	23,734,848
Total	**1,028,741,310**	**3,133,357,016**	**624,656,707**	**114,037,940**	**22,440,553**	**702,562**	**4,923,936,088**

	DECEMBER 31, 2012						
	NOT SUBJECT TO MATURITY	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
	LBP'000						
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	85,271,067	290,800,071	244,074,197	5,276,250	—	3,535,288	628,956,873
Customer's deposits	843,968,376	2,540,470,981	543,046,626	117,441,166	1,742,817	—	4,046,669,967
Liability under acceptances	—	—	10,353,714	—	—	—	10,353,714
Certificates of deposit	129,712	5,653,125	—	—	—	—	5,782,837
Other financial liabilities	7,356,621	1,900,608	3,177,590	2,845,097	2,439,933	—	17,719,849
Total	**936,725,776**	**2,838,824,785**	**800,652,128**	**125,562,513**	**4,182,750**	**3,535,288**	**4,709,483,240**

C. Market Risks

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

1- Currency Risk:

The Group carries on exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank takes preventive measures against this risk on setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities.

Below is the carrying of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end.

		DECEMBER 31, 2013			
	LBP	USD	EURO	OTHER	TOTAL
	LBP'000	LBP'000			
Assets					
Cash and central bank of Lebanon	425,889,323	417,165,734	196,589,720	3,254,313	1,042,899,090
Deposits with banks and financial institutions	33,176,919	330,706,075	44,855,338	79,076,622	487,814,954
Trading asset at fair value through profit or loss	230,869,956	66,646,018	71,964	182,301	297,770,239
Loans to banks	2,982,432	8,077,557	–	–	11,059,989
Loans and advances to customers	390,447,199	911,003,256	35,650,659	4,187,560	1,341,288,674
Financial assets at fair value through other comprehensive income	–	2,415,724	–	–	2,415,724
Financial assets at amortized cost	843,143,109	1,152,974,584	49,273,250	–	2,045,390,943
Customers' liability under acceptances	–	10,516,883	4,273,547	–	14,790,430
Investment in and loan to an associate	7,215	2,482,736	–	–	2,489,951
Assets acquired in satisfaction of loans	–	241,212	–	–	241,212
Property and equipment	59,286,391	5,855,641	–	–	65,142,032
Intangible and other assets	8,836,610	6,193,678	176,094	37,528	15,243,910
Regulatory blocked fund	1,500,000	–	–	–	1,500,000
Goodwill	–	20,379,656	–	–	20,379,656
Total	**1,996,139,154**	**2,934,658,754**	**330,890,572**	**86,738,324**	**5,348,426,804**
Liabilities					
Deposits from banks and financial institutions	67,608,908	372,273,089	1,741,067	1,133,511	442,756,575
Customers' deposits and credit accounts	1,596,355,845	2,440,627,855	324,855,537	80,814,998	4,442,654,235
Liability under acceptances	–	10,516,883	4,273,547	–	14,790,430
Other liabilities	26,679,613	35,068,909	389,107	93,383	62,231,012
Provisions	8,958,251	538,645	–	–	9,496,896
Total	**1,699,602,617**	**2,859,025,381**	**331,259,258**	**82,041,892**	**4,971,929,148**
Currencies to be delivered	(10,224,588)	(9,591,452)	(7,832,257)	(9,697,034)	(37,345,331)
Currencies to be received	–	23,653,897	8,391,607	5,206,886	37,252,390
	(10,224,588)	**14,062,445**	**559,350**	**(4,490,148)**	**(92,941)**
Net exchange position	**286,311,949**	**89,695,818**	**190,664**	**206,284**	**376,404,715**

	LBP	DECEMBER 31, 2012 USD	EURO	OTHER	TOTAL
	LBP'000	LBP'000			
Assets					
Cash and central bank of Lebanon	319,957,275	519,696,013	262,826,239	4,045,718	1,106,525,245
Deposits with banks and financial institutions	18,275,501	242,244,302	47,843,558	64,189,045	372,552,406
Trading asset at fair value through profit or loss	44,960,434	24,561,776	46,141	176,361	69,744,712
Loans to banks	3,532,663	–	–	–	3,532,663
Loans and advances to customers	381,448,165	886,724,734	35,489,334	5,659,947	1,309,322,180
Financial assets at fair value through other comprehensive income	–	2,415,724	–	–	2,415,724
Financial assets at amortized cost	965,396,109	1,123,721,666	47,144,289	–	2,136,262,064
Customers' liability under acceptances	–	8,474,429	1,879,285	–	10,353,714
Investment in an associate	575,036	–	–	–	575,036
Assets acquired in satisfaction of loans	5,248	3,893,428	–	–	3,898,676
Property and equipment	40,552,050	6,553,417	–	–	47,105,467
Other assets	5,852,197	5,385,813	–	–	11,238,010
Regulatory blocked fund	1,500,000	–	–	–	1,500,000
Goodwill	20,379,656	–	–	–	20,379,656
Total	**1,802,434,334**	**2,823,671,302**	**395,228,846**	**74,071,071**	**5,095,405,553**
Liabilities					
Deposits and borrowings from banks and financial institutions	74,753,394	462,591,946	82,733,095	8,878,438	628,956,873
Customers' deposits and credit accounts	1,428,561,065	2,242,204,840	314,232,020	61,672,042	4,046,669,967
Liability under acceptances	–	8,474,429	1,879,285	–	10,353,714
Certificates of deposit	–	5,782,837	–	–	5,782,837
Other liabilities	15,431,630	30,775,133	360,317	111,485	46,678,565
Provisions	7,088,695	1,596	–	–	7,090,291
Total	**1,525,834,784**	**2,749,830,781**	**399,204,717**	**70,661,965**	**4,745,532,247**
Currencies to be delivered	–	(13,371,123)	(8,295,631)	(14,103,243)	(35,769,997)
Currencies to be received	367,688	9,870,776	13,255,996	12,328,121	35,822,581
	367,688	**(3,500,347)**	**4,960,365**	**(1,775,122)**	**52,584**
Net exchange position	**276,967,238**	**70,340,174**	**984,494**	**1,633,984**	**349,925,890**

2- Exposure to 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 Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the asset and liability committee.

Below is the distribution of financial assets and liabilities by re-pricing time bands:

	DECEMBER 31, 2013						
	NOT SUBJECT TO INTEREST	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
	LBP'000						
Financial Assets							
Cash and Central Bank of Lebanon	172,841,340	870,057,750	–	–	–	–	1,042,899,090
Deposits with banks and financial institutions	194,089,486	262,272,300	31,453,168	–	–	–	487,814,954
Trading asset at fair value through profit or loss	29,336,520	–	–	2,575,074	232,132,166	33,726,479	297,770,239
Loans to banks	32,432	11,027,557	–	–	–	–	11,059,989
Loans and advances to customers	4,375,284	969,566,385	150,391,225	106,379,989	81,849,214	28,726,577	1,341,288,674
Financial assets at fair value through other comprehensive income	2,415,724	–	–	–	–	–	2,415,724
Financial assets at amortized cost	34,723,068	–	139,914,045	507,977,986	583,712,755	779,063,089	2,045,390,943
Customer's liability under acceptances	–	–	14,790,430	–	–	–	14,790,430
Other financial assets	6,980,836	–	–	–	–	–	6,980,836
Total	**444,794,690**	**2,112,923,992**	**336,548,868**	**616,933,049**	**897,694,135**	**841,516,145**	**5,250,410,879**
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	2,494,733	404,835,592	8,291,250	27,135,000	–	–	442,756,575
Customers' deposit and credit accounts	23,543,683	3,927,821,215	441,418,282	41,599,943	8,271,112	–	4,442,654,235
Liability under acceptances	–	–	14,790,430	–	–	–	14,790,430
Other financial liabilities	23,734,848	–	–	–	–	–	23,734,848
Total	**49,773,264**	**4,332,656,807**	**464,499,962**	**68,734,943**	**8,271,112**	**–**	**4,923,936,088**
Net gap position	**395,021,426**	**(2,219,732,815)**	**(127,951,094)**	**548,198,106**	**889,423,023**	**841,516,145**	**326,474,791**

	NOT SUBJECT TO INTEREST	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 3 YEARS	3 TO 5 YEARS	OVER 5 YEARS	TOTAL
	DECEMBER 31, 2012		DECEMBER 31, 2012				
	LBP'000		LBP'000				
Financial Assets							
Cash and Central Bank of Lebanon	240,435,195	866,090,050	–	–	–	–	1,106,525,245
Deposits with banks and financial institutions	112,413,246	165,399,000	75,142,660	19,597,500	–	–	372,552,406
Trading asset at fair value through profit or loss	17,446,292	–	–	856,450	18,907,182	32,534,788	69,744,712
Loans to banks	32,663	–	–	–	450,000	3,050,000	3,532,663
Loans and advances to customers	7,931,316	556,232,476	73,951,042	285,485,473	137,677,163	248,044,710	1,309,322,180
Financial assets at fair value through other comprehensive income	2,415,724	–	–	–	–	–	2,415,724
Financial assets at amortized cost	36,543,831	52,150,000	169,364,845	539,722,461	556,981,399	781,499,528	2,136,262,064
Customer's liability under acceptances	–	–	10,353,714	–	–	–	10,353,714
Other financial assets	4,459,555	–	–	–	–	–	4,459,555
Total	**421,677,822**	**1,639,871,526**	**328,812,261**	**845,661,884**	**714,015,744**	**1,065,129,026**	**5,015,168,263**
Financial Liabilities							
Deposits and borrowings from banks and financial institutions	2,503,472	571,663,113	45,978,750	5,276,250	2,745,000	790,288	628,956,873
Customers' deposit and credit accounts	55,906,575	3,229,653,143	641,649,706	117,717,726	1,742,817	–	4,046,669,967
Liability under acceptances	–	–	10,353,714	–	–	–	10,353,714
Certificates of deposit	129,712	5,653,125	–	–	–	–	5,782,837
Other financial liabilities	17,719,849	–	–	–	–	–	17,719,849
Total	**76,259,608**	**3,806,969,381**	**697,982,170**	**122,993,976**	**4,487,817**	**790,288**	**4,709,483,240**
Net gap position	**345,418,214**	**(2,167,097,855)**	**(369,169,909)**	**722,667,908**	**709,527,927**	**1,064,338,738**	**305,685,023**

42. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

	DECEMBER 31, 2013				
	FAIR VALUE				VALUATION TECHNIQUE AND KEY INPUTS
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	
	LBP'000				
Trading assets at fair value through profit or loss:					
Quoted equity Securities	9,037,749	–	–	9,037,749	Quoted prices in an active market.
Unquoted equity securities	–	–	16,234,499	16,234,499	Management estimate based on unobservable input related to market volatility and liquidity.
Lebanese treasury bills	–	35,732,453	–	35,732,453	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.
Lebanese government bonds	–	21,791,631	–	21,791,631	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor.
Certificates of deposit issued by the Central Bank of Lebanon	–	206,194,600	–	206,194,600	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.
Corporate bonds	2,820,609	–	–	2,820,609	Quoted prices in an active market.
	11,858,358	**263,718,684**	**16,234,499**	**291,811,541**	
Financial assets at fair value through other comprehensive income:					
Quoted equity Securities	2,415,724	–	–	2,415,724	Quoted prices in an active market.
	2,415,724	–	–	**2,415,724**	

	DECEMBER 31, 2012				
	FAIR VALUE				VALUATION TECHNIQUE AND KEY INPUTS
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	
	LBP'000				
Financial assets at amortized cost					
Lebanese treasury bills	–	571,323,512	–	571,323,512	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.
Lebanese government bonds	–	812,788,683	–	812,788,683	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor.
Certificates of deposit issued by the Central Bank of Lebanon	–	542,042,755	–	542,042,755	DCF at a discount rate determined based on the yield curve applicable to Lebanese treasury bills, adjusted for illiquidity.
Quoted corporate bonds	74,001,856	–	–	74,001,856	Quoted prices in an active market.
Unquoted corporate bonds	–	–	5,835,288	5,835,288	Management estimate based on unobservable input related to market volatility and liquidity.
Certificates of deposit issued by local banks	–	8,584,819	–	8,584,819	DCF at a discount rate determined based on the yield on USA treasury bills and the Credit Default Swap applicable to Lebanon subject to illiquidity factor.
	74,001,856	**1,934,739,769**	**5,835,288**	**2,014,576,913**	

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

The directors consider that the carrying amounts of cash and banks, loans and advances, customers' deposits and other financial assets and liabilities approximate their fair values due to the short-term maturities of these instruments.

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2013 were approved by the Board of Directors in its meeting held on April 29, 2014.

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LIST OF FREE-STANDING ATMS

ATM	ADDRESS
Aintoura	Saint Joseph College
CFC	Weavers Center- Clemenceau- Beirut
Gemmayze EDL	EDL Premises
General Security	Mathaf
General Security	Adlieh
Ghineh	Ghineh Municipality
Military Beach Jounieh	Jounieh Sea Road (ATCL Street)- Military Complex Bldg
Makdissy- Hamra	Jisr El Makdissy Street- Beirut Bldg
Mazda	Jdeideh- Roumieh Highway- Garages Street
OTV	Basha-OTV Bldg
Riyak	Riyak Hospital- Main Entrance
Saida Souk	Riad El Solh Blvd- Bizri Bldg
Tripoli- Kadisha	EDL Premises
Zalka	Internal Road- Uniprix
Zouk Mosbeh EDL	EDL Premises

FNB'S ACTIVE CORRESPONDENT BANKS

Australia- Sydney	Westpac Banking Corporation
Austria	UniCredit Bank
Bahrain	Arab Banking Corporation
Belgium- Brussels	ING Bank
	KBC Bank
China	Bank of China
	Industrial & Commercial bank of China
Denmark- Copenhagen	Danske Bank
France	UBAF
	El Khaliji Bank
Germany	Commerzbank
	Deutsche Bank
Iraq	Trade Bank of Iraq
	Rafidain
Italy	Unicredit Bank
	Intesa Sanpaolo
	UBAE
Jordan	Cairo Amman bank
Kingdom of Saudi Arabia	Riyad Bank
	Saudi Hollandi Bank
Kuwait	Gulf Bank
	National Bank of Kuwait
Norway – Oslo	DNB Bank
Qatar – Doha	Qatar National Bank
Spain	Banco de Sabadel
	Caixa bank
Sri Lanka – Colombo	Peoples Bank
Sweden	Skandinaviska Enskilda Banken
Switzerland	Credit Suisse
	UBS
Turkey	AKbank
UAE	Emirates NBD
	Invest Bank
	Mashreqbank
UK	Barclays Bank
USA	The Bank of New York Mellon
	Standard Chartered Bank
	Wells Fargo

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