

**BLOM BANK SAL**

**CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 DECEMBER 2015**



Building a better  
working world

Ernst & Young p.c.c.  
Commerce & Finance Building  
1st Floor, Kantari, Beirut  
P.O. Box: 11-1639, Riad el Solh  
Beirut - 1107 2090, Lebanon

Tel: +961 1 760 800  
Fax: +961 1 760 822/3  
beirut@lb.ey.com  
ey.com/mena  
C.R. 61



*SEMAAN, GHOLAM & Co.*

BDO, Semaan, Gholam & Co.  
Gholam Building - Sioufi Street  
Beirut  
P.O.Box: 11-0558, Riad el Solh  
Beirut - 1107 2050, Lebanon

Tel: (01) 323676  
Fax: (01) 204142  
siman@inco.com.lb  
C.R. 570

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL**

We have audited the accompanying consolidated financial statements of BLOM Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated income statement, consolidated statement of 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 Consolidated Financial Statements**

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

### **Auditors' Responsibility**

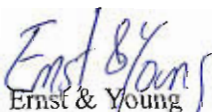
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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, the auditors 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 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 the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
Ernst & Young

18 March 2016  
Beirut, Lebanon

  
BDO, Semaan, Gholam & Co.

# BLOM Bank SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

|   | <i>Notes</i> | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|--------------|----------------------------------|----------------------------------|
| Interest and similar income   | 7            | 2,337,339                        | 2,165,229                        |
| Interest and similar expense  | 8            | (1,415,448)                      | (1,313,692)                      |
| <b>Net interest income</b>  |              | <b>921,891</b>                   | <b>851,537</b>                   |
| Fee and commission income   |              | 271,123                          | 259,624                          |
| Fee and commission expense  |              | (49,585)                         | (42,422)                         |
| <b>Net fee and commission income</b>  | 9            | <b>221,538</b>                   | <b>217,202</b>                   |
| Net gain from financial instruments at fair value through profit or loss                          | 10           | 98,839                           | 101,157                          |
| Net gain from derecognition of financial assets at amortized cost                                 | 11           | 6,564                            | 40,441                           |
| Revenue from financial assets at fair value through other comprehensive income                    | 25           | 1,192                            | 1,460                            |
| Other operating income  | 12           | 11,997                           | 18,770                           |
| <b>Total operating income</b>   |              | <b>1,262,021</b>                 | <b>1,230,567</b>                 |
| Net credit losses   | 13           | (25,330)                         | (62,207)                         |
| <b>Net operating income</b>   |              | <b>1,236,691</b>                 | <b>1,168,360</b>                 |
| Personnel expenses  | 14           | (283,791)                        | (288,284)                        |
| Other operating expenses  | 15           | (171,449)                        | (169,273)                        |
| Depreciation of property and equipment  | 26           | (36,004)                         | (31,057)                         |
| Amortization of intangible assets   | 27           | (3,504)                          | (1,609)                          |
| <b>Total operating expenses</b>   |              | <b>(494,748)</b>                 | <b>(490,223)</b>                 |
| <b>Operating profit</b>   |              | <b>741,943</b>                   | <b>678,137</b>                   |
| Net gain on disposal of fixed assets  |              | 134                              | 558                              |
| <b>Profit before tax</b>  |              | <b>742,077</b>                   | <b>678,695</b>                   |
| Income tax expense  | 16           | (132,654)                        | (128,796)                        |
| <b>Profit for the year</b>  |              | <b>609,423</b>                   | <b>549,899</b>                   |
| <b>Attributable to:</b>   |              |                                  |                                  |
| Equity holders of the parent  |              | 583,102                          | 532,859                          |
| Non-controlling interests   |              | 26,321                           | 17,040                           |
|   |              | <b>609,423</b>                   | <b>549,899</b>                   |
|   |              | <i>LL</i>                        | <i>LL</i>                        |
| <b>Basic/diluted earnings per share attributable to equity holders of the parent for the year</b> | 17           | <b>2,797</b>                     | <b>2,416</b>                     |

The accompanying notes 1 to 51 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| <b>Profit for the year</b>  | <b>609,423</b>                   | <b>549,899</b>                   |
| <b>Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods:</b>            |                                  |                                  |
| Exchange differences on translation of foreign operations   | <b>(70,963)</b>                  | <b>(51,376)</b>                  |
| <b>Other comprehensive (loss) gain not to be reclassified to consolidated income statement in subsequent periods:</b> |                                  |                                  |
| Net unrealized (loss) gain from financial assets at fair value through other comprehensive income                     | <b>(165)</b>                     | <b>498</b>                       |
| <b>Other comprehensive loss for the year</b>  | <b>(71,128)</b>                  | <b>(50,878)</b>                  |
| <b>Total comprehensive income for the year</b>  | <b>538,295</b>                   | <b>499,021</b>                   |
| <b>Attributable to:</b>   |                                  |                                  |
| Equity holders of the parent  | <b>530,656</b>                   | <b>494,232</b>                   |
| Non-controlling interests   | <b>7,639</b>                     | <b>4,789</b>                     |
|   | <b>538,295</b>                   | <b>499,021</b>                   |

The accompanying notes 1 to 51 form part of these consolidated financial statements.

# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

|   | Notes | 2015<br>LL million | 2014<br>LL million |
|---|-------|--------------------|--------------------|
| <b>Assets</b>   |       |                    |                    |
| Cash and balances with central banks  | 18    | 14,296,448         | 13,150,549         |
| Due from banks and financial institutions   | 19    | 4,213,528          | 4,574,988          |
| Loans to banks and financial institutions   | 20    | 63,376             | 95,288             |
| Derivative financial instruments  | 21    | 40,719             | 109,234            |
| Financial assets at fair value through profit or loss                                     | 22    | 595,269            | 792,580            |
| Net loans and advances to customers at amortized cost                                     | 23    | 10,815,706         | 10,383,611         |
| Net loans and advances to related parties at amortized cost                               | 45    | 32,216             | 32,679             |
| Debtors by acceptances  |       | 88,854             | 141,170            |
| Financial assets at amortized cost  | 24    | 12,826,379         | 12,035,929         |
| Financial assets at fair value through other comprehensive income                         | 25    | 6,229              | 7,305              |
| Property and equipment  | 26    | 644,114            | 619,625            |
| Intangible assets   | 27    | 5,190              | 2,490              |
| Assets obtained in settlement of debt   | 28    | 38,038             | 19,889             |
| Other assets  | 29    | 153,029            | 154,227            |
| Goodwill  | 30    | 47,876             | 52,214             |
| <b>Total assets</b>   |       | <b>43,866,971</b>  | <b>42,171,778</b>  |
| <b>Liabilities and equity</b>   |       |                    |                    |
| <b>Liabilities</b>  |       |                    |                    |
| Due to central banks  | 31    | 459,642            | 384,895            |
| Repurchase agreements   | 31    | 626                | -                  |
| Due to banks and financial institutions   | 32    | 486,693            | 641,301            |
| Derivative financial instruments  | 21    | 40,804             | 92,621             |
| Customers' deposits at amortized cost   | 33    | 37,623,777         | 35,998,926         |
| Deposits from related parties at amortized cost   | 45    | 200,605            | 189,913            |
| Engagements by acceptances  |       | 88,854             | 141,170            |
| Other liabilities   | 34    | 698,815            | 772,496            |
| Provisions for risks and charges  | 35    | 164,350            | 147,378            |
| <b>Total liabilities</b>  |       | <b>39,764,166</b>  | <b>38,368,700</b>  |
| <b>Equity</b>   |       |                    |                    |
| Share capital - common shares   | 36    | 258,000            | 258,000            |
| Share capital - preferred shares  | 36    | 24,000             | 24,000             |
| Share premium on common shares  | 36    | 374,059            | 374,059            |
| Share premium on preferred shares   | 36    | 277,500            | 277,500            |
| Non distributable reserves  | 37    | 1,062,335          | 922,217            |
| Distributable reserves  | 38    | 514,515            | 488,109            |
| Treasury shares   | 39    | (180,708)          | (165,020)          |
| Retained earnings   | 40    | 1,259,719          | 1,115,464          |
| Revaluation reserve of real estate  | 41    | 14,727             | 14,727             |
| Change in fair value of financial assets at fair value through other comprehensive income | 42    | 333                | 498                |
| Foreign currency translation reserve  |       | (190,841)          | (138,560)          |
| Profit for the year   |       | 583,102            | 532,859            |
| <b>Equity attributable to equity holders of parent</b>                                    |       | <b>3,996,741</b>   | <b>3,703,853</b>   |
| Non-controlling interests   |       | 106,064            | 99,225             |
| <b>Total equity</b>   |       | <b>4,102,805</b>   | <b>3,803,078</b>   |
| <b>Total liabilities and equity</b>   |       | <b>43,866,971</b>  | <b>42,171,778</b>  |

The consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on 18 March 2016 by Mr Saad Azhari, Chairman and General Manager, Mr Habib Rahal, General Manager and Mr Talal Baba, Chief Financial Officer.

The accompanying notes 1 to 51 form part of these consolidated financial statements.

# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

|   | 2015   |                                  |                                |                                   |                            |                        |                 |                   |                                    |   |                                      |                     |            |                           |              |
|---|--|----------------------------------|--------------------------------|-----------------------------------|----------------------------|------------------------|-----------------|-------------------|------------------------------------|---|--------------------------------------|---------------------|------------|---------------------------|--------------|
|   | Attributable to equity holders of the parent |                                  |                                |                                   |                            |                        |                 |                   |                                    |   |                                      |                     |            |                           |              |
|   | Share capital - common shares                | Share capital - preferred shares | Share premium on common shares | Share premium on preferred shares | Non distributable reserves | Distributable reserves | Treasury shares | Retained earnings | Revaluation reserve of real estate | Change in fair value of financial assets at fair value through other comprehensive income | Foreign currency translation reserve | Profit for the year | Total      | Non-controlling interests | Total equity |
|   | LL million                                   | LL million                       | LL million                     | LL million                        | LL million                 | LL million             | LL million      | LL million        | LL million                         | LL million  | LL million                           | LL million          | LL million | LL million                | LL million   |
| Balance at 1 January 2015                           | 258,000                                      | 24,000                           | 374,059                        | 277,500                           | 922,217                    | 488,109                | (165,020)       | 1,115,464         | 14,727                             | 498   | (138,566)                            | 532,859             | 3,703,853  | 99,225                    | 3,803,078    |
| Profit for the year                                 | -  | -                                | -                              | -                                 | -                          | -                      | -               | 583,102           | -                                  | (165)   | (52,281)                             | 583,102             | 583,102    | 26,321                    | 609,423      |
| Other comprehensive loss                            | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | (165)   | -                                    | -                   | (52,446)   | (18,682)                  | (71,128)     |
| Total comprehensive income                          | -  | -                                | -                              | -                                 | -                          | -                      | -               | 583,102           | -                                  | (165)   | -                                    | 583,102             | 530,656    | 7,639                     | 538,295      |
| Transfer from retained earnings to general reserves | -  | -                                | -                              | -                                 | -                          | (10,396)               | -               | 10,396            | -                                  | -   | -                                    | -                   | (311,478)  | -                         | (311,478)    |
| Dividends distributions (note 44)                   | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | (301,407)           | (55,852)   | -                         | (357,259)    |
| Appropriation of 2014 profits                       | -  | -                                | -                              | -                                 | 129,951                    | 36,802                 | (55,852)        | 134,654           | -                                  | -   | -                                    | -                   | (55,852)   | -                         | (55,852)     |
| Appropriation of 2014 profits (note 39)             | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | -                   | -          | -                         | -            |
| Sale of treasury shares (note 39)                   | -  | -                                | -                              | -                                 | -                          | -                      | 38,096          | -                 | -                                  | -   | -                                    | -                   | 38,096     | -                         | 38,096       |
| Net gain on sale of treasury shares (note 39)       | -  | -                                | -                              | -                                 | 10,167                     | -                      | -               | -                 | -                                  | -   | -                                    | -                   | 10,167     | -                         | 10,167       |
| Premium on treasury shares (note 39)                | -  | -                                | -                              | -                                 | -                          | -                      | 2,868           | (92)              | -                                  | -   | -                                    | 26                  | 2,068      | (220)                     | 2,068        |
| Dividend distributions in a subsidiary company      | -  | -                                | -                              | -                                 | -                          | -                      | -               | (703)             | -                                  | -   | -                                    | -                   | (703)      | -                         | (703)        |
| Other adjustments                                   | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | -                   | -          | -                         | -            |
| Balance at 31 December 2015                         | 258,000                                      | 24,000                           | 374,059                        | 277,500                           | 1,062,335                  | 514,515                | (189,708)       | 1,259,719         | 14,727                             | 333   | (190,841)                            | 583,102             | 3,996,741  | 106,864                   | 4,103,605    |

|  | 2014   |                                  |                                |                                   |                            |                        |                 |                   |                                    |   |                                      |                     |            |                           |              |
|--|--|----------------------------------|--------------------------------|-----------------------------------|----------------------------|------------------------|-----------------|-------------------|------------------------------------|---|--------------------------------------|---------------------|------------|---------------------------|--------------|
|  | Attributable to equity holders of the parent |                                  |                                |                                   |                            |                        |                 |                   |                                    |   |                                      |                     |            |                           |              |
|  | Share capital - common shares                | Share capital - preferred shares | Share premium on common shares | Share premium on preferred shares | Non distributable reserves | Distributable reserves | Treasury shares | Retained earnings | Revaluation reserve of real estate | Change in fair value of financial assets at fair value through other comprehensive income | Foreign currency translation reserve | Profit for the year | Total      | Non-controlling interests | Total equity |
|  | LL million                                   | LL million                       | LL million                     | LL million                        | LL million                 | LL million             | LL million      | LL million        | LL million                         | LL million  | LL million                           | LL million          | LL million | LL million                | LL million   |
| Balance at 1 January 2014  | 238,000                                      | 24,000                           | 374,059                        | 277,500                           | 812,269                    | 449,463                | (87,199)        | 917,522           | 14,727                             | 498   | (99,095)                             | 520,763             | 3,462,009  | 78,837                    | 3,540,846    |
| Profit for the year  | -  | -                                | -                              | -                                 | -                          | -                      | -               | 198,517           | -                                  | -   | -                                    | 532,859             | 532,859    | 17,040                    | 549,899      |
| Other comprehensive loss   | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | 498   | (39,125)                             | -                   | (38,627)   | (12,251)                  | (50,878)     |
| Total comprehensive income   | -  | -                                | -                              | -                                 | -                          | -                      | -               | 198,517           | -                                  | 498   | (39,125)                             | 532,859             | 494,232    | 4,789                     | 499,021      |
| Dividends distributions (note 44)  | -  | -                                | -                              | -                                 | 104,976                    | 38,642                 | -               | -                 | -                                  | -   | -                                    | (178,630)           | (178,630)  | -                         | (178,630)    |
| Appropriation of 2013 profits  | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | (342,135)           | -          | -                         | -            |
| Adjustments related to change in ownership in subsidiaries                 | -  | -                                | -                              | -                                 | 1                          | 4                      | (130,757)       | (3)               | -                                  | -   | -                                    | 2                   | (130,757)  | (9)                       | (5)          |
| Purchase of treasury shares (note 39)                                      | -  | -                                | -                              | -                                 | -                          | -                      | 52,936          | -                 | -                                  | -   | -                                    | -                   | 52,936     | -                         | 52,936       |
| Sale of treasury shares (note 39)  | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | -                   | 4,971      | -                         | 4,971        |
| Net gain on sale of treasury shares (note 39)                              | -  | -                                | -                              | -                                 | 4,971                      | -                      | -               | -                 | -                                  | -   | -                                    | -                   | 4,971      | -                         | 4,971        |
| Non-controlling interest share in capital increase of a subsidiary company | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | -                   | -          | 16,076                    | 16,076       |
| Non-controlling interest from dividends                                    | -  | -                                | -                              | -                                 | -                          | -                      | -               | (572)             | -                                  | -   | (340)                                | -                   | (912)      | (87)                      | (87)         |
| Other adjustments  | -  | -                                | -                              | -                                 | -                          | -                      | -               | -                 | -                                  | -   | -                                    | -                   | -          | (381)                     | (1,293)      |
| Balance at 31 December 2014  | 238,000                                      | 24,000                           | 374,059                        | 277,500                           | 922,217                    | 488,109                | (165,020)       | 1,115,464         | 14,727                             | 498   | (138,566)                            | 532,859             | 3,703,853  | 99,225                    | 3,803,078    |

The accompanying notes 1 to 51 form part of these consolidated financial statements.

# BLOM Bank SAL

## CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2015

|  | Notes | 2015<br>LL million | 2014<br>LL million |
|--|-------|--------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>  |       |                    |                    |
| Profit for the year before income tax  |       | 742,077            | 678,695            |
| Adjustments for:   |       |                    |                    |
| Depreciation of property and equipment   | 26    | 36,004             | 31,057             |
| Amortization of intangible assets  | 27    | 3,504              | 1,609              |
| Gain on disposal of property and equipment   |       | (134)              | (558)              |
| Provision for loans and advances to customers, net                                   | 13    | 25,330             | 62,207             |
| Provision for impairment of assets obtained in settlement of debt                    | 28    | 297                | 1,749              |
| Write-back of provision on assets obtained in settlement of debt                     | 28    | (821)              | -                  |
| Provision for placements with other banks  | 19    | -                  | 537                |
| Net provision for risks and charges  |       | 47,081             | 55,731             |
| (Gain) loss on disposal of assets obtained in settlement of debt                     |       | (259)              | 149                |
| Net gain from sale of financial assets at amortized cost                             | 11    | (6,564)            | (40,441)           |
| Unrealized fair value gains on financial assets at fair value through profit or loss | 10    | (6,487)            | (21,890)           |
| Adjustment relating to prior years   |       | (1,283)            | (912)              |
|  |       | <u>838,745</u>     | <u>767,933</u>     |
| Changes in operating assets and liabilities:   |       |                    |                    |
| Balances with central banks  |       | (753,169)          | (2,726,106)        |
| Due from banks and financial institutions  |       | (898,282)          | (357,807)          |
| Loans to banks and financial institutions  |       | 31,912             | 8,470              |
| Derivative financial instruments – debit   |       | 68,515             | (46,623)           |
| Financial assets at fair value through profit or loss                                |       | 203,798            | 173,571            |
| Net loans and advances to customers at amortized cost                                |       | (457,012)          | (909,417)          |
| Net loans and advances to related parties at amortized cost                          |       | 463                | (4,257)            |
| Other assets   |       | 1,198              | (5,631)            |
| Due to banks and financial institutions  |       | (9,205)            | 27,194             |
| Derivative financial instruments – credit  |       | (51,817)           | 21,281             |
| Financial liabilities at fair value through profit or loss                           |       | -                  | (3,032)            |
| Customers' deposits at amortized cost  |       | 1,624,851          | 2,125,096          |
| Deposits from related parties at amortized cost                                      |       | 10,692             | 38,871             |
| Other liabilities  |       | (79,402)           | 153,171            |
|  |       | <u>531,287</u>     | <u>(737,286)</u>   |
| Cash from (used in) operations   |       | (124,811)          | (124,852)          |
| Taxes paid   |       | (24,831)           | (45,594)           |
| Provisions for risks and charges paid  |       | <u>381,645</u>     | <u>(907,732)</u>   |
| <b>Net cash from (used in) operating activities</b>                                  |       |                    |                    |
| <b>INVESTING ACTIVITIES</b>  |       |                    |                    |
| Financial assets at amortized cost   |       | (783,886)          | 1,618,054          |
| Financial assets at fair value through other comprehensive income                    |       | 911                | (357)              |
| Assets obtained in settlement of debt  |       | (18,601)           | 1,074              |
| Purchase of property and equipment   | 26    | (88,045)           | (146,175)          |
| Purchase of intangible assets  | 27    | (2,488)            | (1,218)            |
| Transfer of property and equipment and intangible assets                             | 26&27 | 2,689              | 16,758             |
| Transfer of assets obtained in settlement of debt                                    | 28    | (224)              | -                  |
| Cash proceeds from the sale of property and equipment and intangible assets          |       | 274                | 3,315              |
| Acquisition of additional shares of a subsidiary                                     |       | -                  | (5)                |
|  |       | <u>(889,370)</u>   | <u>1,491,446</u>   |
| <b>Net cash (used in) from investing activities</b>                                  |       |                    |                    |
| <b>FINANCING ACTIVITIES</b>  |       |                    |                    |
| Purchase of treasury shares, net   |       | (17,756)           | (77,821)           |
| Net gain on sale of treasury shares  |       | 10,167             | 4,971              |
| Premium on treasury shares   |       | 2,068              | -                  |
| Non-controlling interests  |       | -                  | 15,608             |
| Dividends paid   | 44    | (231,478)          | (178,630)          |
| Dividends paid to non-controlling interests in a subsidiary company                  |       | (286)              | -                  |
|  |       | <u>(237,285)</u>   | <u>(235,872)</u>   |
| <b>Net cash used in financing activities</b>   |       |                    |                    |
| <b>Effect of exchange rate changes</b>   |       | (51,972)           | (44,188)           |
| <b>(Decrease) increase in cash and cash equivalents</b>                              |       | (796,982)          | 303,654            |
| Cash and cash equivalents at 1 January   |       | 5,871,595          | 5,567,941          |
| <b>Cash and cash equivalents at 31 December</b>                                      | 43    | <u>5,074,613</u>   | <u>5,871,595</u>   |
| <b>Operational cash flows from interest and dividends</b>                            |       |                    |                    |
| Interest paid  |       | (1,416,967)        | (1,310,943)        |
| Interest received  |       | 2,318,400          | 2,186,724          |
| Dividends received   |       | 7,348              | 5,888              |

The accompanying notes 1 to 51 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

BLOM Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1951 and registered under No 2464 at the commercial registry of Beirut and under No 14 on the banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Verdun, Rashid Karameh Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and Luxembourg Stock Exchange.

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of retail, commercial, investment and private banking activities, insurance and brokerage services through its headquarter as well as its branches in Lebanon and its presence in Europe, the Middle East and North Africa.

Further information on the Group's structure is provided in note 4.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial liabilities at fair value through profit or loss.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Pounds (LL) and all values are rounded to the nearest LL million, except when otherwise indicated.

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

#### Presentation of the consolidated financial statements

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than 1 year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns



**2 ACCOUNTING POLICIES (continued)**

**2.2 Basis of consolidation (continued)**

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group 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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

**Non-Controlling interest**

Non-controlling interest represent the portion of profit or loss and net assets of subsidiaries not owned by the Group. The Group has elected to measure the non-controlling interest in acquirees at the proportionate share of each acquiree's identifiable net assets. Interests in the equity of subsidiaries not attributable to the Group are reported in consolidated equity as non-controlling interests. Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**2.3 Changes in accounting policies and disclosures**

**New and amended standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015.

The nature and the impact of each new standard and amendment is described below:

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since it does not have defined benefit plans with contributions from employees or third parties.

**2 ACCOUNTING POLICIES (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**Annual Improvements 2010-2012 Cycle**

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

**IFRS 2 Share-based Payments**

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods.

In addition, the Group had not granted any awards during the second half of 2014 and 2015. Thus, these amendments did not impact the Group's financial statements or accounting policies.

**IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

**IFRS 8 Operating Segments**

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The adoption of the above amendments did not have a significant impact on the Group's financial position or performance.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current period.

**IAS 24 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

**Annual Improvements 2011-2013 Cycle**

These improvements are effective for the time in the current year. They include:

**IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The Group is not a joint arrangement, and thus this amendment is not relevant.

**2 ACCOUNTING POLICIES (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**Annual Improvements 2011-2013 Cycle (continued)**

***IFRS 13 Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9. The Group does not apply the portfolio exception in IFRS 13.

***IAS 40 Investment Property***

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

**2.4 Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

***IFRS 9 Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years the Group has early adopted IFRS 9 (2011) which includes the requirements for the classification and measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

**2 ACCOUNTING POLICIES (continued)****2.4 Standards issued but not yet effective (continued)****Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

**Amendments to IAS 27: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

**Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

**Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

**IFRS 7 Financial Instruments: Disclosures***(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

**IAS 19 Employee Benefits**

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

**2 ACCOUNTING POLICIES (continued)****2.4 Standards issued but not yet effective (continued)****Annual Improvements 2012-2014 Cycle (continued)****Amendments to IAS 1 *Disclosure Initiative***

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

These amendments are not expected to have any impact on the Group.

**Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

**2.5 Summary of significant accounting policies****Foreign currency translation**

The consolidated financial statements are presented in Lebanese Lira which is the Bank's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**(i) *Transactions and balances***

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Foreign currency translation (continued)****(ii) Group companies**

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

**Financial instruments – classification and measurement****(i) Date of recognition**

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

**(ii) Classification and measurement of financial instruments****a. Financial assets**

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

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

**Financial assets at amortized cost**

Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Financial instruments – classification and measurement (continued)****(ii) Classification and measurement of financial instruments (continued)****a. Financial assets (continued)*****Financial assets at amortized cost (continued)***

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

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

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

***Financial assets at fair value through profit or loss***

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

***Debt instruments at fair value through profit or loss***

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

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

***Equity instruments at fair value through profit or loss***

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

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

Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net gain from financial instruments at fair value through profit or loss” in the consolidated income statement.

***Financial assets at fair value through other comprehensive income***

Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognized under “Revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the entity’s right to receive payment of dividend is established in accordance with IAS 18: “Revenue”, unless the dividends clearly represent a recovery of part of the cost of the investment.



**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Financial instruments – classification and measurement (continued)**

**(ii) Classification and measurement of financial instruments (continued)**

**b. Financial liabilities**

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

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

*Fair value option*

The Group may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk are not reclassified to consolidated income statement.

As at 31 December 2015, financial liabilities designated at amortized cost held by the Group consist of due to central banks, repurchase agreements, due to banks and financial institutions, and customers' and related parties' deposits.

*Due to central banks, repurchase agreements, due to banks and financial institutions, customers' deposits and related parties deposits*

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

**c. Derivatives recorded at fair value through profit or loss**

The Group uses derivatives such as futures, currency swaps, forward foreign exchange contracts and equity swaps and options.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement.



**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Financial instruments – classification and measurement (continued)****(ii) Classification and measurement of financial instruments (continued)****c. Derivatives recorded at fair value through profit or loss (continued)**

An embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:

- (a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9
- (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (d) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss

**(iii) Day 1 profit or loss**

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

**(iv) Reclassification of financial assets**

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

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

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

**Derecognition of financial assets and financial liabilities****(i) Financial assets**

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

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

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Derecognition of financial assets and financial liabilities (continued)****(i) Financial assets (continued)**

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

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

**(ii) Financial liabilities**

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

**Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position to "Financial assets given as collateral" as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Cash collateral on securities borrowed and reverse purchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement.

**Fair value measurement**

The Group measures financial instruments, such as, derivatives, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each consolidated statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the notes.

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Fair value measurement (continued)**

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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognised in the consolidated 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.

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

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

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

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*(i) Financial assets at amortised cost*

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

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Impairment of financial assets (continued)***(i) Financial assets at amortised cost (continued)*

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Net credit losses" in the consolidated income statement.

*(ii) Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

*(iii) Collateral repossessed*

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realizable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

**Hedge accounting**

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Hedge accounting (continued)**

*(i) Fair value hedges*

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the consolidated income statement. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in “Net gain from financial instruments at fair value through profit or loss” in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate (EIR method). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

*(ii) Cash flow hedges*

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the “Cash flow hedge” reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

*(iii) Hedge of a net investment*

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement.

On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the consolidated income statement.

**Leasing**

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

**Group as a lessee**

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Leasing (continued)*****Group as a lessee (continued)***

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

***Group as a lessor***

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**Recognition of income and expenses**

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

***(i) Interest and similar income and expense***

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

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

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

***(ii) Fee and commission income***

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

***Fee income earned from services that are provided over a certain period of time***

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Recognition of income and expenses (continued)***(ii) Fee and commission income (continued)**Fee income from providing transaction services (continued)*

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*Fee and commission income from providing insurance services*

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

*(iii) Dividend income*

Dividend income is recognised when the right to receive the payment is established.

*(iv) Net gain from financial instruments at fair value through profit or loss*

Results arising from financial assets at fair value through profit or loss include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions. This caption also includes the results arising from trading activities including all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading.

*(v) Insurance revenue*

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporis method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

**Cash and cash equivalents**

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

**Property and equipment**

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and

depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

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

|  |                  |
|--|------------------|
| Buildings  | 50 years         |
| Furniture, office installations and computer equipment | (2– 16.67) years |
| Vehicles   | 6.67 years       |



**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Property and equipment (continued)**

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

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

**Assets obtained in settlement of debt**

Assets obtained in settlement of debt are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.



**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Intangible assets**

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Key money lower of lease period or 5 years
- Software development 2.5 years

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

The Group does not have intangible assets with indefinite economic life.

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses relating to goodwill cannot be reversed in future periods.

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortization recognised in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fees and commission income".

**Provisions for risks and charges**

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

**Employees' end-of-service benefits**

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

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

**Taxes**

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

*(i) Current tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Taxes (continued)**

*(ii) Deferred tax*

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Treasury shares**

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

**Assets held in custody and under administration**

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

**Dividends on ordinary shares**

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Customers' acceptances**

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

**Segment reporting**

The Group's segmental reporting is based on the following operating segments: retail banking; corporate banking; treasury, money and capital markets; and asset management and private banking.

**3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**Judgments**

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

***Going concern***

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

***Business model***

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made.

Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

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

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

***Contractual cash flows of financial assets***

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

**3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

**Judgments (continued)**

***Consolidation of entities in which the Group holds less than majority of voting rights***

The Group considers that it controls Bank of Syria and Overseas SA even though it owns less than 50% of the voting rights; 49% ownership (31 December 2014: the same). This is because the Group obtained control on 1 January 2004, by virtue of agreement with other investors, over Bank of Syria and Overseas SA, and consequently, the financial statements of Bank of Syria and Overseas SA have been consolidated with those of the Group.

In its meeting held on 5 May 2010, the Bank's board of directors approved the increase of ownership in Bank of Syria and Overseas SA up to 60% as follows:

- At a first stage, increase the ownership from 39% to 49% by acquiring International Finance Corporation's (IFC) shares (720,000 shares) in Bank of Syria and Overseas SA.
- The remaining 11% increase to reach 60% will be performed at a later stage through acquisition from the market.

The Group considers also that it controls Syria International Insurance (Arope Syria) SA and Syria and Overseas Company for Financial Services even though it owns less than 50% of the voting rights in each entity. This is because the Group obtained control, by virtue of agreement with other investors, over Syria International Insurance (Arope Syria) SA on 1 January 2006 and because, Syria and Overseas Company for Financial Services is 52% owned by Bank of Syria and Overseas SA. Consequently, the financial statements of these two entities have been consolidated with those of the Group.

The Group also considers that it controls Aza Holding SAL even though it owns less than 50% of the voting rights; 37.44% ownership (31 December 2014: nil). This is because the Group obtained control on 1 January 2015, by virtue of agreement with other investors, over Aza Holding SAL, and consequently, the financial statements of Aza Holding SAL have been consolidated with those of the Group.

**Estimates and assumptions**

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

***Fair value of financial instruments***

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

***Impairment losses on loans and advances***

The Group reviews its individually significant loans and advances at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

**3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

***Impairment losses on loans and advances (continued)***

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

***Deferred tax assets***

Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

**4 GROUP INFORMATION**

The consolidated financial statements of the Group comprise the financial statements of BLOM Bank SAL and the following subsidiaries:

| Name   | Country of incorporation | Activities                 | % effective equity interest |                  |
|--|--------------------------|----------------------------|-----------------------------|------------------|
|  |                          |                            | 31 December 2015            | 31 December 2014 |
|  |                          |                            | %                           | %                |
| BLOM Bank France SA  | France                   | Banking activities         | 99.998                      | 99.998           |
| BLOM Bank (Switzerland) SA                                   | Switzerland              | Banking activities         | 99.998                      | 99.998           |
| BLOMInvest Bank SAL  | Lebanon                  | Banking activities         | 99.925                      | 99.925           |
| BLOM Development Bank SAL                                    | Lebanon                  | Islamic banking activities | 99.921                      | 99.921           |
| Bank of Syria and Overseas SA                                | Syria                    | Banking activities         | 49.000                      | 49.000           |
| Arope Insurance SAL  | Lebanon                  | Insurance activities       | 88.979                      | 88.979           |
| Syria International Insurance (Arope Syria) SA               | Syria                    | Insurance activities       | 42.703                      | 42.703           |
| BLOM Bank Egypt SAE  | Egypt                    | Banking activities         | 99.419                      | 99.419           |
| BLOM Egypt Securities SAE                                    | Egypt                    | Brokerage activities       | 99.644                      | 99.644           |
| BLOMInvest – Saudi Arabia                                    | Saudi Arabia             | Financial institution      | 59.963                      | 59.963           |
| BLOM Bank Qatar LLC  | Qatar                    | Banking activities         | 99.750                      | 99.750           |
| Arope Life Insurance Egypt SAE                               | Egypt                    | Insurance activities       | 91.068                      | 91.068           |
| Arope Insurance of Properties and Responsibilities Egypt SAE | Egypt                    | Insurance activities       | 93.156                      | 93.156           |
| Syria and Overseas Company for Financial Services            | Syria                    | Brokerage activities       | 48.962                      | 48.962           |
| BLOM Securities  | Jordan                   | Financial institution      | 100.000                     | 100.000          |
| Aza Holding SAL  | Lebanon                  | Investment activities      | 37.440                      | -                |

**5 MATERIAL PARTLY – OWNED SUBSIDIARIES**

Financial information of subsidiaries that have material non-controlling interests are provided below:

**Proportion of equity interests held by non-controlling interests:**

| Name                          | 2015   | 2014   |
|-------------------------------|--------|--------|
|                               | %      | %      |
| Bank of Syria and Overseas SA | 51.000 | 51.000 |
| BlomInvest – Saudi Arabia     | 40.037 | 40.037 |
| Arope Insurance SAL           | 11.021 | 11.021 |

**Accumulated balances of material non-controlling interests:**

|                               | 2015       | 2014       |
|-------------------------------|------------|------------|
|                               | LL million | LL million |
| Bank of Syria and Overseas SA | 32,106     | 29,757     |
| BlomInvest – Saudi Arabia     | 46,524     | 42,773     |
| Arope Insurance SAL           | 20,327     | 17,492     |

**5 MATERIAL PARTLY – OWNED SUBSIDIARIES**

**Profit allocated to material non-controlling interests:**

|                               | <b>2015</b>       | <b>2014</b>       |
|-------------------------------|-------------------|-------------------|
|                               | <b>LL million</b> | <b>LL million</b> |
| Bank of Syria and Overseas SA | <b>17,840</b>     | 9,058             |
| BlomInvest – Saudi Arabia     | <b>4,358</b>      | 4,109             |
| Arope Insurance SAL           | <b>2,835</b>      | 2,614             |

**Other comprehensive loss allocated to material non-controlling interests:**

|                               | <b>2015</b>       | <b>2014</b>       |
|-------------------------------|-------------------|-------------------|
|                               | <b>LL million</b> | <b>LL million</b> |
| Bank of Syria and Overseas SA | <b>(15,491)</b>   | (9,725)           |
| BlomInvest – Saudi Arabia     | <b>(14)</b>       | (25)              |
| Arope Insurance SAL           | -                 | -                 |

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

**Summarized statement of comprehensive income**

|  | <i>Bank of Syria and Overseas SA</i> |                   | <i>BlomInvest – Saudi Arabia</i> |                   | <i>Arope Insurance SAL</i> |                   |
|--|--------------------------------------|-------------------|----------------------------------|-------------------|----------------------------|-------------------|
|  | <i>2015</i>                          | <i>2014</i>       | <i>2015</i>                      | <i>2014</i>       | <i>2015</i>                | <i>2014</i>       |
|  | <b>LL million</b>                    | <b>LL million</b> | <b>LL million</b>                | <b>LL million</b> | <b>LL million</b>          | <b>LL million</b> |
| Net interest income  | 7,899                                | 7,289             | 373                              | 536               | 16,228                     | 13,065            |
| Net fee and commission income  | 4,069                                | 5,246             | 16,613                           | 13,312            | 34,437                     | 34,134            |
| Net gain/(loss) from financial instruments<br>at fair value through profit or loss | 30,394                               | 20,721            | 2,271                            | 3,805             | (197)                      | 885               |
| Net gain from derecognition of<br>financial assets at amortized cost               | -                                    | -                 | 49                               | 68                | 461                        | -                 |
| Other operating income   | 150                                  | 36                | 73                               | -                 | 220                        | 800               |
| <b>Total operating income</b>  | <b>42,512</b>                        | <b>33,292</b>     | <b>19,379</b>                    | <b>17,721</b>     | <b>51,149</b>              | <b>48,884</b>     |
| Net credit gains/(losses)  | 4,796                                | (1,535)           | -                                | -                 | (807)                      | (743)             |
| Total operating expenses   | (11,889)                             | (13,997)          | (7,495)                          | (6,496)           | (22,640)                   | (22,390)          |
| Net gain on disposal of other assets   | 17                                   | -                 | -                                | 1                 | 85                         | 2                 |
| <b>Profit before tax</b>   | <b>35,436</b>                        | <b>17,760</b>     | <b>11,884</b>                    | <b>11,226</b>     | <b>27,787</b>              | <b>25,753</b>     |
| Income tax expense   | (456)                                | -                 | (998)                            | (964)             | (2,065)                    | (2,035)           |
| <b>Profit for the year</b>   | <b>34,980</b>                        | <b>17,760</b>     | <b>10,886</b>                    | <b>10,262</b>     | <b>25,722</b>              | <b>23,718</b>     |
| Attributable to non-controlling interests  | <b>17,840</b>                        | 9,058             | <b>4,358</b>                     | 4,109             | <b>2,835</b>               | 2,614             |

**5 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)****Summarized statement of financial position**

|   | <i>Bank of Syria and Overseas SA</i> |                                  | <i>BlomInvest – Saudi Arabia</i> |                                  | <i>Arope Insurance SAL</i>       |                                  |
|---|--------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|   | <i>2015</i><br><i>LL million</i>     | <i>2014</i><br><i>LL million</i> | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
| <b>ASSETS</b>   |                                      |                                  |                                  |                                  |                                  |                                  |
| Cash and balances with banks                          | 91,348                               | 155,936                          | 1                                | -                                | 50                               | 61                               |
| Due from banks and financial institutions             | 284,323                              | 318,242                          | 29,554                           | 41,999                           | 353,904                          | 305,632                          |
| Due from head office and sister banks                 | 220,399                              | 236,601                          | 8                                | -                                | 12,987                           | 20,426                           |
| Financial assets at fair value through profit or loss | -                                    | -                                | 79,168                           | 75,384                           | 7,643                            | 8,279                            |
| Net loans and advances at amortized cost              | 26,242                               | 53,038                           | -                                | -                                | 20,751                           | 20,226                           |
| Financial assets at amortized cost                    | -                                    | 12,249                           | 8,205                            | 9,646                            | 15,733                           | 18,677                           |
| Investments in subsidiaries and associates            | 923                                  | 1,570                            | -                                | -                                | 46,651                           | 46,651                           |
| Property and equipment                                | 9,792                                | 15,489                           | 24,555                           | 11,138                           | 23,519                           | 23,082                           |
| Intangible assets                                     | 200                                  | 387                              | 111                              | 62                               | -                                | -                                |
| Other assets  | 6,984                                | 8,157                            | 22,712                           | 13,197                           | 61,219                           | 66,019                           |
| <b>TOTAL ASSETS</b>                                   | <b>640,211</b>                       | <b>801,669</b>                   | <b>164,314</b>                   | <b>151,426</b>                   | <b>542,457</b>                   | <b>509,053</b>                   |
| <b>LIABILITIES</b>                                    |                                      |                                  |                                  |                                  |                                  |                                  |
| Due to banks and financial institutions               | 3,592                                | 3,352                            | -                                | -                                | -                                | -                                |
| Due to head office and sister banks                   | 167,282                              | 167,551                          | 1,876                            | 1,036                            | -                                | -                                |
| Customers' deposits at amortized cost                 | 382,828                              | 545,683                          | -                                | -                                | -                                | -                                |
| Deposits from related parties at amortized cost       | 2,430                                | 4,879                            | -                                | -                                | -                                | -                                |
| Other liabilities                                     | 5,536                                | 5,825                            | 45,622                           | 43,156                           | 310,463                          | 307,722                          |
| Provisions for risks and charges                      | 15,590                               | 16,031                           | 521                              | 309                              | 47,554                           | 42,614                           |
| <b>TOTAL LIABILITIES</b>                              | <b>577,258</b>                       | <b>743,321</b>                   | <b>48,019</b>                    | <b>44,501</b>                    | <b>358,017</b>                   | <b>350,336</b>                   |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                     | <b>62,953</b>                        | <b>58,348</b>                    | <b>116,295</b>                   | <b>106,925</b>                   | <b>184,440</b>                   | <b>158,717</b>                   |
| <i>Attributable to non-controlling interests</i>      | <i>32,106</i>                        | <i>29,757</i>                    | <i>46,524</i>                    | <i>42,773</i>                    | <i>20,327</i>                    | <i>17,492</i>                    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>     | <b>640,211</b>                       | <b>801,669</b>                   | <b>164,314</b>                   | <b>151,426</b>                   | <b>542,457</b>                   | <b>509,053</b>                   |

**Summarized cash flow information**

|           | <i>Bank of Syria and Overseas SA</i> |                                  | <i>BlomInvest – Saudi Arabia</i> |                                  | <i>Arope Insurance SAL</i>       |                                  |
|-----------|--------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|           | <i>2015</i><br><i>LL million</i>     | <i>2014</i><br><i>LL million</i> | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
| Operating | (144,517)                            | (85,506)                         | (21,127)                         | (9,217)                          | (1,140)                          | 20,710                           |
| Investing | 17,555                               | 23,103                           | (12,262)                         | (5,585)                          | 1,514                            | (11,820)                         |
| Financing | -                                    | -                                | -                                | 40,200                           | -                                | -                                |
|           | <b>(126,962)</b>                     | <b>(62,403)</b>                  | <b>(33,389)</b>                  | <b>25,398</b>                    | <b>374</b>                       | <b>8,890</b>                     |

**6 SEGMENTAL INFORMATION**

The Group operates in four major business segments: retail; corporate; treasury, money and capital markets; and asset management and private banking.

**Retail banking** provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, funds transfers, foreign exchange and other branch related services.

**Corporate banking** provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

**Treasury, money and capital markets** is mostly responsible for the liquidity management and market risk of the Group as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investments products and services to investors and other institutional customers.

**Asset management and private banking** provides investment products and services to institutional investors and intermediaries.



**6 SEGMENTAL INFORMATION (continued)**

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Income taxes, personnel expenses, other operating expenses and net gain on disposal of fixed assets are managed on a group basis and are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents net operating income, profit and total assets and liabilities information in respect of the Group's operating segments:

*Profit for the year information*

|   | 2015  |                                    |                                 |  |                              | Total<br>LL million |
|---|---|------------------------------------|---------------------------------|--|------------------------------|---------------------|
|   | Treasury, money<br>and capital<br>markets<br>LL million | Corporate<br>banking<br>LL million | Retail<br>banking<br>LL million | Asset<br>management and<br>private banking<br>LL million | Unallocated(*)<br>LL million |                     |
| Net interest income   | 520,877   | 173,010                            | 223,766                         | 4,238  | -                            | 921,891             |
| Net fee and commission income   | 38,705  | 44,256                             | 64,615                          | 50,499   | 23,463                       | 221,538             |
| Net gain from financial instruments at<br>fair value through profit or loss       | 66,172  | -                                  | 32,667                          | -  | -                            | 98,839              |
| Net gain from derecognition of financial assets<br>at amortized cost              | 6,564   | -                                  | -                               | -  | -                            | 6,564               |
| Revenue from financial assets at fair value<br>through other comprehensive income | 1,192   | -                                  | -                               | -  | -                            | 1,192               |
| Other operating income  | -   | 775                                | 11,222                          | -  | -                            | 11,997              |
| Net credit losses   | -   | (2,123)                            | (23,207)                        | -  | -                            | (25,330)            |
| <b>Net operating income</b>   | <b>633,510</b>  | <b>215,918</b>                     | <b>309,063</b>                  | <b>54,737</b>  | <b>23,463</b>                | <b>1,236,691</b>    |
| <b>Extracts of results</b>  |   |                                    |                                 |  |                              |                     |
| Depreciation and amortization   |   |                                    |                                 |  |                              | (39,508)            |
| <b>Segment loss</b>   |   |                                    |                                 |  |                              |                     |
| Unallocated income  |   |                                    |                                 |  |                              | 134                 |
| Unallocated expenses  |   |                                    |                                 |  |                              | (455,240)           |
| Income tax expense  |   |                                    |                                 |  |                              | (132,654)           |
| <b>Profit for the year</b>  |   |                                    |                                 |  |                              | <b>609,423</b>      |
|   | 2014  |                                    |                                 |  |                              |                     |
|   | Treasury, money<br>and capital<br>markets<br>LL million | Corporate<br>banking<br>LL million | Retail<br>banking<br>LL million | Asset management<br>and private<br>banking<br>LL million | Unallocated(*)<br>LL million | Total<br>LL million |
| Net interest income   | 469,945   | 163,110                            | 216,294                         | 2,188  | -                            | 851,537             |
| Net fee and commission income   | 36,545  | 38,484                             | 66,869                          | 51,970   | 23,334                       | 217,202             |
| Net gain from financial instruments at<br>fair value through profit or loss       | 71,927  | -                                  | 29,230                          | -  | -                            | 101,157             |
| Net gain from derecognition of financial assets<br>at amortized cost              | 40,441  | -                                  | -                               | -  | -                            | 40,441              |
| Revenue from financial assets at fair value<br>through other comprehensive income | 1,460   | -                                  | -                               | -  | -                            | 1,460               |
| Other operating income  | -   | 720                                | 18,050                          | -  | -                            | 18,770              |
| Net credit losses   | (537)   | (29,242)                           | (32,428)                        | -  | -                            | (62,207)            |
| <b>Net operating income</b>   | <b>619,781</b>  | <b>173,072</b>                     | <b>298,015</b>                  | <b>54,158</b>  | <b>23,334</b>                | <b>1,168,360</b>    |
| <b>Extracts of results</b>  |   |                                    |                                 |  |                              |                     |
| Depreciation and amortization   |   |                                    |                                 |  |                              | (32,666)            |
| <b>Segment loss</b>   |   |                                    |                                 |  |                              |                     |
| Unallocated income  |   |                                    |                                 |  |                              | 558                 |
| Unallocated expenses  |   |                                    |                                 |  |                              | (457,557)           |
| Income tax expense  |   |                                    |                                 |  |                              | (128,796)           |
| <b>Profit for the year</b>  |   |                                    |                                 |  |                              | <b>549,899</b>      |

(\*) "Unallocated" include insurance premiums' commissions from insurance subsidiaries.

**6 SEGMENTAL INFORMATION (continued)**

*Financial position information*

|                   | 2015   |                                    |                                 |   |                          | Total<br>LL million |
|-------------------|--|------------------------------------|---------------------------------|---|--------------------------|---------------------|
|                   | Treasury, money and<br>capital markets<br>LL million | Corporate<br>banking<br>LL million | Retail<br>banking<br>LL million | Asset<br>management<br>and private<br>banking<br>LL million | Other (**)<br>LL million |                     |
| Total assets      | 32,041,949   | 6,459,915                          | 4,366,335                       | 112,032   | 886,740                  | 43,866,971          |
| Total liabilities | 29,000,865   | 5,846,808                          | 3,951,929                       | 116,516   | 848,048                  | 39,764,166          |
|                   | 2014   |                                    |                                 |   |                          |                     |
|                   | Treasury, money and<br>capital markets<br>LL million | Corporate<br>banking<br>LL million | Retail<br>banking<br>LL million | Asset<br>management<br>and private<br>banking<br>LL million | Other (**)<br>LL million | Total<br>LL million |
| Total assets      | 30,765,873   | 6,345,189                          | 4,050,424                       | 163,114   | 847,178                  | 42,171,778          |
| Total liabilities | 27,880,386   | 5,750,083                          | 3,670,541                       | 170,673   | 897,017                  | 38,368,700          |

(\*\*) Other includes activities related to property and equipment, intangible assets, assets obtained in settlement of debt, components of other assets and goodwill.

**Geographic information**

The Group operates in two geographic markets based on the location of its markets and customers. The local market represents the Lebanese market, and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income and non-current assets.

|                                   | 2015                   |                             |                     |
|-----------------------------------|------------------------|-----------------------------|---------------------|
|                                   | Domestic<br>LL million | International<br>LL million | Total<br>LL million |
| Total operating income            | 981,302                | 280,719                     | 1,262,021           |
| Net credit losses                 | (26,178)               | 848                         | (25,330)            |
| Net operating income <sup>1</sup> | 955,124                | 281,567                     | 1,236,691           |
| Non-current assets <sup>2</sup>   | 444,961                | 290,257                     | 735,218             |
|                                   | 2014                   |                             |                     |
|                                   | Domestic<br>LL million | International<br>LL million | Total<br>LL million |
| Total operating income            | 976,652                | 253,915                     | 1,230,567           |
| Net credit losses                 | (62,687)               | 480                         | (62,207)            |
| Net operating income <sup>1</sup> | 913,965                | 254,395                     | 1,168,360           |
| Non-current assets <sup>2</sup>   | 388,399                | 305,819                     | 694,218             |

<sup>1</sup> Net operating income is attributed to the geographical segment on the basis of the location where the income is generated.

<sup>2</sup> Non-current assets consist of property and equipment, intangible assets, assets obtained in settlement of debt and goodwill.

**7 INTEREST AND SIMILAR INCOME**

|   | 2015<br>LL million | 2014<br>LL million |
|---|--------------------|--------------------|
| Interest income on debt instruments at amortized cost               | 899,168            | 889,599            |
| Deposits and similar accounts with banks and financial institutions | 676,931            | 558,380            |
| Loans and advances to customers at amortized cost                   | 760,233            | 716,138            |
| Loans and advances to related parties at amortized cost             | 1,007              | 1,112              |
|   | 2,337,339          | 2,165,229          |

**8 INTEREST AND SIMILAR EXPENSE**

|   | <i>2015</i>       | <i>2014</i>       |
|---|-------------------|-------------------|
|   | <i>LL million</i> | <i>LL million</i> |
| Deposits and similar accounts from banks and financial institutions | 18,371            | 14,994            |
| Deposits from customers and other credit balances                   | 1,387,607         | 1,289,343         |
| Deposits from related parties at amortized cost                     | 9,470             | 9,355             |
|   | <u>1,415,448</u>  | <u>1,313,692</u>  |

**9 NET FEE AND COMMISSION INCOME**

|  | <i>2015</i>       | <i>2014</i>       |
|--|-------------------|-------------------|
|  | <i>LL million</i> | <i>LL million</i> |
| <b>Fee and commission income</b>           |                   |                   |
| Trade finance                              | 29,632            | 25,814            |
| Credit related fees and commissions        | 36,016            | 29,203            |
| Asset management and private banking       | 52,559            | 54,098            |
| Electronic banking                         | 51,732            | 48,309            |
| General banking income                     | 42,583            | 44,961            |
| Commission on insurance related activities | 40,238            | 38,418            |
| Trust and fiduciary activities             | 1,787             | 982               |
| Other services                             | 16,576            | 17,839            |
|  | <u>271,123</u>    | <u>259,624</u>    |
| <b>Fee and commission expense:</b>         |                   |                   |
| Correspondents' accounts                   | (49,585)          | (42,422)          |
|  | <u>221,538</u>    | <u>217,202</u>    |

**10 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

|  | <i>2015</i>       | <i>2014</i>       |
|--|-------------------|-------------------|
|  | <i>LL million</i> | <i>LL million</i> |
| Interest and similar income from debt instruments and other financial assets at fair value through profit or loss: |                   |                   |
| - Government debt securities   | 9,364             | 9,023             |
| - Corporate debt securities  | 4,656             | 8,265             |
| - Certificates of deposit  | 800               | -                 |
| - Funds  | 70                | -                 |
|  | <u>14,890</u>     | <u>17,288</u>     |
| Net gain from sale of debt instruments and other financial assets at fair value through profit or loss:            |                   |                   |
| - Government debt securities   | 640               | 459               |
| - Corporate debt securities  | 8,769             | 5,417             |
| - Funds  | 195               | 449               |
| - Options  | (9)               | -                 |
|  | <u>9,595</u>      | <u>6,325</u>      |

**10 NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

|   | <i>2015</i>          | <i>2014</i>           |
|---|----------------------|-----------------------|
|   | <i>LL million</i>    | <i>LL million</i>     |
| Unrealized gain from revaluation of debt instruments and other financial assets at fair value through profit or loss: |                      |                       |
| - Government debt securities  | (2,084)              | 150                   |
| - Corporate debt securities   | 2,903                | 8,036                 |
| - Funds   | 3,132                | 2,038                 |
| - Certificates of deposit   | 60                   | -                     |
|   | <u>4,011</u>         | <u>10,224</u>         |
| <b>Dividend income from Funds at fair value through profit or loss</b>  | <b>42</b>            | <b>41</b>             |
| <b>Net gain from debt instruments and other financial assets at fair value through profit or loss</b>                 | <b>28,538</b>        | <b>33,878</b>         |
| Net gain from equity instruments at fair value through profit or loss:  |                      |                       |
| - Unrealized gain from revaluation  | 2,476                | 11,666                |
| - Dividend income   | 6,114                | 4,387                 |
| - Gain from sale  | 1,366                | 4,509                 |
| <b>Net gain from equity instruments at fair value through profit or loss</b>  | <b>9,956</b>         | <b>20,562</b>         |
| <b>Foreign exchange income</b>  | <b>60,345</b>        | <b>46,717</b>         |
|   | <u><u>98,839</u></u> | <u><u>101,157</u></u> |

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading and structural positions.

**11 NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTIZED COST**

Derecognition of financial assets at amortized cost were made during the year due to exchange of financial assets by the Central Bank of Lebanon, liquidity gap and yield management.

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

|   | <i>2015</i>       |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | <i>Gains</i>      | <i>(Losses)</i>   | <i>Total</i>      |
|   | <i>LL million</i> | <i>LL million</i> | <i>LL million</i> |
| <b>Lebanese sovereign and Central Bank of Lebanon</b> |                   |                   |                   |
| Certificates of deposit                               | 107               | -                 | 107               |
| Treasury bills and bonds                              | 7,472             | (21)              | 7,451             |
| Placements with the Central Bank of Lebanon           | -                 | (1,074)           | (1,074)           |
|   | <u>7,579</u>      | <u>(1,095)</u>    | <u>6,484</u>      |
| <b>Other sovereign:</b>                               |                   |                   |                   |
| Treasury bills and bonds                              | 80                | -                 | 80                |
|   | <u>7,659</u>      | <u>(1,095)</u>    | <u>6,564</u>      |

**11 NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTIZED COST  
(continued)**

|   | <i>2014</i>                 |                                | <i>Total<br/>LL million</i> |
|---|-----------------------------|--------------------------------|-----------------------------|
|   | <i>Gains<br/>LL million</i> | <i>(Losses)<br/>LL million</i> |                             |
| <b>Lebanese sovereign and Central Bank of Lebanon</b> |                             |                                |                             |
| Certificates of deposit                               | 40,275                      | (5,050)                        | 35,225                      |
| Treasury bills and bonds                              | 5,118                       | (6)                            | 5,112                       |
|   | <u>45,393</u>               | <u>(5,056)</u>                 | <u>40,337</u>               |
| <b>Other sovereign:</b>                               |                             |                                |                             |
| Treasury bills and bonds                              | 104                         | -                              | 104                         |
|   | <u>45,497</u>               | <u>(5,056)</u>                 | <u>40,441</u>               |

**12 OTHER OPERATING INCOME**

|   | <i>2015<br/>LL million</i> | <i>2014<br/>LL million</i> |
|---|----------------------------|----------------------------|
| Gain from sale of assets obtained in settlement of debt                   | 531                        | 3                          |
| Write back of provisions for risks and charges (note 35)                  | 839                        | 720                        |
| Write back of provisions for assets taken in settlement of debt (note 28) | 821                        | -                          |
| Others  | 9,806                      | 18,047                     |
|   | <u>11,997</u>              | <u>18,770</u>              |

**13 NET CREDIT LOSSES**

|   | <i>2015<br/>LL million</i> | <i>2014<br/>LL million</i> |
|---|----------------------------|----------------------------|
| <b>Provision for loans and advances:</b>                            |                            |                            |
| Commercial loans (note 23)  | (34,172)                   | (94,333)                   |
| Consumer loans (note 23)  | (30,823)                   | (43,472)                   |
| Provision for doubtful banks (note 19)                              | -                          | (537)                      |
| Commitment by signature (note 35)                                   | (918)                      | (4,776)                    |
|   | <u>(65,913)</u>            | <u>(143,118)</u>           |
| <b>Write-back of provisions for loans and advances:</b>             |                            |                            |
| Commercial loans (note 23)  | 15,429                     | 59,403                     |
| Consumer loans (note 23)  | 7,615                      | 11,044                     |
| Unrealized interest (note 23)                                       | 8,341                      | 7,025                      |
| Recoveries from loans reflected as off-financial position (note 23) | 4,593                      | 2,667                      |
| Recoveries from sundry debtors (note 29)                            | -                          | 235                        |
| Recoveries from commitment by signature (note 35)                   | 4,605                      | 537                        |
|   | <u>40,583</u>              | <u>80,911</u>              |
|   | <u>(25,330)</u>            | <u>(62,207)</u>            |

**14 PERSONNEL EXPENSES**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Salaries and related charges                            | 144,486                          | 140,689                          |
| Social security contributions                           | 26,622                           | 27,330                           |
| Provisions for retirement benefits obligation (note 35) | 3,934                            | 10,800                           |
| Additional allowances                                   | 41,114                           | 40,937                           |
| Bonuses   | 67,635                           | 68,528                           |
|   | <u>283,791</u>                   | <u>288,284</u>                   |

**15 OTHER OPERATING EXPENSES**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Marketing and advertising   | 14,477                           | 13,160                           |
| Professional fees   | 15,529                           | 15,790                           |
| Maintenance and repairs   | 15,981                           | 16,352                           |
| Provision for guarantee of deposits                                     | 14,999                           | 14,008                           |
| Provision for risks and charges (note 35 (i)) (*)                       | 20,799                           | 8,751                            |
| Provision on impairment of assets taken in settlement of debt (note 28) | 297                              | 1,749                            |
| Rent and related charges  | 10,413                           | 11,561                           |
| Postage and telecommunications  | 10,291                           | 10,406                           |
| Stationary and printings  | 7,690                            | 9,557                            |
| Fiscal stamps   | 6,960                            | 6,514                            |
| Electricity and fuel  | 6,779                            | 6,883                            |
| Taxes and fees  | 6,113                            | 8,159                            |
| Travel expenses   | 3,635                            | 4,643                            |
| Board of directors' attendance fees                                     | 2,070                            | 1,873                            |
| Insurance   | 1,282                            | 1,293                            |
| Others  | 34,134                           | 38,574                           |
|   | <u>171,449</u>                   | <u>169,273</u>                   |

(\*) Included under "Provision for risks and charges" is a provision amounting to LL 10,370 million booked by the Group during the year ended 31 December 2015 against balances held with the Central Bank of Iraq – Kurdistan .

**16 INCOME TAX EXPENSE**

The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

**16 INCOME TAX EXPENSE (continued)**

**Reconciliation of total tax charge**

The relationship between taxable profit and accounting profit is as follow:

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Profit before income tax   | 742,077                          | 678,695                          |
| Less: Results of the subsidiary insurance company located in Lebanon(*)  | (27,787)                         | (25,753)                         |
| Accounting profit before income tax  | <u>714,290</u>                   | <u>652,942</u>                   |
| Add:   |                                  |                                  |
| Provisions non tax deductible  | 1,860                            | 22,608                           |
| Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss | 519                              | -                                |
| Other non tax deductible charges   | 53,495                           | 59,535                           |
| Less:  | <u>770,164</u>                   | <u>735,085</u>                   |
| Unrealized gains from revaluation of debt instruments and other financial assets at fair value through profit or loss  | (2,753)                          | (15,689)                         |
| Realized gain from disposal of financial assets at fair value through profit or loss already subject to income tax     | -                                | (1,660)                          |
| Dividends received and previously subject to income tax  | (310)                            | (239)                            |
| Remunerations already taxed  | (16,376)                         | (14,150)                         |
| 4% of a subsidiary's capital eligible to be tax deductible   | (400)                            | (400)                            |
| Unrealized gain on difference of exchange  | (27,896)                         | (17,864)                         |
| Write-back of provisions previously subject to income tax  | (1,061)                          | (47,488)                         |
| Net gain on disposal of fixed assets   | (418)                            | (2,071)                          |
| Non taxable income   | (23,749)                         | (36,798)                         |
| Taxable profit   | <u>697,201</u>                   | <u>598,726</u>                   |
| Effective income tax rate  | <u>17.88%</u>                    | <u>18.98%</u>                    |
| <b>Income tax expense in the consolidated income statement</b>   | <u>132,654</u>                   | <u>128,796</u>                   |

(\*) The insurance company in Lebanon is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

**17 EARNINGS PER SHARE**

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

The following table shows the income and share data used in the basic earnings per share calculations:

|   |                   | <i>2015</i>        | <i>2014</i>        |
|---|-------------------|--------------------|--------------------|
| Net profit for the year   | <i>LL million</i> | 609,423            | 549,899            |
| Less: Proposed dividends on preferred shares                            | <i>LL million</i> | (21,105)           | (21,105)           |
| Non-controlling interests   | <i>LL million</i> | (26,321)           | (17,040)           |
| Net profit attributable to ordinary equity holders of the parent        | <i>LL million</i> | <u>561,997</u>     | <u>511,754</u>     |
| Weighted average number of ordinary shares for basic earnings per share |                   | <u>200,906,610</u> | <u>211,781,220</u> |
| Basic earnings per share  | <i>LL</i>         | <u>2,797</u>       | <u>2,416</u>       |

**17 EARNINGS PER SHARE (continued)**

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these consolidated financial statements.

**18 CASH AND BALANCES WITH CENTRAL BANKS**

|                                     | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|-------------------------------------|----------------------------------|----------------------------------|
| Cash on hand                        | 233,929                          | 218,933                          |
| Current accounts with Central Banks | 1,920,655                        | 1,890,196                        |
| Deposits with the Central Banks     | 12,141,864                       | 11,041,420                       |
|                                     | <u>14,296,448</u>                | <u>13,150,549</u>                |

Cash and balances with the Central Banks include non-interest bearing balances held by the Group at the Central Bank of Lebanon in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Lira as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments, after taking into account certain waivers relating to subsidized loans denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira. Accordingly, the obligatory reserve amounted to LL 560,635 million at 31 December 2015 (2014: LL 519,381 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements at the rate of 15% of total deposits in foreign currencies regardless of nature. These placements amounted to US\$ 1,955,994 thousands (equivalent to LL 2,949 billion) as at 31 December 2015 (2014: US\$ 1,885,681 thousands equivalent to LL 2,843 billion).

Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

**19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| <b>Current accounts</b>                                     |                                  |                                  |
| Current accounts  | 1,334,807                        | 1,151,982                        |
| <b>Time deposits</b>  |                                  |                                  |
| Time deposits   | 2,878,721                        | 3,423,006                        |
| Doubtful accounts with banks                                | 2,086                            | 2,078                            |
| Less: Impairment allowance for doubtful accounts with banks | (1,681)                          | (1,732)                          |
| Less: Unrealized interest for doubtful accounts with banks  | (405)                            | (346)                            |
|   | <u>2,878,721</u>                 | <u>3,423,006</u>                 |
|   | <u>4,213,528</u>                 | <u>4,574,988</u>                 |



**19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)**

Movement of impairment allowance and unrealized interest for doubtful accounts with banks is as follows:

|                                   | <b>2015</b><br><i>LL million</i> | <b>2014</b><br><i>LL million</i> |
|-----------------------------------|----------------------------------|----------------------------------|
| Balance at 1 January              | 2,078                            | 1,521                            |
| Charge for the year (note 13)     | -                                | 537                              |
| Provision for unrealized interest | 58                               | 58                               |
| Foreign exchange difference       | (50)                             | (38)                             |
| Balance at 31 December            | <u>2,086</u>                     | <u>2,078</u>                     |

**20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS**

|   | <b>2015</b><br><i>LL million</i> | <b>2014</b><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Loans to banks and financial institutions | 62,799                           | 94,599                           |
| Accrued interest receivable               | 577                              | 689                              |
| Balance at 31 December                    | <u>63,376</u>                    | <u>95,288</u>                    |

**21 DERIVATIVE FINANCIAL INSTRUMENTS**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of neither the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

The Group has positions in the following types of derivatives:

|  | <b>2015</b>                        |   |   | <b>2014</b>                        |   |   |
|--|------------------------------------|---|---|------------------------------------|---|---|
|  | <i>Assets</i><br><i>LL million</i> | <i>Liabilities</i><br><i>LL million</i> | <i>Total notional</i><br><i>amount</i><br><i>LL million</i> | <i>Assets</i><br><i>LL million</i> | <i>Liabilities</i><br><i>LL million</i> | <i>Total notional</i><br><i>amount</i><br><i>LL million</i> |
| <b>Derivatives held-for-trading</b>                  |                                    |   |   |                                    |   |   |
| Currency options                                     | 14,525                             | 14,525                                  | 118,173   | 68,489                             | 68,488                                  | 4,431,718   |
| Forward foreign exchange contracts                   | 12,281                             | 12,059                                  | 4,725,179   | 19,655                             | 17,492                                  | 3,941,200   |
| Futures on commodities                               | 7,964                              | 7,964                                   | 2,855,151   | 6,641                              | 6,641                                   | 503,240   |
|  | <u>34,770</u>                      | <u>34,548</u>                           | <u>7,698,503</u>  | <u>94,785</u>                      | <u>92,621</u>                           | <u>8,876,158</u>  |
| <b>Derivatives used as fair value hedges</b>         |                                    |   |   |                                    |   |   |
| Currency swaps                                       | 5,887                              | 6,256                                   | 715,857   | 9,302                              | -                                       | 623,252   |
| <b>Hedge of net investment in foreign operations</b> |                                    |   |   |                                    |   |   |
| Forward foreign exchange contracts                   | 62                                 | -                                       | 177,679   | 5,147                              | -                                       | 197,882   |
|  | <u>40,719</u>                      | <u>40,804</u>                           | <u>8,592,039</u>  | <u>109,234</u>                     | <u>92,621</u>                           | <u>9,697,292</u>  |

**21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)****Options**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or to sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

**Forwards and futures**

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

**Derivative financial instruments held-for-trading purposes**

Most of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. Also included under this heading are any derivatives entered into for hedging purposes which do not meet the IAS 39 hedge accounting criteria.

**Derivative financial instruments held for hedging purposes**

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks.

**Hedge of net investment in foreign operations**

Forward foreign exchange contracts (to sell Euros and buy US Dollars) designated as a hedge of the Group's net investment in its French subsidiary, and is being used to hedge the Group's investment exposure to foreign exchange risk on this investment amounting to Euro 107,904 thousand (2014: same). The notional amount of these contracts amounted to Euro 107,904 thousand (LL 177,679 million) as at 31 December 2015 (2014: LL 197,882 million). The forward foreign exchange contracts were revalued as of 31 December 2015 and resulted in unrealized gain of LL 62 million (2014: unrealized gain of LL 5,147 million). The contracts mature on 4 March 2016 at the latest.

**22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Equity instruments at fair value through profit or loss         | <b>162,506</b>                   | 153,233                          |
| Debt and other instruments at fair value through profit or loss | <b>432,763</b>                   | 639,347                          |
|   | <b>595,269</b>                   | 792,580                          |

Financial assets at fair value through profit or loss consist of the following:

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Quoted equity securities                         | <b>149,131</b>                   | 140,280                          |
| Unquoted equity securities                       | <b>13,375</b>                    | 12,953                           |
| Quoted government debt securities                | <b>85,139</b>                    | 2,294                            |
| Unquoted government debt securities              | <b>34,013</b>                    | 114,158                          |
| Quoted corporate debt securities                 | <b>143,963</b>                   | 434,836                          |
| Unquoted corporate debt securities               | <b>1,695</b>                     | 1,695                            |
| Funds  | <b>153,221</b>                   | 86,364                           |
| Unquoted certificates of deposit – Central Banks | <b>14,732</b>                    | -                                |
|  | <b>595,269</b>                   | 792,580                          |

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**23 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST**

|                                  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|----------------------------------|----------------------------------|----------------------------------|
| Commercial loans                 | 6,827,196                        | 6,700,829                        |
| Consumer loans (*)               | 4,444,358                        | 4,130,448                        |
|                                  | <u>11,271,554</u>                | <u>10,831,277</u>                |
| Less:                            |                                  |                                  |
| Individual impairment allowances | (236,106)                        | (244,916)                        |
| Collective impairment allowances | (125,158)                        | (127,331)                        |
| Unrealized interest              | (94,584)                         | (75,419)                         |
|                                  | <u>10,815,706</u>                | <u>10,383,611</u>                |

(\*) Included under consumer loans as at 31 December 2015, an amount of LL 2,512,790 million (31 December 2014: LL 2,308,230 million) representing housing loans.

Movement of unrealized interest on substandard, doubtful, and bad loans during the years ended 31 December was as follows:

|   | <i>2015</i><br><i>Commercial</i><br><i>loans</i><br><i>LL million</i> | <i>2014</i><br><i>Commercial</i><br><i>loans</i><br><i>LL million</i> |
|---|---|---|
| Balance at 1 January                        | 75,419  | 70,539  |
| Add:  |   |   |
| Unrealized interest for the year            | 35,217  | 47,148  |
| Foreign exchange difference                 | (2,487)   | (1,907)   |
|   | <u>108,149</u>  | <u>115,780</u>  |
| Less:                                       |   |   |
| Recoveries of unrealized interest (note 13) | (8,341)   | (7,025)   |
| Amounts written-off                         | (523)   | (7,521)   |
| Transferred to off-financial position       | (4,701)   | (25,815)  |
| Balance at 31 December                      | <u>94,584</u>   | <u>75,419</u>   |
| Unrealized interest on substandard loans    | <u>8,338</u>  | <u>13,302</u>   |
| Unrealized interest on doubtful loans       | <u>86,246</u>   | <u>62,117</u>   |
|   | <u>94,584</u>   | <u>75,419</u>   |

**23 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)**

A reconciliation of the allowance for impairment losses for loans and advances, by class, is as follows:

|  | 2015                              |                                 |                     | 2014                              |                                 |                     |
|--|-----------------------------------|---------------------------------|---------------------|-----------------------------------|---------------------------------|---------------------|
|  | Commercial<br>loans<br>LL million | Consumer<br>loans<br>LL million | Total<br>LL million | Commercial<br>loans<br>LL million | Consumer<br>loans<br>LL million | Total<br>LL million |
| Balance at 1 January   | 285,066                           | 87,181                          | 372,247             | 380,280                           | 83,373                          | 463,653             |
| Add:   |                                   |                                 |                     |                                   |                                 |                     |
| Charge for the year  | 34,172                            | 30,823                          | 64,995              | 94,333                            | 43,472                          | 137,805             |
| Foreign exchange difference  | (2,930)                           | (3,448)                         | (6,378)             | (9,934)                           | (2,621)                         | (12,555)            |
| Reclassification   | (312)                             | 312                             | -                   | 52                                | (52)                            | -                   |
|  | <u>315,996</u>                    | <u>114,868</u>                  | <u>430,864</u>      | <u>464,731</u>                    | <u>124,172</u>                  | <u>588,903</u>      |
| Less:  |                                   |                                 |                     |                                   |                                 |                     |
| Provisions written-off   | (836)                             | (1,645)                         | (2,481)             | (2,788)                           | (258)                           | (3,046)             |
| Write-back of provisions   | (15,429)                          | (7,615)                         | (23,044)            | (59,403)                          | (11,044)                        | (70,447)            |
| Provision transferred to off<br>financial position                   | (23,483)                          | (20,179)                        | (43,662)            | (117,474)                         | (25,689)                        | (143,163)           |
| Provision transferred to commitments<br>by signature (note 35 (iii)) | -                                 | (413)                           | (413)               | -                                 | -                               | -                   |
|  | <u>(39,748)</u>                   | <u>(29,852)</u>                 | <u>(69,600)</u>     | <u>(179,665)</u>                  | <u>(36,991)</u>                 | <u>(216,656)</u>    |
| Balance at 31 December   | <u>276,248</u>                    | <u>85,016</u>                   | <u>361,264</u>      | <u>285,066</u>                    | <u>87,181</u>                   | <u>372,247</u>      |
| Individual impairment  | 186,558                           | 49,548                          | 236,106             | 192,962                           | 51,954                          | 244,916             |
| Collective impairment  | 89,690                            | 35,468                          | 125,158             | 92,104                            | 35,227                          | 127,331             |
|  | <u>276,248</u>                    | <u>85,016</u>                   | <u>361,264</u>      | <u>285,066</u>                    | <u>87,181</u>                   | <u>372,247</u>      |
| Gross amount of loans individually<br>determined to be impaired      | <u>419,448</u>                    | <u>77,914</u>                   | <u>497,362</u>      | <u>406,507</u>                    | <u>75,758</u>                   | <u>482,265</u>      |

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 338,476 million as of 31 December 2015 (2014: LL 294,551 million).

The fair value of collateral that the Group holds relating to loans and advances to corporate customers individually determined to be impaired amounts to LL 324,057 million as of 31 December 2015 (LL 351,873 million as of 31 December 2014). The collateral consists of cash, securities, letters of guarantee and properties.

The movement of allowance for impairment losses and allowance for unrealized interest against fully impaired loans included in the off financial position accounts is as follows:

|   | 2015<br>LL million | 2014<br>LL million |
|---|--------------------|--------------------|
| Balance at 1 January  | 294,551            | 119,806            |
| Add:  |                    |                    |
| Unrealized interest for the year  | 16,762             | 9,797              |
| Provision and unrealized interest transferred from the statement of<br>financial position | 48,363             | 168,978            |
|   | <u>359,676</u>     | <u>298,581</u>     |
| Less:   |                    |                    |
| Provisions written-back (note 13)   | (4,593)            | (2,667)            |
| Amounts written-off   | (2,183)            | (40)               |
| Foreign exchange difference   | (14,424)           | (1,323)            |
|   | <u>(21,200)</u>    | <u>(4,030)</u>     |
| Balance at 31 December  | <u>338,476</u>     | <u>294,551</u>     |

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## 24 FINANCIAL ASSETS AT AMORTIZED COST

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| <b>Quoted:</b>  |                                  |                                  |
| Government debt securities  | 2,438,422                        | 2,438,324                        |
| Corporate debt securities   | 1,355,958                        | 971,315                          |
|   | <u>3,794,380</u>                 | <u>3,409,639</u>                 |
| <b>Unquoted:</b>  |                                  |                                  |
| Government debt securities  | 5,316,572                        | 5,690,727                        |
| Corporate debt securities   | 79,931                           | 83,926                           |
| Certificates of deposit – Central Banks                               | 3,246,187                        | 2,360,242                        |
| Certificates of deposit – Commercial banks and financial institutions | 389,309                          | 491,395                          |
|   | <u>9,031,999</u>                 | <u>8,626,290</u>                 |
|   | <u>12,826,379</u>                | <u>12,035,929</u>                |

The impairment allowance on financial assets classified at amortized cost at 31 December 2015 amounted to LL 608 million (31 December 2014: the same).

## 25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|                   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|-------------------|----------------------------------|----------------------------------|
| Equity securities | 2,991                            | 3,579                            |
| Funds             | 3,238                            | 3,726                            |
|                   | <u>6,229</u>                     | <u>7,305</u>                     |

The table below details the financial assets at fair value through other comprehensive income as at 31 December:

|                   | <i>2015</i>                               |   |   | <i>2014</i>                               |   |   |
|-------------------|---|---|---|---|---|---|
|                   | <i>Carrying<br/>amount<br/>LL million</i> | <i>Cumulative<br/>fair value<br/>changes<br/>LL million</i> | <i>Dividend<br/>income<br/>LL million</i> | <i>Carrying<br/>amount<br/>LL million</i> | <i>Cumulative<br/>fair value<br/>changes<br/>LL million</i> | <i>Dividend<br/>income<br/>LL million</i> |
| Equity securities | 2,991                                     | 108   | 1,126                                     | 3,579                                     | 18  | 1,407                                     |
| Funds             | 3,238                                     | 907   | 66  | 3,726                                     | 1,162   | 53  |
|                   | <u>6,229</u>                              | <u>1,015</u>  | <u>1,192</u>                              | <u>7,305</u>                              | <u>1,180</u>  | <u>1,460</u>                              |

Dividend income amounted to 1,192 million for the year ended 31 December 2015 (2014: LL 1,460 million) and resulted from equity instruments and funds held at year end (2014: same).

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## 26 PROPERTY AND EQUIPMENT

|   | <i>Freehold land<br/>and buildings<br/>LL million</i> | <i>Vehicles<br/>LL million</i> | <i>Furniture, office<br/>installations and<br/>computer<br/>equipment<br/>LL million</i> | <i>Advances on<br/>acquisition<br/>of fixed assets and<br/>construction<br/>in progress<br/>LL million</i> | <i>Total<br/>LL million</i> |
|---|---|--------------------------------|--|--|-----------------------------|
| <b>Cost</b>                                       |   |                                |  |  |                             |
| At 1 January 2015                                 | 435,179   | 6,994                          | 309,353  | 125,691  | 877,217                     |
| Additions   | 21,012  | 1,767                          | 15,710   | 49,556   | 88,045                      |
| Disposals   | -   | (1,600)                        | (3,413)  | -  | (5,013)                     |
| Transfers   | 58,223  | 136                            | 19,362   | (84,308)   | (6,587)                     |
| Translation difference                            | (18,361)  | (227)                          | (7,062)  | (5,920)  | (31,570)                    |
| <b>At 31 December 2015</b>                        | <b>496,053</b>  | <b>7,070</b>                   | <b>333,950</b>   | <b>85,019</b>  | <b>922,092</b>              |
| <b>Depreciation</b>                               |   |                                |  |  |                             |
| At 1 January 2015                                 | 68,391  | 3,634                          | 185,567  | -  | 257,592                     |
| Charge for the year                               | 9,402   | 1,271                          | 25,331   | -  | 36,004                      |
| Relating to disposals                             | -   | (1,551)                        | (2,933)  | -  | (4,484)                     |
| Translation difference                            | (3,775)   | (148)                          | (7,211)  | -  | (11,134)                    |
| <b>At 31 December 2015</b>                        | <b>74,018</b>   | <b>3,206</b>                   | <b>200,754</b>   | <b>-</b>   | <b>277,978</b>              |
| <b>Net carrying value<br/>At 31 December 2015</b> | <b>422,035</b>  | <b>3,864</b>                   | <b>133,196</b>   | <b>85,019</b>  | <b>644,114</b>              |
| <b>Cost</b>                                       |   |                                |  |  |                             |
|   | <i>Freehold land<br/>and buildings<br/>LL million</i> | <i>Vehicles<br/>LL million</i> | <i>Furniture, office<br/>installations and<br/>computer<br/>equipment<br/>LL million</i> | <i>Advances on<br/>acquisition<br/>of fixed assets and<br/>construction<br/>in progress<br/>LL million</i> | <i>Total<br/>LL million</i> |
| At 1 January 2014                                 | 402,099   | 6,164                          | 281,335  | 88,467   | 778,065                     |
| Additions   | 26,242  | 2,204                          | 23,557   | 94,172   | 146,175                     |
| Disposals   | (2,638)   | (1,387)                        | (7,439)  | -  | (11,464)                    |
| Transfers   | 20,295  | 118                            | 18,116   | (55,421)   | (16,892)                    |
| Translation difference                            | (10,819)  | (105)                          | (6,216)  | (1,527)  | (18,667)                    |
| <b>At 31 December 2014</b>                        | <b>435,179</b>  | <b>6,994</b>                   | <b>309,353</b>   | <b>125,691</b>   | <b>877,217</b>              |
| <b>Depreciation</b>                               |   |                                |  |  |                             |
| At 1 January 2014                                 | 62,476  | 4,048                          | 175,505  | -  | 242,029                     |
| Charge for the year                               | 8,759   | 1,049                          | 21,249   | -  | 31,057                      |
| Relating to disposals                             | (1,046)   | (1,385)                        | (6,276)  | -  | (8,707)                     |
| Translation difference                            | (1,798)   | (78)                           | (4,911)  | -  | (6,787)                     |
| <b>At 31 December 2014</b>                        | <b>68,391</b>   | <b>3,634</b>                   | <b>185,567</b>   | <b>-</b>   | <b>257,592</b>              |
| <b>Net carrying value<br/>At 31 December 2014</b> | <b>366,788</b>  | <b>3,360</b>                   | <b>123,786</b>   | <b>125,691</b>   | <b>619,625</b>              |

Certain freehold land and buildings purchased prior to 1 January 1999 were restated in previous years for the changes in the general purchasing power of the Lebanese Lira giving rise to a net surplus amounting to LL 14,727 million, which was credited to equity under "revaluation reserve of real estate".

27 INTANGIBLE ASSETS

|                        | <i>Software<br/>development<br/>LL million</i> | <i>Key money<br/>LL million</i> | <i>Advances on<br/>acquisition of<br/>intangible<br/>assets<br/>LL million</i> | <i>Total<br/>LL million</i> |
|------------------------|--|---------------------------------|--|-----------------------------|
| <b>Cost</b>            |  |                                 |  |                             |
| At 1 January 2015      | 15,222   | 4,339                           | 61   | 19,622                      |
| Additions              | 2,437  | -                               | 51   | 2,488                       |
| Disposals              | (2)  | -                               | -  | (2)                         |
| Transfers              | 3,953  | -                               | (55)   | 3,898                       |
| Translation difference | (515)  | (479)                           | (5)  | (999)                       |
| At 31 December 2015    | <u>21,095</u>                                  | <u>3,860</u>                    | <u>52</u>  | <u>25,007</u>               |
| <b>Amortization</b>    |  |                                 |  |                             |
| At 1 January 2015      | 13,367   | 3,765                           | -  | 17,132                      |
| Charge for the year    | 3,426  | 78                              | -  | 3,504                       |
| Relating to disposals  | (2)  | -                               | -  | (2)                         |
| Translation difference | (483)  | (334)                           | -  | (817)                       |
| At 31 December 2015    | <u>16,308</u>                                  | <u>3,509</u>                    | <u>-</u>   | <u>19,817</u>               |
| Net carrying value     |  |                                 |  |                             |
| At 31 December 2015    | <u><b>4,787</b></u>                            | <u><b>351</b></u>               | <u><b>52</b></u>   | <u><b>5,190</b></u>         |
| <b>Cost</b>            |  |                                 |  |                             |
| At 1 January 2014      | 14,467   | 4,849                           | 22   | 19,338                      |
| Additions              | 1,120  | -                               | 98   | 1,218                       |
| Transfers              | 190  | -                               | (56)   | 134                         |
| Translation difference | (555)  | (510)                           | (3)  | (1,068)                     |
| At 31 December 2014    | <u>15,222</u>                                  | <u>4,339</u>                    | <u>61</u>  | <u>19,622</u>               |
| <b>Amortization</b>    |  |                                 |  |                             |
| At 1 January 2014      | 12,360   | 4,037                           | -  | 16,397                      |
| Charge for the year    | 1,515  | 94                              | -  | 1,609                       |
| Translation difference | (508)  | (366)                           | -  | (874)                       |
| At 31 December 2014    | <u>13,367</u>                                  | <u>3,765</u>                    | <u>-</u>   | <u>17,132</u>               |
| Net carrying value     |  |                                 |  |                             |
| At 31 December 2014    | <u><b>1,855</b></u>                            | <u><b>574</b></u>               | <u><b>61</b></u>   | <u><b>2,490</b></u>         |

**28 ASSETS OBTAINED IN SETTLEMENT OF DEBT**

|                               | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|-------------------------------|----------------------------------|----------------------------------|
| <b>Cost</b>                   |                                  |                                  |
| At 1 January                  | 24,754                           | 26,630                           |
| Additions                     | 22,763                           | 2,631                            |
| Disposals                     | (3,903)                          | (3,854)                          |
| Transfers                     | 224                              | -                                |
| Write-back (note 12)          | 821                              | -                                |
| Translation difference        | (1,459)                          | (653)                            |
| At 31 December                | <u>43,200</u>                    | <u>24,754</u>                    |
| <b>Impairment</b>             |                                  |                                  |
| At 1 January                  | (4,865)                          | (3,116)                          |
| Charge for the year (note 15) | (297)                            | (1,749)                          |
| At 31 December                | <u>(5,162)</u>                   | <u>(4,865)</u>                   |
| <b>Net carrying value</b>     |                                  |                                  |
| At 31 December                | <u><u>38,038</u></u>             | <u><u>19,889</u></u>             |

**29 OTHER ASSETS**

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Reinsurer's share of technical reserves                  | 44,512                           | 43,206                           |
| Prepaid expenses   | 21,447                           | 19,942                           |
| Compulsory deposits (i)                                  | 12,463                           | 13,074                           |
| Sundry debtors (ii)                                      | 17,363                           | 21,311                           |
| Other revenues to be collected                           | 4,878                            | 4,432                            |
| Customers' transactions between head office and branches | 1,580                            | 6,336                            |
| Precious metals and stamps                               | 1,165                            | 1,181                            |
| Other assets   | 49,621                           | 44,745                           |
|  | <u>153,029</u>                   | <u>154,227</u>                   |

- (i) Compulsory deposits represent amounts deposited with local authorities based on local regulations of the countries in which the subsidiaries are located, and are detailed as follows:

|                               | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|-------------------------------|----------------------------------|----------------------------------|
| BLOMInvest Bank SAL           | 1,500                            | 1,500                            |
| Bank of Syria and Overseas SA | 6,240                            | 6,918                            |
| BLOM Development Bank SAL     | 4,500                            | 4,500                            |
| BLOM Bank France              | 169                              | 102                              |
| BLOM Securities               | 54                               | 54                               |
|                               | <u>12,463</u>                    | <u>13,074</u>                    |



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**29 OTHER ASSETS (continued)**

## (ii) Sundry debtors

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Sundry debtors                         | 18,773                           | 22,725                           |
| Less: Provision against sundry debtors | (1,410)                          | (1,414)                          |
|  | <u>17,363</u>                    | <u>21,311</u>                    |

The movement of provision against sundry debtors is summarized as follows:

|                                    | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|------------------------------------|----------------------------------|----------------------------------|
| Balance at 1 January               | 1,414                            | 1,685                            |
| Write-back of provisions (note 13) | -                                | (235)                            |
| Provision written-off              | (4)                              | (36)                             |
| Balance at 31 December             | <u>1,410</u>                     | <u>1,414</u>                     |

**30 GOODWILL**

|                        | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|------------------------|----------------------------------|----------------------------------|
| Cost:                  |                                  |                                  |
| At 1 January           | 52,214                           | 53,833                           |
| Translation difference | (4,338)                          | (1,619)                          |
| At 31 December         | <u>47,876</u>                    | <u>52,214</u>                    |

**Impairment testing of goodwill**

Goodwill acquired through business combinations has been allocated to groups of cash-generating units, which are also reportable segments, for impairment testing as follows:

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Corporate and retail banking (BLOM Bank Egypt SAE)                | 45,871                           | 50,233                           |
| Asset management and private banking (BLOM Bank (Switzerland) SA) | 1,236                            | 1,211                            |
| Financial Services (BLOM Securities)                              | 769                              | 770                              |
|   | <u>47,876</u>                    | <u>52,214</u>                    |

**Key assumptions used in value in use calculations**

The recoverable amount of BLOM Bank Egypt SAE has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management covering a ten-year period. The following rates are used by the Group:

**30 GOODWILL (continued)****Key assumptions used in value in use calculations (continued)**

|  | <b>2015</b> | <b>2014</b> |
|--|-------------|-------------|
|  | %           | %           |
| Discount rate  | <b>14</b>   | 15          |
| Projected growth rate (average during the first 5 years) | <b>5</b>    | 5           |
| Projected growth rate beyond the five year period        | <b>3</b>    | 3           |

The calculation of value in use for BLOM Bank Egypt SAE is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Projected growth rates;
- Gross domestic product of the country where the subsidiary operates; and
- Local inflation rates.

**Interest margins**

Interest margins are based on average values achieved in the 13 months proceeding of the budget period. These are increased over the budget period for anticipated market conditions.

**Discount rates**

Discount rates reflect management's estimate of return on capital employed. Discount rates are calculated by using the cost of equity.

**Projected growth rates, GDP and local inflation rates**

Assumptions are based on management analysis and published industry research.

**Sensitivity to changes in assumptions**

Management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of the units to exceed their recoverable amount.

**31 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS**

|                                     | <b>2015</b>       | <b>2014</b>       |
|-------------------------------------|-------------------|-------------------|
|                                     | <b>LL million</b> | <b>LL million</b> |
| Loan due to Central Bank of Lebanon | <b>442,381</b>    | 372,252           |
| Loan due to Central Bank of Jordan  | <b>13,172</b>     | 9,781             |
| Loan due to Central Bank of Egypt   | <b>626</b>        | -                 |
| Accrued interest payable            | <b>4,089</b>      | 2,862             |
| Balance at 31 December              | <b>460,268</b>    | 384,895           |

Following the Central Bank of Lebanon Intermediate Circulars No. 313, 318, and 382 and 408 issued on 14 January 2013, 28 February 2013, 10 December 2014 and 20 November 2015 respectively, the Central Bank of Lebanon offered the commercial banks facilities up to a ceiling of LL 1,500 billion to be granted to customers and with a time limit ending on 15 November 2016. Facilities obtained are subject to an interest rate of 1% per annum payable on a monthly basis with the first payment due on 2 January 2017. As of 31 December 2015, the Bank obtained facilities amounting to LL 442,381 million (31 December 2014: LL 372,252 million).

31 December 2015

**32 DUE TO BANKS AND FINANCIAL INSTITUTIONS**

|                  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|------------------|----------------------------------|----------------------------------|
| Current accounts | 259,013                          | 386,288                          |
| Time deposits    | 227,680                          | 255,013                          |
|                  | <u>486,693</u>                   | <u>641,301</u>                   |

**33 CUSTOMERS' DEPOSITS AT AMORTIZED COST**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| <b>Customers' deposits at amortized cost:</b>       |                                  |                                  |
| Sight deposits                                      | 5,411,603                        | 5,127,319                        |
| Time deposits                                       | 17,209,657                       | 16,703,605                       |
| Saving accounts                                     | 12,822,833                       | 12,162,748                       |
| Credit accounts and deposits against debit accounts | 2,137,000                        | 1,960,704                        |
| Margins on letters of credit                        | 42,684                           | 44,550                           |
|   | <u>37,623,777</u>                | <u>35,998,926</u>                |

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 67,077 million as of 31 December 2015 (2014: LL 66,563 million).

**34 OTHER LIABILITIES**

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Unearned premiums and liability related to insurance contracts | 302,210                          | 297,857                          |
| Sundry creditors   | 105,699                          | 213,311                          |
| Current tax liabilities  | 81,375                           | 75,654                           |
| Accrued expenses   | 58,903                           | 57,933                           |
| Transactions pending between branches                          | 90,810                           | 77,393                           |
| Complementary taxes due related to a subsidiary bank (i)       | 25,178                           | 27,222                           |
| Other taxes due  | 18,424                           | 17,064                           |
| Dividends payable  | 433                              | 331                              |
| Other liabilities  | 15,783                           | 5,731                            |
|  | <u>698,815</u>                   | <u>772,496</u>                   |

(i) Complementary taxes due related to BLOM Bank Egypt SAE represent mainly accruals for additional complementary taxes resulting from inspection by tax authorities.

31 December 2015

**35 PROVISIONS FOR RISKS AND CHARGES**

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Provision for risks and charges (i)  | 43,997                           | 26,290                           |
| Provision for outstanding claims and IBNR reserves related to subsidiary-insurance companies | 42,613                           | 40,150                           |
| Retirement benefits obligation (ii)  | 64,265                           | 65,930                           |
| Provision on commitment by signature (iii)   | 12,341                           | 13,853                           |
| Other provisions   | 1,134                            | 1,155                            |
|  | <u>164,350</u>                   | <u>147,378</u>                   |

**(i) Provision for risks and charges**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Balance at 1 January                              | 26,290                           | 25,871                           |
| Charge for the year (note 15)                     | 20,799                           | 8,751                            |
| Provisions paid during the year                   | (180)                            | (6,502)                          |
| Provisions written-back during the year (note 12) | (839)                            | (720)                            |
| Recoveries  | -                                | (6)                              |
| Exchange difference                               | (2,073)                          | (1,104)                          |
| Balance at 31 December                            | <u>43,997</u>                    | <u>26,290</u>                    |

**(ii) Retirement benefits obligation**

|                               | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|-------------------------------|----------------------------------|----------------------------------|
| Balance at 1 January          | 65,930                           | 58,700                           |
| Charge for the year (note 14) | 3,934                            | 10,800                           |
| Benefits paid                 | (4,682)                          | (3,548)                          |
| Exchange difference           | (917)                            | (22)                             |
| Balance at 31 December        | <u>64,265</u>                    | <u>65,930</u>                    |

**(iii) Provision on commitment by signature**

|  | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|--|----------------------------------|----------------------------------|
| Balance at 1 January   | 13,853                           | 10,985                           |
| Charge for the year (note 13)  | 918                              | 4,776                            |
| Provision transferred from collective impairment on retail loans (note 23) | 413                              | -                                |
| Provisions written-back during the year (note 13)                          | (4,605)                          | (537)                            |
| Provisions written-off   | (237)                            | -                                |
| Exchange difference  | 1,999                            | (1,371)                          |
| Balance at 31 December   | <u>12,341</u>                    | <u>13,853</u>                    |

**36 SHARE CAPITAL AND PREMIUMS**

|  | 2015                        |                             | 2014                        |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | Share capital<br>LL million | Share premium<br>LL million | Share capital<br>LL million | Share premium<br>LL million |
| <b>Common shares – Authorized, issued and fully paid</b><br>215,000,000 shares at LL 1,200 per share as of 31 December 2015<br>(31 December 2014: the same)                          | 258,000                     | 374,059                     | 258,000                     | 374,059                     |
| <b>Preferred shares – Authorized, issued and fully paid</b><br>20,000,000 preferred shares (2011 issue) at LL 1,200 per share as of 31 December 2015<br>(31 December 2014: the same) | 24,000                      | 277,500                     | 24,000                      | 277,500                     |

According to the provisions of Law no 308 dated 3 April 2001, the Extraordinary General Assembly Meeting of Shareholders held on 4 April 2011, resolved to issue preferred shares at the following conditions:

|   | 2011 issue  |
|---|---|
| Number of shares                            | 20,000,000  |
| Par value of issued shares (LL 1,200 share) | LL 24,000 million   |
| Premium (denominated in USD)                | LL 277,500 million<br>(USD 184,080 thousands)   |
| Non cumulative benefits                     | 2011 distributions to be based on a fixed amount of USD 0.7 per share (subject to the approval of the Shareholders' General Assembly Meeting and the availability of a non-consolidated distributable net income for the year). |

These preferred shares are redeemable 60 days after the annual general assembly dealing with the accounts for the year 2016 at the discretion of the Bank at the issue price.

All of the Bank's common and preferred shares are listed in the Beirut Stock Exchange starting 20 June 2008. Out of the total common shares, 73,896,010 shares are listed as Global Depository Receipts (GDRs) in the Luxembourg Stock Exchange.

**37 NON DISTRIBUTABLE RESERVES**

|  | Reserve for general banking risks<br>LL million | Legal reserve<br>LL million | Reserve for increase of share capital<br>LL million | Other reserves<br>LL million | Total<br>LL million |
|--|---|-----------------------------|---|------------------------------|---------------------|
| At 1 January 2014  | 305,446   | 387,768                     | 60,733  | 58,322                       | 812,269             |
| Appropriation of 2013 profits                              | 48,503  | 48,429                      | 7,996   | 48                           | 104,976             |
| Adjustments related to change in ownership in subsidiaries | -   | 1                           | -   | -                            | 1                   |
| Net gain on sale of treasury shares                        | -   | -                           | 4,971   | -                            | 4,971               |
| At 31 December 2014  | 353,949   | 436,198                     | 73,700  | 58,370                       | 922,217             |
| Appropriation of 2014 profits                              | 55,236  | 50,625                      | 18,675  | 5,415                        | 129,951             |
| Net gain on sale of treasury shares                        | -   | -                           | 10,167  | -                            | 10,167              |
| At 31 December 2015  | 409,185   | 486,823                     | 102,542   | 63,785                       | 1,062,335           |

**Reserve for general banking risks**

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

The appropriation in 2015 from the profits of the year 2014 amounted to LL 55,236 million (2014: LL 48,503 million).

**37 NON DISTRIBUTABLE RESERVES (continued)****Legal reserve**

According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2015, the Group appropriated LL 50,625 million from 2014 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2014: LL 48,429 million).

**Reserve for increase of share capital**

The balance amounting to LL 102,542 million (2014: LL 73,700 million) represents a regulatory reserve pursuant to circular no. 167, dated 24 January 1994, issued by the Banking Control Commission. This reserve cannot be distributed as dividends.

Details of the reserve for increase of share capital are as follows:

|   | <i>2015</i>       | <i>2014</i>       |
|---|-------------------|-------------------|
|   | <i>LL million</i> | <i>LL million</i> |
| Recoveries of provisions for doubtful debts | 68,616            | 49,941            |
| Revaluation reserves for fixed assets sold  | 668               | 668               |
| Gain on sale of treasury shares             | 33,156            | 22,989            |
| Transfer from other reserves                | 102               | 102               |
|   | <u>102,542</u>    | <u>73,700</u>     |

**Other reserves**

Other reserves consist mainly of reserves for retail loans for banks operating in Lebanon pursuant to BCC Circular no. 280 dated 2 January 2015, and of non-distributable reserves of subsidiaries appropriated from retained earnings as required by the regulators where the Group operates. During 2015, the Group transferred an amount of LL 5,415 million from retained earnings to other reserves (2014: LL 48 million).

**38 DISTRIBUTABLE RESERVES**

|                  | <i>2015</i>       | <i>2014</i>       |
|------------------|-------------------|-------------------|
|                  | <i>LL million</i> | <i>LL million</i> |
| General reserves | 514,515           | 488,109           |
|                  | <u>514,515</u>    | <u>488,109</u>    |

**General reserves**

The Group appropriates general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 514,515 million (2014: LL 488,109 million) is available for dividend distribution.

**39 TREASURY SHARES**

Movement of treasury shares recognized in the consolidated statement of financial position is as follows:

|                             | <i>2015</i>       |                   |
|-----------------------------|-------------------|-------------------|
|                             | <i>No. of</i>     | <i>Amount</i>     |
|                             | <i>common</i>     | <i>LL million</i> |
|                             | <i>shares</i>     |                   |
| At 1 January                | 12,639,504        | 165,020           |
| Purchase of treasury shares | 3,871,092         | 55,852            |
| Sale of treasury shares     | (2,879,110)       | (38,096)          |
| Premium on treasury shares  | -                 | (2,068)           |
| <b>At 31 December</b>       | <u>13,631,486</u> | <u>180,708</u>    |

31 December 2015

**39 TREASURY SHARES (continued)**

|                             | <i>2014</i>                         |                              |
|-----------------------------|-------------------------------------|------------------------------|
|                             | <i>No. of<br/>common<br/>shares</i> | <i>Amount<br/>LL million</i> |
| At 1 January                | 7,121,166                           | 87,199                       |
| Purchase of treasury shares | 9,816,619                           | 130,757                      |
| Sale of treasury shares     | (4,298,281)                         | (52,936)                     |
| <b>At 31 December</b>       | <b>12,639,504</b>                   | <b>165,020</b>               |

The treasury shares represent 4,200,133 Global Depository Receipts (GDR) and 9,431,353 ordinary shares owned by the Group as at 31 December 2015 (2014: 3,861,253 Global Depository Receipts (GDR) and 8,778,251 ordinary shares). The market value of one GDR and one ordinary share were USD 9.75 and USD 9.4 respectively as of 31 December 2015 (2014: USD 9.8 and USD 8.8 respectively).

The Group realized a gain of LL 10,167 million from the sale of treasury shares during the year 2015 (2014: gain of LL 4,971 million). Gains and losses are reflected in the "Non distributable reserves".

**40 RETAINED EARNINGS**

As of 31 December, retained earnings include the following non distributable amounts:

|   | <i>2015<br/>LL million</i> | <i>2014<br/>LL million</i> |
|---|----------------------------|----------------------------|
| Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank | 34,940                     | 37,900                     |
| Unrealized gain on financial assets at fair value through profit or loss                              | 72,176                     | 68,820                     |
|   | <b>107,116</b>             | <b>106,720</b>             |

In accordance with decision 362 of the Council of Money and Credit of Syria, unrealized accumulated foreign exchange profits from the revaluation of the structural position in foreign currency maintained by the subsidiary bank in Syria are non-distributable. These are classified as non-distributable amounts in retained earnings after the closing of each financial year ending 31 December, upon transfer of the profit for the period to retained earnings.

**41 REVALUATION RESERVE OF REAL ESTATE**

|   | <i>2015<br/>LL million</i> | <i>2014<br/>LL million</i> |
|---|----------------------------|----------------------------|
| Revaluation reserve accepted in Tier II capital | 14,727                     | 14,727                     |

**42 CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

|  | <i>2015<br/>LL million</i> | <i>2014<br/>LL million</i> |
|--|----------------------------|----------------------------|
| At 1 January                               | 498                        | -                          |
| Net changes in fair values during the year | (165)                      | 498                        |
| Balance at 31 December                     | <b>333</b>                 | <b>498</b>                 |

**43 CASH AND CASH EQUIVALENTS**

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| Cash and balances with central banks  | 2,960,762                        | 2,652,992                        |
| Deposits with banks and financial institutions (whose original maturities are less than 3 months) | 2,503,682                        | 3,763,424                        |
|   | <u>5,464,444</u>                 | <u>6,416,416</u>                 |
| Less:   |                                  |                                  |
| Due to central banks  | (13,350)                         | (23,563)                         |
| Repurchase agreements   | (626)                            | -                                |
| Due to banks and financial institutions (whose original maturities are less than 3 months)        | (375,855)                        | (521,258)                        |
|   | <u>5,074,613</u>                 | <u>5,871,595</u>                 |

**44 DIVIDENDS DECLARED AND PAID**

According to the resolution of the General Assembly meeting held on 15 April 2015, the following dividends were declared and paid, from the 2014 profits.

|  | <i>2015</i>             |                                      |                             |
|--|-------------------------|--------------------------------------|-----------------------------|
|  | <i>Number of shares</i> | <i>Dividends per share<br/>in LL</i> | <i>Total<br/>LL million</i> |
| Dividends on preferred shares – 2011 issue | 20,000,000              | 1,055.25                             | 21,105                      |
| Dividends on common shares                 | 210,373,123             | 1,000                                | 210,373                     |
|  |                         |                                      | <u>231,478</u>              |

The dividends on common shares, declared on 15 April 2015, were paid net of the treasury shares as of that date.

According to the resolution of the General Assembly meeting held on 9 April 2014, the following dividends were declared and paid, from the 2013 profits.

|  | <i>2014</i>             |                                      |                             |
|--|-------------------------|--------------------------------------|-----------------------------|
|  | <i>Number of shares</i> | <i>Dividends per share<br/>in LL</i> | <i>Total<br/>LL million</i> |
| Dividends on preferred shares – 2011 issue | 20,000,000              | 1,055.25                             | 21,105                      |
| Dividends on common shares                 | 210,033,222             | 750                                  | 157,525                     |
|  |                         |                                      | <u>178,630</u>              |

The dividends on common shares, declared on 9 April 2014, were paid net of the treasury shares as of that date.



**45 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group's principal subsidiaries is shown in note 4. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's financial statements.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Group's Statement of Financial Position are as follows as of 31 December:

**31 December 2015:**

|                        | <u>Key management<br/>personnel</u> | <u>Other related<br/>parties</u> | <u>Total</u>                   |
|------------------------|-------------------------------------|----------------------------------|--------------------------------|
|                        | <u>Outstanding<br/>balance</u>      | <u>Outstanding<br/>balance</u>   | <u>Outstanding<br/>balance</u> |
|                        | <u>LL million</u>                   | <u>LL million</u>                | <u>LL million</u>              |
| Deposits               | 186,368                             | 14,237                           | 200,605                        |
| Net loans and advances | 14,373                              | 17,843                           | 32,216                         |
| Guarantees given       | 4,170                               | 55                               | 4,225                          |

**31 December 2014:**

|                        | <u>Key management<br/>personnel</u> | <u>Other related<br/>parties</u> | <u>Total</u>                   |
|------------------------|-------------------------------------|----------------------------------|--------------------------------|
|                        | <u>Outstanding<br/>balance</u>      | <u>Outstanding<br/>balance</u>   | <u>Outstanding<br/>balance</u> |
|                        | <u>LL million</u>                   | <u>LL million</u>                | <u>LL million</u>              |
| Deposits               | 172,880                             | 17,033                           | 189,913                        |
| Net loans and advances | 13,934                              | 18,745                           | 32,679                         |
| Guarantees given       | 6,254                               | 55                               | 6,309                          |

Related party transactions included in the Group's Income Statement are as follows for the year ended 31 December:

|   | <u>2015</u>                         |                                  |                   |
|---|-------------------------------------|----------------------------------|-------------------|
|   | <u>Key management<br/>personnel</u> | <u>Other related<br/>parties</u> | <u>Total</u>      |
|   | <u>LL million</u>                   | <u>LL million</u>                | <u>LL million</u> |
| Interest paid on deposits                     | 8,624                               | 846                              | 9,470             |
| Interest received from net loans and advances | 425                                 | 582                              | 1,007             |
| Accounting services' revenues                 | -                                   | -                                | -                 |
|   | <u>2014</u>                         |                                  |                   |
|   | <u>Key management<br/>personnel</u> | <u>Other related<br/>parties</u> | <u>Total</u>      |
|   | <u>LL million</u>                   | <u>LL million</u>                | <u>LL million</u> |
| Interest paid on deposits                     | 8,463                               | 892                              | 9,355             |
| Interest received from net loans and advances | 494                                 | 618                              | 1,112             |
| Accounting services' revenues                 | -                                   | 19                               | 19                |

**45 RELATED PARTY TRANSACTIONS (continued)****Key Management Personnel**

Total remuneration awarded to key management personnel represents the awards made to individuals that have been approved by the Board Remuneration Committee as part of the latest pay round decisions. Figures are provided for the period that individuals met the definition of key management personnel.

|  | 2015<br>LL million | 2014<br>LL million |
|--|--------------------|--------------------|
| Short-term benefits                            | 49,059             | 44,742             |
| Post-employment benefits (charge for the year) | 1,239              | 1,687              |

*Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other benefits.*

**46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS****Credit – related commitments and contingent liabilities**

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

|                             | 2015                |                         |                     |
|-----------------------------|---------------------|-------------------------|---------------------|
|                             | Banks<br>LL million | Customers<br>LL million | Total<br>LL million |
| Guarantees issued           | 33,805              | 806,659                 | 840,464             |
| <b>Commitments</b>          |                     |                         |                     |
| Documentary credits         | 182,850             | -                       | 182,850             |
| Loan commitments            | -                   | 2,182,976               | 2,182,976           |
| <i>Of which revocable</i>   | -                   | 1,770,736               | 1,770,736           |
| <i>Of which irrevocable</i> | -                   | 412,240                 | 412,240             |
| Other commitments           | 3,526,828           | 43,174                  | 3,570,002           |
|                             | <u>3,743,483</u>    | <u>3,032,809</u>        | <u>6,776,292</u>    |
|                             |                     |                         |                     |
|                             | 2014                |                         |                     |
|                             | Banks<br>LL million | Customers<br>LL million | Total<br>LL million |
| Guarantees issued           | 36,001              | 767,816                 | 803,817             |
| <b>Commitments</b>          |                     |                         |                     |
| Documentary credits         | 176,528             | -                       | 176,528             |
| Loan commitments            | -                   | 1,809,236               | 1,809,236           |
| <i>Of which revocable</i>   | -                   | 1,528,209               | 1,528,209           |
| <i>Of which irrevocable</i> | -                   | 281,027                 | 281,027             |
| Other commitments           | 1,092,802           | 50,352                  | 1,143,154           |
|                             | <u>1,305,331</u>    | <u>2,627,404</u>        | <u>3,932,735</u>    |

*Guarantees issued*

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantee contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees.

**46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS  
(continued)**

**Credit – related commitments and contingent liabilities (continued)**

*Documentary credits*

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

*Loan commitments*

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Revocable loan commitments are those commitments that can be cancelled at any time (without giving a reason) subject to notice requirements according to their general terms and conditions. Irrevocable loan commitments result from arrangements where the Group has no right to withdraw the loan commitment once communicated to the beneficiary.

**Legal claims**

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

**Capital and operating lease commitments**

Capital expenditures and lease payments that were not provided for as of the consolidated statement of financial position date are as follows:

|   | <i>2015</i><br><i>LL million</i> | <i>2014</i><br><i>LL million</i> |
|---|----------------------------------|----------------------------------|
| <b>Capital commitments</b>  |                                  |                                  |
| Property and equipment  | <b>62,727</b>                    | <b>32,787</b>                    |
|   | <hr/>                            | <hr/>                            |
| <b>Operating lease commitments – Group as lessee</b>  |                                  |                                  |
| Future minimum lease payments under operating leases:   |                                  |                                  |
| During one year   | <b>2,109</b>                     | 2,116                            |
| More than 1 year and less than five years   | <b>5,539</b>                     | 7,465                            |
| More than five years  | <b>3,817</b>                     | 5,330                            |
|   | <hr/>                            | <hr/>                            |
| <b>Total operating lease commitments at the consolidated statement of financial position date</b> | <b>11,465</b>                    | <b>14,911</b>                    |
|   | <hr/>                            | <hr/>                            |

**Other commitments and contingencies**

The Bank's books in Lebanon have not been reviewed by the tax authorities for the period from 1 January 2012 to 31 December 2015. The ultimate outcome of any review by the tax authorities on the Bank's books for these years cannot be presently determined.

The Bank's books in Lebanon were reviewed by the National Social Security Fund (NSSF) for the period from 1 March 1998 to 31 October 2014 inclusive. The outcome of this review resulted in additional contributions and penalties amounting to LL 227 million that were settled in 2014. The Bank's books in Lebanon remain subject to the review by the National Social Security Fund (NSSF) for the period from 1 November 2014 to 31 December 2015.

In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions were recorded against possible review results to the extent that they can be reliably estimated.

**47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION**

|  | <i>2015</i>       | <i>2014</i>       |
|--|-------------------|-------------------|
|  | <i>LL million</i> | <i>LL million</i> |
| <b>Assets held in custody and under administration</b> | <b>10,128,324</b> | <b>10,787,376</b> |

The Group provides safekeeping and servicing activities on behalf of clients, in addition to various support functions including the valuation of portfolios of securities and other financial assets, which complements the custody business.

**48 FAIR VALUE OF THE FINANCIAL INSTRUMENTS**

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

Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

**Quoted market prices – Level 1**

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

**Valuation technique using observable inputs – Level 2**

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

**Valuation technique using significant unobservable inputs – Level 3**

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

**48 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)**

Fair value measurement hierarchy of the Group's financial assets and liabilities carried at fair value:

|  | <i>2015</i>                   |                               |                               |                             |
|--|-------------------------------|-------------------------------|-------------------------------|-----------------------------|
|  | <i>Valuation techniques</i>   |                               |                               | <i>Total<br/>LL million</i> |
|  | <i>Level 1<br/>LL million</i> | <i>Level 2<br/>LL million</i> | <i>Level 3<br/>LL million</i> |                             |
| <b>Financial assets:</b>   |                               |                               |                               |                             |
| Derivative financial instruments:                                  |                               |                               |                               |                             |
| Currency options   | -                             | 20,412                        | -                             | 20,412                      |
| Forward foreign exchange contracts                                 | -                             | 12,281                        | -                             | 12,281                      |
| Futures on commodities   | -                             | 7,964                         | -                             | 7,964                       |
| Forward foreign exchange contracts used for hedging purposes       | -                             | 62                            | -                             | 62                          |
| Financial assets at fair value through profit or loss:             |                               |                               |                               |                             |
| Quoted equity securities   | 149,131                       | -                             | -                             | 149,131                     |
| Unquoted equity securities   | -                             | 13,375                        | -                             | 13,375                      |
| Quoted government debt securities                                  | 85,139                        | -                             | -                             | 85,139                      |
| Unquoted government debt securities                                | -                             | 34,013                        | -                             | 34,013                      |
| Quoted corporate debt securities                                   | 143,963                       | -                             | -                             | 143,963                     |
| Unquoted corporate debt securities                                 | -                             | 1,695                         | -                             | 1,695                       |
| Funds  | -                             | 153,221                       | -                             | 153,221                     |
| Unquoted certificates of deposit – Central Banks                   | -                             | 14,732                        | -                             | 14,732                      |
| Financial assets at fair value through other comprehensive income: |                               |                               |                               |                             |
| Unquoted equity securities   | -                             | 2,991                         | -                             | 2,991                       |
| Funds  | -                             | 3,238                         | -                             | 3,238                       |
| <b>Financial liabilities:</b>                                      |                               |                               |                               |                             |
| Derivative financial instruments:                                  |                               |                               |                               |                             |
| Currency options   | -                             | 20,781                        | -                             | 20,781                      |
| Forward foreign exchange contracts                                 | -                             | 12,059                        | -                             | 12,059                      |
| Futures on commodities   | -                             | 7,964                         | -                             | 7,964                       |
|  |                               |                               |                               |                             |
|  | <i>2014</i>                   |                               |                               |                             |
|  | <i>Valuation techniques</i>   |                               |                               |                             |
|  | <i>Level 1<br/>LL million</i> | <i>Level 2<br/>LL million</i> | <i>Level 3<br/>LL million</i> | <i>Total<br/>LL million</i> |
| <b>Financial assets:</b>   |                               |                               |                               |                             |
| Derivative financial instruments:                                  |                               |                               |                               |                             |
| Currency options   | -                             | 77,791                        | -                             | 77,791                      |
| Forward foreign exchange contracts                                 | -                             | 19,655                        | -                             | 19,655                      |
| Futures on commodities   | -                             | 6,641                         | -                             | 6,641                       |
| Forward foreign exchange contracts used for hedging purposes       | -                             | 5,147                         | -                             | 5,147                       |
| Financial assets at fair value through profit or loss:             |                               |                               |                               |                             |
| Unquoted equity securities   | -                             | 12,953                        | -                             | 12,953                      |
| Quoted equity securities   | 140,280                       | -                             | -                             | 140,280                     |
| Unquoted government debt securities                                | -                             | 114,158                       | -                             | 114,158                     |
| Quoted government debt securities                                  | 2,294                         | -                             | -                             | 2,294                       |
| Unquoted corporate debt securities                                 | -                             | 1,695                         | -                             | 1,695                       |
| Quoted corporate debt securities                                   | 434,836                       | -                             | -                             | 434,836                     |
| Funds  | -                             | 86,364                        | -                             | 86,364                      |
| Financial assets at fair value through other comprehensive income: |                               |                               |                               |                             |
| Unquoted equity securities   | -                             | 3,579                         | -                             | 3,579                       |
| Funds  | -                             | 3,726                         | -                             | 3,726                       |
| <b>Financial liabilities:</b>                                      |                               |                               |                               |                             |
| Derivative financial instruments:                                  |                               |                               |                               |                             |
| Currency options   | -                             | 68,488                        | -                             | 68,488                      |
| Forward foreign exchange contracts                                 | -                             | 17,492                        | -                             | 17,492                      |
| Futures on commodities   | -                             | 6,641                         | -                             | 6,641                       |

There were no transfers between levels during 2015 (2014: the same).

**48 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)****Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2)****Derivatives**

Derivative products are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

**Government bonds, certificates of deposit and other debt securities**

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

**Comparison of carrying and fair values for financial assets and liabilities not held at fair value:**

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

The fair value of financial instruments that are carried at amortized cost is as follows:

|  | 2015                            |                             | 2014                            |                             |
|--|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
|  | Carrying<br>value<br>LL million | Fair<br>value<br>LL million | Carrying<br>value<br>LL million | Fair<br>value<br>LL million |
| <b>Financial assets</b>  |                                 |                             |                                 |                             |
| Cash and balances with central banks   | 14,296,448                      | 14,663,485                  | 13,150,549                      | 13,848,010                  |
| Due from banks and financial institutions                                    | 4,213,528                       | 4,213,168                   | 4,574,988                       | 4,574,785                   |
| Loans to banks and financial institutions                                    | 63,376                          | 66,929                      | 95,288                          | 100,939                     |
| Net loans and advances to customers at amortized cost                        | 10,815,706                      | 10,865,978                  | 10,383,611                      | 10,427,398                  |
| Net loans and advances to related parties at amortized cost                  | 32,216                          | 32,505                      | 32,679                          | 32,904                      |
| Debtors by acceptances   | 88,854                          | 88,854                      | 141,170                         | 141,170                     |
| Financial assets at amortized cost   | 12,826,379                      | 13,099,552                  | 12,035,929                      | 12,301,799                  |
| <i>Government debt securities</i>  | 7,754,994                       | 7,872,033                   | 8,129,051                       | 8,272,801                   |
| <i>Certificates of deposit – Central Banks</i>                               | 3,246,187                       | 3,382,991                   | 2,360,242                       | 2,435,310                   |
| <i>Corporate debt securities</i>   | 1,435,889                       | 1,459,238                   | 1,055,241                       | 1,104,109                   |
| <i>Certificates of deposit – Commercial banks and financial institutions</i> | 389,309                         | 385,290                     | 491,395                         | 489,579                     |
| <b>Financial liabilities</b>   |                                 |                             |                                 |                             |
| Due to central banks   | 459,642                         | 299,202                     | 384,895                         | 252,836                     |
| Repurchase agreements  | 626                             | 626                         | -                               | -                           |
| Due to banks and financial institutions                                      | 486,693                         | 486,681                     | 641,301                         | 641,303                     |
| Customers' deposits at amortized cost  | 37,623,777                      | 37,697,509                  | 35,998,926                      | 36,068,165                  |
| Deposits from related parties at amortized cost                              | 200,605                         | 200,915                     | 189,913                         | 191,128                     |
| Engagements by acceptances   | 88,854                          | 88,854                      | 141,170                         | 141,170                     |

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

For financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), the Group assumed that the carrying values approximate the fair values. This assumption is also applied to demand deposits which have no specific maturity and financial instruments with variable rates.

## 48 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

**Deposits with banks and loans and advances to banks**

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

**Government bonds, certificates of deposit and other debt securities**

The Group values these unquoted debt securities using discounted cash flow valuation models where the lowest level input that is significant to the entire measurement is observable in an active market. These inputs include assumptions regarding current rates of interest and credit spreads.

**Loans and advances to customers**

For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during 2015 with similar remaining maturities and to counterparties with similar credit quality.

**Deposits from banks and customers**

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

|   | <i>2015</i>                 |                   |                   |                   |
|---|-----------------------------|-------------------|-------------------|-------------------|
|   | <i>Valuation techniques</i> |                   |                   |                   |
|   | <i>Level 1</i>              | <i>Level 2</i>    | <i>Level 3</i>    | <i>Total</i>      |
|   | <i>LL million</i>           | <i>LL million</i> | <i>LL million</i> | <i>LL million</i> |
| <b>Assets for which fair values are disclosed:</b>                    |                             |                   |                   |                   |
| Cash and balances with central banks                                  | 233,929                     | 14,429,556        | -                 | 14,663,485        |
| Due from banks and financial institutions                             | -                           | 4,213,168         | -                 | 4,213,168         |
| Loans to banks and financial institutions                             | -                           | 66,929            | -                 | 66,929            |
| Net loans and advances to customers at amortized cost                 | -                           | -                 | 10,865,978        | 10,865,978        |
| Net loans and advances to related parties at amortized cost           | -                           | -                 | 32,505            | 32,505            |
| Financial assets at amortized cost:                                   |                             |                   |                   |                   |
| Government debt securities  | 2,439,680                   | 5,432,353         | -                 | 7,872,033         |
| Certificates of deposit - Central Banks                               | -                           | 3,382,991         | -                 | 3,382,991         |
| Corporate debt securities   | 1,379,255                   | 79,983            | -                 | 1,459,238         |
| Certificates of deposit - Commercial banks and financial institutions | -                           | 385,290           | -                 | 385,290           |
| <b>Liabilities for which fair values are disclosed:</b>               |                             |                   |                   |                   |
| Due to central banks  | -                           | 299,202           | -                 | 299,202           |
| Repurchase Agreements   | -                           | 626               | -                 | 626               |
| Due to banks and financial institutions                               | -                           | 486,681           | -                 | 486,681           |
| Customers' deposits at amortized cost                                 | -                           | 37,697,509        | -                 | 37,697,509        |
| Deposits from related parties at amortized cost                       | -                           | 200,915           | -                 | 200,915           |
|   |                             |                   |                   |                   |
|   | <i>2014</i>                 |                   |                   |                   |
|   | <i>Valuation techniques</i> |                   |                   |                   |
|   | <i>Level 1</i>              | <i>Level 2</i>    | <i>Level 3</i>    | <i>Total</i>      |
|   | <i>LL million</i>           | <i>LL million</i> | <i>LL million</i> | <i>LL million</i> |
| <b>Assets for which fair values are disclosed:</b>                    |                             |                   |                   |                   |
| Cash and balances with central banks                                  | 218,933                     | 13,629,077        | -                 | 13,848,010        |
| Due from banks and financial institutions                             | -                           | 4,574,785         | -                 | 4,574,785         |
| Loans to banks and financial institutions                             | -                           | 100,939           | -                 | 100,939           |
| Net loans and advances to customers at amortized cost                 | -                           | -                 | 10,427,398        | 10,427,398        |
| Net loans and advances to related parties at amortized cost           | -                           | -                 | 32,904            | 32,904            |
| Financial assets at amortized cost:                                   |                             |                   |                   |                   |
| Government debt securities  | 2,489,210                   | 5,783,591         | -                 | 8,272,801         |
| Certificates of deposit - Central Banks                               | -                           | 2,435,310         | -                 | 2,435,310         |
| Corporate debt securities   | 1,020,209                   | 83,900            | -                 | 1,104,109         |
| Certificates of deposit - Commercial banks and financial institutions | -                           | 489,579           | -                 | 489,579           |
| <b>Liabilities for which fair values are disclosed:</b>               |                             |                   |                   |                   |
| Due to central banks  | -                           | 252,836           | -                 | 252,836           |
| Due to banks and financial institutions                               | -                           | 641,303           | -                 | 641,303           |
| Customers' deposits at amortized cost                                 | -                           | 36,068,165        | -                 | 36,068,165        |
| Deposits from related parties at amortized cost                       | -                           | 191,128           | -                 | 191,128           |

**49 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

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

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

|   | <i>2015</i>                              |  |                             |
|---|--|--|-----------------------------|
|   | <i>Less than one year<br/>LL million</i> | <i>More than one year<br/>LL million</i> | <i>Total<br/>LL million</i> |
| <b>ASSETS</b>   |  |  |                             |
| Cash and balances with central banks                              | 3,721,035                                | 10,575,413                               | 14,296,448                  |
| Due from banks and financial institutions                         | 4,168,775                                | 44,753                                   | 4,213,528                   |
| Loans to banks and financial institutions                         | 14,209                                   | 49,167                                   | 63,376                      |
| Derivative financial instruments                                  | 40,719                                   | -  | 40,719                      |
| Financial assets at fair value through profit or loss             | 115,418                                  | 479,851                                  | 595,269                     |
| Net loans and advances to customers at amortized cost             | 7,847,951                                | 2,967,755                                | 10,815,706                  |
| Net loans and advances to related parties at amortized cost       | 18,718                                   | 13,498                                   | 32,216                      |
| Debtors by acceptances  | 88,449                                   | 405                                      | 88,854                      |
| Financial assets at amortized cost                                | 2,923,962                                | 9,902,417                                | 12,826,379                  |
| Financial assets at fair value through other comprehensive income | -  | 6,229                                    | 6,229                       |
| Property and equipment  | -  | 644,114                                  | 644,114                     |
| Intangible assets   | -  | 5,190                                    | 5,190                       |
| Assets obtained in settlement of debt                             | -  | 38,038                                   | 38,038                      |
| Other assets  | 130,906                                  | 22,123                                   | 153,029                     |
| Goodwill  | -  | 47,876                                   | 47,876                      |
| <b>TOTAL ASSETS</b>   | <b>19,070,142</b>                        | <b>24,796,829</b>                        | <b>43,866,971</b>           |
| <b>LIABILITIES</b>  |  |  |                             |
| Due to central banks  | 44,775                                   | 414,867                                  | 459,642                     |
| Repurchase Agreements   | 626                                      | -  | 626                         |
| Due to banks and financial institutions                           | 486,693                                  | -  | 486,693                     |
| Derivative financial instruments                                  | 40,804                                   | -  | 40,804                      |
| Customers' deposits at amortized cost                             | 36,804,372                               | 819,405                                  | 37,623,777                  |
| Deposits from related parties at amortized cost                   | 200,520                                  | 85                                       | 200,605                     |
| Engagements by acceptances  | 88,449                                   | 405                                      | 88,854                      |
| Other liabilities   | 593,752                                  | 105,063                                  | 698,815                     |
| Provisions for risks and charges                                  | 84,357                                   | 79,993                                   | 164,350                     |
| <b>TOTAL LIABILITIES</b>  | <b>38,344,348</b>                        | <b>1,419,818</b>                         | <b>39,764,166</b>           |
| <b>NET</b>  | <b>(19,274,206)</b>                      | <b>23,377,011</b>                        | <b>4,102,805</b>            |
|   |  |  |                             |
|   | <i>2014</i>                              |  |                             |
|   | <i>Less than one year<br/>LL million</i> | <i>More than one year<br/>LL million</i> | <i>Total<br/>LL million</i> |
| <b>ASSETS</b>   |  |  |                             |
| Cash and balances with central banks                              | 3,041,097                                | 10,109,452                               | 13,150,549                  |
| Due from banks and financial institutions                         | 4,527,287                                | 47,701                                   | 4,574,988                   |
| Loans to banks and financial institutions                         | 52,516                                   | 42,772                                   | 95,288                      |
| Derivative financial instruments                                  | 109,234                                  | -  | 109,234                     |
| Financial assets at fair value through profit or loss             | 200,393                                  | 592,187                                  | 792,580                     |
| Net loans and advances to customers at amortized cost             | 7,910,541                                | 2,473,070                                | 10,383,611                  |
| Net loans and advances to related parties at amortized cost       | 23,220                                   | 9,459                                    | 32,679                      |
| Debtors by acceptances  | 137,662                                  | 3,508                                    | 141,170                     |
| Financial assets at amortized cost                                | 2,041,590                                | 9,994,339                                | 12,035,929                  |
| Financial assets at fair value through other comprehensive income | -  | 7,305                                    | 7,305                       |
| Property and equipment  | -  | 619,625                                  | 619,625                     |
| Intangible assets   | -  | 2,490                                    | 2,490                       |
| Assets obtained in settlement of debt                             | -  | 19,889                                   | 19,889                      |
| Other assets  | 125,077                                  | 29,150                                   | 154,227                     |
| Goodwill  | -  | 52,214                                   | 52,214                      |
| <b>TOTAL ASSETS</b>   | <b>18,168,617</b>                        | <b>24,003,161</b>                        | <b>42,171,778</b>           |
| <b>LIABILITIES</b>  |  |  |                             |
| Due to central banks  | 38,021                                   | 346,874                                  | 384,895                     |
| Due to banks and financial institutions                           | 641,301                                  | -  | 641,301                     |
| Derivative financial instruments                                  | 92,621                                   | -  | 92,621                      |
| Customers' deposits at amortized cost                             | 35,367,742                               | 631,184                                  | 35,998,926                  |
| Deposits from related parties at amortized cost                   | 189,913                                  | -  | 189,913                     |
| Engagements by acceptances  | 137,662                                  | 3,508                                    | 141,170                     |
| Other liabilities   | 663,085                                  | 109,411                                  | 772,496                     |
| Provisions for risks and charges                                  | 70,817                                   | 76,561                                   | 147,378                     |
| <b>TOTAL LIABILITIES</b>  | <b>37,201,162</b>                        | <b>1,167,538</b>                         | <b>38,368,700</b>           |
| <b>NET</b>  | <b>(19,032,545)</b>                      | <b>22,835,623</b>                        | <b>3,803,078</b>            |



**50 RISK MANAGEMENT**

The Group manages its business activities within risk management guidelines as set by the Group's "Risk Management Policy" approved by the Board of Directors. The Group recognizes the role of the Board of Directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the Board of Directors as does the establishing of the Group's risk appetite and tolerance levels. The Board of Directors delegates through its Risk Management Committee the day-to-day responsibility for establishment and monitoring of risk management process across the Group to the Chief Risk Officer, who is directly appointed by the Board of Directors, in coordination with executive management at BLOM Bank SAL.

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

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

The Chief Risk Officer undertakes his responsibilities through the "Risk Management Division" in Beirut which also acts as Group Risk Management, overseeing and monitoring risk management activities throughout the Group. The Chief Risk Officer is responsible for establishing the function of Risk Management and its employees across the Group.

BLOM Bank's Group Risk Management aids executive management in monitoring, controlling and actively managing and mitigating the Group's overall risk. The Division mainly ensures that:

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

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

In addition to the Group's Risk Management in Lebanon, risk managers and / or risk officers were assigned within the Group's foreign subsidiaries or branches to report to the Group Risk Management and executive senior management in a manner that ensures:

- Standardization of risk management functions and systems developed across the Group.
- Regional consistency of conducted business in line with the Board's approved risk appetite.

The major objective of risk management is the implementation of sound risk management practices and the Basel II and Basel III frameworks as well as all related regulatory requirements within the Group. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of pillar I have been initiated. Group Risk Management is progressively complying with the requirements of pillars II and III and is periodically updating and submitting the Internal Capital Adequacy Assessment Process (ICAAP) for BLOM Bank on an individual and consolidated basis. The Group has documented a Board approved Disclosure Policy taking into account the requirements of pillar III of the Basel framework.

**Excessive risk concentration**

Concentrations arise when the Group has significant exposure to one borrower or a group of related borrowers or to a number of counter parties engaging in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance developments affecting a particular industry or geographic location.

**50 RISK MANAGEMENT (continued)**

**Excessive risk concentration (continued)**

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Group applies stress testing on its concentrations in order to assess their effect on the Group financial standing and capital adequacy in a stressed situation.

**50-1 Credit risk**

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

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

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

The debt securities included in investments are mainly sovereign risk and standard grade securities. For details of the composition of the net loans and advances refer to note 23. Information on credit risk relating to derivative instruments is provided in note 21 and for commitments and contingencies in note 46. The information on the Group's net maximum exposure by economic sectors is given in note (A) below.

The Group's Risk Management is designed to identify and to set appropriate risk limits and to monitor the risk adherence to limits. Actual exposures against limits are monitored daily, monthly and periodically. Group Risk Management is responsible for monitoring the risk profile of the Group's loan portfolio by producing internal reports highlighting any exposure of concern in corporate, commercial and consumer lending. The Group examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Group monitors non-performing loans and takes the required provisions for these loans.

The Group in the ordinary course of lending activities holds collaterals and guarantees as security to mitigate credit risk in the net loans and advances. Collaterals and guarantees are continuously monitored and revaluated. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the Recovery Unit in the Group dynamically manages and takes remedial actions for non-performing loans.

The Group applies the BDL risk rating classifications in addition to an internal rating system for its Corporate and Small and Medium Enterprises (SMEs) that provides a rating at client level and at transaction level. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. The BDL classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "1" and "2" and special mention – watch list: risk rating "3"), one grade relates to substandard loans (risk rating "4") and two grades relate to non-performing loans (risk ratings "5" and "6"). Credit cards, personal loans, car loans, housing loans and other retail loans are classified as regular as they are performing and have timely repayment with no past dues; except for those loans that have unsettled payments due for more than 90 days. The associated loss estimate norms for each grade have been calculated based on the Group's historical default rates for each rating. These risk ratings are reviewed on a regular basis.

Introduction of the Moody's Risk Analyst credit analysis and internal ratings system in the domestic market has provided the Group with an additional tool to enhance risk measurement and assessment of the corporate and commercial loan portfolios. This system was extended to all group entities.

**50 RISK MANAGEMENT (continued)****50-1 Credit risk (continued)**

At the same time, implementation of consumer loan application scorecards will aid significantly in meeting Basel II requirements for the retail portfolio as well as making available new quality management resources.

Non-performing loans are closely monitored and well provisioned as required with remedial actions taken and managed proactively by a dedicated Recovery Unit. In line with Basel II, the Group considers payments that are past due for more than 90 days as being non-performing.

**A- Analysis of risk concentration**

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

|  | <i>2015</i>                          |   |                                   |
|--|--------------------------------------|---|-----------------------------------|
|  | <i>Domestic</i><br><i>LL million</i> | <i>International</i><br><i>LL million</i> | <i>Total</i><br><i>LL million</i> |
| <b>Financial assets</b>  |                                      |   |                                   |
| Balances with central banks  | 12,254,032                           | 1,808,487                                 | 14,062,519                        |
| Due from banks and financial institutions                                      | 553,753                              | 3,659,775                                 | 4,213,528                         |
| Loans to banks and financial institutions                                      | 34,681                               | 28,695                                    | 63,376                            |
| Derivative financial instruments   | 14,587                               | 26,132                                    | 40,719                            |
| Financial assets at fair value through profit or loss                          | 207,186                              | 388,083                                   | 595,269                           |
| - <i>Government debt securities</i>  | 104,577                              | 14,575                                    | 119,152                           |
| - <i>Corporate debt securities</i>   | -                                    | 145,658                                   | 145,658                           |
| - <i>Certificates of deposit- Central Banks</i>                                | 14,732                               | -   | 14,732                            |
| - <i>Funds</i>   | 71,869                               | 81,352                                    | 153,221                           |
| - <i>Shares</i>  | 16,008                               | 146,498                                   | 162,506                           |
| Net loans and advances to customers at amortized cost                          | 7,410,818                            | 3,404,888                                 | 10,815,706                        |
| - <i>Commercial loans</i>  | 4,051,343                            | 2,405,022                                 | 6,456,365                         |
| - <i>Consumer loans</i>  | 3,359,475                            | 999,866                                   | 4,359,341                         |
| Net loans and advances to related parties at amortized cost                    | 20,813                               | 11,403                                    | 32,216                            |
| Debtors by acceptances   | 67,232                               | 21,622                                    | 88,854                            |
| Financial assets at amortized cost   | 9,320,640                            | 3,505,739                                 | 12,826,379                        |
| - <i>Government debt securities</i>  | 5,670,456                            | 2,084,538                                 | 7,754,994                         |
| - <i>Corporate debt securities</i>   | 37,730                               | 1,398,159                                 | 1,435,889                         |
| - <i>Certificates of deposit – Central Banks</i>                               | 3,246,187                            | -   | 3,246,187                         |
| - <i>Certificates of deposit – Commercial banks and financial institutions</i> | 366,267                              | 23,042                                    | 389,309                           |
| Financial assets at fair value through other comprehensive income              | -                                    | 6,229                                     | 6,229                             |
| <b>Total credit exposure</b>   | <b>29,883,742</b>                    | <b>12,861,053</b>                         | <b>42,744,795</b>                 |

50 RISK MANAGEMENT (continued)

50-1 Credit risk (continued)

A- Analysis of risk concentration (continued)

|   | 2014                   |                             |                     |
|---|------------------------|-----------------------------|---------------------|
|   | Domestic<br>LL million | International<br>LL million | Total<br>LL million |
| <b>Financial assets</b>   |                        |                             |                     |
| Balances with central banks   | 11,439,788             | 1,491,828                   | 12,931,616          |
| Due from banks and financial institutions                               | 569,115                | 4,005,873                   | 4,574,988           |
| Loans to banks and financial institutions                               | 43,258                 | 52,030                      | 95,288              |
| Derivative financial instruments  | 75,574                 | 33,660                      | 109,234             |
| Financial assets at fair value through profit or loss                   | 54,536                 | 738,044                     | 792,580             |
| - Government debt securities  | 26,200                 | 90,252                      | 116,452             |
| - Corporate debt securities   | -                      | 436,531                     | 436,531             |
| - Funds   | 12,677                 | 73,687                      | 86,364              |
| - Shares  | 15,659                 | 137,574                     | 153,233             |
| Net loans and advances to customers at amortized cost                   | 7,134,499              | 3,249,112                   | 10,383,611          |
| - Commercial loans  | 4,015,652              | 2,324,692                   | 6,340,344           |
| - Consumer loans  | 3,118,847              | 924,420                     | 4,043,267           |
| Net loans and advances to related parties at amortized cost             | 22,351                 | 10,328                      | 32,679              |
| Debtors by acceptances  | 102,312                | 38,858                      | 141,170             |
| Financial assets at amortized cost                                      | 8,927,448              | 3,108,481                   | 12,035,929          |
| - Government debt securities  | 6,163,703              | 1,965,348                   | 8,129,051           |
| - Corporate debt securities   | 37,730                 | 1,017,511                   | 1,055,241           |
| - Certificates of deposit – Central Banks                               | 2,360,242              | -                           | 2,360,242           |
| - Certificates of deposit – Commercial banks and financial institutions | 365,773                | 125,622                     | 491,395             |
| Financial assets at fair value through other comprehensive income       | -                      | 7,305                       | 7,305               |
| <b>Total credit exposure</b>  | <b>28,368,881</b>      | <b>12,735,519</b>           | <b>41,104,400</b>   |

**Analysis to maximum exposure to credit risk and collateral and other credit enhancements**

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

|   | 2015                              |                    |                          |  |                           |                     | Net credit<br>exposure<br>LL million |
|---|-----------------------------------|--------------------|--------------------------|--|---------------------------|---------------------|--------------------------------------|
|   | Maximum<br>exposure<br>LL million | Cash<br>LL million | Securities<br>LL million | Letters of<br>credit /<br>guarantees<br>LL million | Real estate<br>LL million | Other<br>LL million |                                      |
| Balances with central banks   | 14,062,519                        | -                  | -                        | -  | -                         | -                   | 14,062,519                           |
| Due from banks and financial institutions                                   | 4,213,528                         | -                  | 4,000                    | -  | -                         | -                   | 4,209,528                            |
| Loans to banks and financial institutions                                   | 63,376                            | -                  | -                        | -  | -                         | -                   | 63,376                               |
| Derivative financial instruments  | 40,719                            | -                  | -                        | -  | -                         | -                   | 40,719                               |
| Financial assets at fair value through profit or loss                       | 595,269                           | -                  | -                        | -  | -                         | -                   | 595,269                              |
| Net loans and advances to customers at amortized cost:                      | 10,815,706                        | 1,627,506          | 166,888                  | 90,675   | 4,693,600                 | 2,429,113           | 1,807,924                            |
| Commercial loans  | 6,456,363                         | 1,537,539          | 166,888                  | 90,675   | 2,103,317                 | 1,092,527           | 1,465,419                            |
| Consumer loans  | 4,359,341                         | 89,967             | -                        | -  | 2,590,283                 | 1,336,586           | 342,505                              |
|   | 29,791,117                        | 1,627,506          | 170,888                  | 90,675   | 4,693,600                 | 2,429,113           | 20,779,335                           |
| Net loans and advances to related parties at amortized cost                 | 32,216                            | 6,711              | -                        | -  | 14,721                    | 95                  | 10,689                               |
| Debtors by acceptances  | 88,854                            | -                  | -                        | -  | -                         | -                   | 88,854                               |
| Financial assets at amortized cost  | 12,826,379                        | -                  | -                        | -  | -                         | -                   | 12,826,379                           |
|   | 42,738,566                        | 1,634,217          | 170,888                  | 90,675   | 4,708,321                 | 2,429,208           | 33,705,257                           |
| <b>Guarantees received from banks, financial institutions and customers</b> |                                   |                    |                          |  |                           |                     |                                      |
| Utilized collateral   |                                   | 1,634,217          | 170,888                  | 90,675   | 4,708,321                 | 2,429,208           | 9,033,309                            |
| Surplus of collateral before undrawn credit lines                           |                                   | 621,995            | 917,675                  | 26,831   | 2,887,422                 | 5,489,596           | 9,943,519                            |
|   |                                   | 2,256,212          | 1,088,563                | 117,506  | 7,595,743                 | 7,918,804           | 18,976,828                           |

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 2,182,976 million as at 31 December 2015.

**50 RISK MANAGEMENT (continued)****50-1 Credit risk (continued)****A- Analysis of risk concentration (continued)****Analysis to maximum exposure to credit risk and collateral and other credit enhancements (continued)**

|  | 2014                           |                    |                          |   |                           |                     | Net credit exposure<br>LL million |
|--|--------------------------------|--------------------|--------------------------|---|---------------------------|---------------------|-----------------------------------|
|  | Maximum exposure<br>LL million | Cash<br>LL million | Securities<br>LL million | Letters of credit<br>guarantees<br>LL million | Real estate<br>LL million | Other<br>LL million |                                   |
| Balances with central banks  | 12,931,616                     | -                  | -                        | -   | -                         | -                   | 12,931,616                        |
| Due from banks and financial institutions                            | 4,574,988                      | -                  | 75,000                   | -   | -                         | -                   | 4,499,988                         |
| Loans to banks and financial institutions                            | 95,288                         | -                  | -                        | -   | 43,258                    | -                   | 52,030                            |
| Derivative financial instruments                                     | 109,234                        | -                  | -                        | -   | -                         | -                   | 109,234                           |
| Financial assets at fair value through profit or loss                | 792,580                        | -                  | -                        | -   | -                         | -                   | 792,580                           |
| Net loans and advances to customers at amortized cost:               | 10,383,611                     | 1,480,287          | 165,417                  | 98,083  | 3,834,530                 | 2,434,916           | 2,370,378                         |
| Commercial loans   | 6,340,344                      | 1,421,382          | 165,417                  | 98,083  | 2,012,761                 | 1,028,644           | 1,614,057                         |
| Consumer loans   | 4,043,267                      | 58,905             | -                        | -   | 1,821,769                 | 1,406,272           | 756,321                           |
|  | <u>28,887,317</u>              | <u>1,480,287</u>   | <u>240,417</u>           | <u>98,083</u>                                 | <u>3,877,788</u>          | <u>2,434,916</u>    | <u>20,755,826</u>                 |
| Net loans and advances to related parties at amortized cost:         | 32,679                         | 6,042              | -                        | -   | 14,772                    | 74                  | 11,791                            |
| Debtors by acceptances   | 141,170                        | -                  | -                        | -   | -                         | -                   | 141,170                           |
| Financial assets at amortized cost                                   | 12,035,929                     | -                  | -                        | -   | -                         | -                   | 12,035,929                        |
|  | <u>41,097,095</u>              | <u>1,486,329</u>   | <u>240,417</u>           | <u>98,083</u>                                 | <u>3,892,560</u>          | <u>2,434,990</u>    | <u>32,944,716</u>                 |
| Guarantees received from banks, financial institutions and customers |                                |                    |                          |   |                           |                     |                                   |
| Utilized collateral  |                                | 1,486,329          | 240,417                  | 98,083  | 3,892,560                 | 2,434,990           | 8,152,379                         |
| Surplus of collateral before undrawn credit lines                    |                                | 530,623            | 954,249                  | 404   | 3,006,868                 | 5,237,345           | 9,729,489                         |
|  |                                | <u>2,016,952</u>   | <u>1,194,666</u>         | <u>98,487</u>                                 | <u>6,899,428</u>          | <u>7,672,335</u>    | <u>17,881,868</u>                 |

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 1,809,236 million as at 31 December 2014.

**Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

*Securities:*

The balances shown above represent the fair value of the securities and are net of any surplus collateral.

*Letters of credit / guarantees:*

The Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group and are net of any surplus collateral.

*Real estate (commercial and residential):*

The Group holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount and are net of any surplus collateral.

*Other:*

The Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues. The balances shown above represent the notional amount of these types of guarantees held by the Group and are net of any surplus collateral.

50 RISK MANAGEMENT (continued)

50-1 Credit risk (continued)

**B- Credit quality by class of financial assets**

The credit quality of financial assets is managed by the Group using external credit ratings. The credit quality of loans and advances is managed using the internal credit ratings as well as Supervisory ratings in accordance with Central Bank of Lebanon main circular 58.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's credit rating system. The amounts presented are gross of impairment allowances.

|   | 2015                                   |  |  |                         |                           |                   |
|---|--|--|--|-------------------------|---------------------------|-------------------|
|   | Sovereign                              | Non-sovereign                          |  |                         |                           |                   |
|   | Neither past due nor impaired          | Neither past due nor impaired          | Past due but not impaired              | Individually impaired   |                           | Total LL million  |
|   | Regular and special mention LL million | Regular and special mention LL million | Regular and special mention LL million | Sub-standard LL million | Non performing LL million |                   |
| Balances with central banks   | 14,062,519                             | -                                      | -                                      | -                       | -                         | 14,062,519        |
| Due from banks and financial institutions                               | -                                      | 4,213,528                              | -                                      | -                       | 2,086                     | 4,215,614         |
| Loans to banks and financial institutions                               | -                                      | 63,376                                 | -                                      | -                       | -                         | 63,376            |
| Derivative financial instruments  | -                                      | 40,719                                 | -                                      | -                       | -                         | 40,719            |
| Financial assets at fair value through profit or loss                   | 133,884                                | 298,879                                | -                                      | -                       | -                         | 432,763           |
| - Government debt securities  | 119,152                                | -                                      | -                                      | -                       | -                         | 119,152           |
| - Corporate debt securities   | -                                      | 145,658                                | -                                      | -                       | -                         | 145,658           |
| - Funds   | -                                      | 153,221                                | -                                      | -                       | -                         | 153,221           |
| - Certificates of deposit - Central Banks                               | 14,732                                 | -                                      | -                                      | -                       | -                         | 14,732            |
| Net loans and advances to customers at amortized cost                   | -                                      | 10,343,649                             | 371,096                                | 59,447                  | 497,362                   | 11,271,554        |
| - Commercial loans  | -                                      | 6,214,346                              | 142,970                                | 50,432                  | 419,448                   | 6,827,196         |
| - Consumer loans  | -                                      | 4,129,303                              | 228,126                                | 9,015                   | 77,914                    | 4,444,358         |
| Net loans and advances to related parties at amortized cost             | -                                      | 32,216                                 | -                                      | -                       | -                         | 32,216            |
| Financial assets at amortized cost                                      | 11,001,181                             | 1,825,198                              | -                                      | -                       | -                         | 12,826,379        |
| - Government debt securities  | 7,754,994                              | -                                      | -                                      | -                       | -                         | 7,754,994         |
| - Corporate debt securities   | -                                      | 1,435,889                              | -                                      | -                       | -                         | 1,435,889         |
| - Certificates of deposit - Central Banks                               | 3,246,187                              | -                                      | -                                      | -                       | -                         | 3,246,187         |
| - Certificates of deposit - Commercial banks and financial institutions | -                                      | 389,309                                | -                                      | -                       | -                         | 389,309           |
| <b>Total</b>  | <b>25,197,584</b>                      | <b>16,817,565</b>                      | <b>371,096</b>                         | <b>59,447</b>           | <b>499,448</b>            | <b>42,945,140</b> |

|   | 2014                                   |  |  |                         |                           |                   |
|---|--|--|--|-------------------------|---------------------------|-------------------|
|   | Sovereign                              | Non-sovereign                          |  |                         |                           |                   |
|   | Neither past due nor impaired          | Neither past due nor impaired          | Past due but not impaired              | Individually impaired   |                           | Total LL million  |
|   | Regular and special mention LL million | Regular and special mention LL million | Regular and special mention LL million | Sub-standard LL million | Non performing LL million |                   |
| Balances with central banks   | 12,931,616                             | -                                      | -                                      | -                       | -                         | 12,931,616        |
| Due from banks and financial institutions                               | -                                      | 4,574,988                              | -                                      | -                       | 2,078                     | 4,577,066         |
| Loans to banks and financial institutions                               | -                                      | 95,288                                 | -                                      | -                       | -                         | 95,288            |
| Derivative financial instruments  | -                                      | 109,234                                | -                                      | -                       | -                         | 109,234           |
| Financial assets at fair value through profit or loss                   | 116,452                                | 522,895                                | -                                      | -                       | -                         | 639,347           |
| - Government debt securities  | 116,452                                | -                                      | -                                      | -                       | -                         | 116,452           |
| - Corporate debt securities   | -                                      | 436,531                                | -                                      | -                       | -                         | 436,531           |
| - Funds   | -                                      | 86,364                                 | -                                      | -                       | -                         | 86,364            |
| Net loans and advances to customers at amortized cost                   | -                                      | 9,892,130                              | 355,271                                | 101,611                 | 482,265                   | 10,831,277        |
| - Commercial loans  | -                                      | 6,033,749                              | 168,110                                | 92,463                  | 406,507                   | 6,700,829         |
| - Consumer loans  | -                                      | 3,858,381                              | 187,161                                | 9,148                   | 75,758                    | 4,130,448         |
| Net loans and advances to related parties at amortized cost             | -                                      | 32,679                                 | -                                      | -                       | -                         | 32,679            |
| Financial assets at amortized cost                                      | 10,489,293                             | 1,546,636                              | -                                      | -                       | -                         | 12,035,929        |
| - Government debt securities  | 8,129,051                              | -                                      | -                                      | -                       | -                         | 8,129,051         |
| - Corporate debt securities   | -                                      | 1,055,241                              | -                                      | -                       | -                         | 1,055,241         |
| - Certificates of deposit - Central Banks                               | 2,360,242                              | -                                      | -                                      | -                       | -                         | 2,360,242         |
| - Certificates of deposit - Commercial banks and financial institutions | -                                      | 491,395                                | -                                      | -                       | -                         | 491,395           |
| <b>Total</b>  | <b>23,537,361</b>                      | <b>16,773,850</b>                      | <b>355,271</b>                         | <b>101,611</b>          | <b>484,343</b>            | <b>41,252,436</b> |

**50 RISK MANAGEMENT (continued)**

**50-1 Credit risk (continued)**

**C- Aging analysis of past due but not impaired financial assets, by class**

|                  | <i>2015</i>                                 |                                     |   |   |                             |
|------------------|---|-------------------------------------|---|---|-----------------------------|
|                  | <i>Less than<br/>30 days<br/>LL million</i> | <i>30 to 60 days<br/>LL million</i> | <i>61 to 90<br/>days<br/>LL million</i> | <i>More than<br/>90 days<br/>LL million</i> | <i>Total<br/>LL million</i> |
| Commercial loans | 91,693                                      | 15,613                              | 17,851                                  | 17,813                                      | 142,970                     |
| Consumer loans   | 135,213                                     | 64,176                              | 19,010                                  | 9,727                                       | 228,126                     |
|                  | <u>226,906</u>                              | <u>79,789</u>                       | <u>36,861</u>                           | <u>27,540</u>                               | <u>371,096</u>              |
|                  | <i>2014</i>                                 |                                     |   |   |                             |
|                  | <i>Less than<br/>30 days<br/>LL million</i> | <i>30 to 60 days<br/>LL million</i> | <i>61 to 90<br/>days<br/>LL million</i> | <i>More than<br/>90 days<br/>LL million</i> | <i>Total<br/>LL million</i> |
| Commercial loans | 101,280                                     | 7,326                               | 27,896                                  | 31,608                                      | 168,110                     |
| Consumer loans   | 118,180                                     | 51,963                              | 16,529                                  | 489   | 187,161                     |
|                  | <u>219,460</u>                              | <u>59,289</u>                       | <u>44,425</u>                           | <u>32,097</u>                               | <u>355,271</u>              |

See note 23 for more detailed information with respect to the allowance for impairment losses on net loans and advances to customers.

**Renegotiated loans**

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

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

|                  | <i>2015<br/>LL million</i> | <i>2014<br/>LL million</i> |
|------------------|----------------------------|----------------------------|
| Commercial loans | <u>169,863</u>             | <u>79,125</u>              |

**50-2 Liquidity risk and funding management**

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

**50 RISK MANAGEMENT (continued)**

**50-2 Liquidity risk and funding management (continued)**

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

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

*Regulatory ratios and limits*

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

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio, the core funding ratio and the liquidity tolerance level of the Group, also referred to as Liquidity Coverage Ratio.

| Liquidity ratios        | 2015   | 2014   |
|-------------------------|--------|--------|
| Loans to deposit ratios | %      | %      |
| Year-end                | 28.68% | 28.78% |
| Maximum                 | 28.71% | 29.38% |
| Minimum                 | 27.98% | 28.30% |
| Average                 | 28.43% | 28.81% |

**50-2-1 Analysis of financial assets and liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Group's financial assets and liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately. Concerning deposits, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

|   | 31 December 2015               |                                     |                                 |                               |                               | Total<br>LL million |
|---|--------------------------------|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|---------------------|
|   | Up to<br>1 month<br>LL million | Less than<br>3 months<br>LL million | 3 to 12<br>months<br>LL million | 1 to 5<br>years<br>LL million | Over 5<br>years<br>LL million |                     |
| <b>Financial assets</b>   |                                |                                     |                                 |                               |                               |                     |
| Cash and balances with central banks                              | 2,939,697                      | 688,441                             | 710,823                         | 5,642,530                     | 9,209,041                     | 19,190,532          |
| Due from banks and financial institutions                         | 2,786,810                      | 615,312                             | 770,718                         | 44,753                        | -                             | 4,217,593           |
| Loans to banks and financial institutions                         | 416                            | 517                                 | 15,413                          | 54,593                        | -                             | 70,939              |
| Derivative financial instruments                                  | 28,696                         | 7,773                               | 4,250                           | -                             | -                             | 40,719              |
| Financial assets at fair value through profit or loss             | 8,364                          | 109,393                             | 7,994                           | 173,424                       | 391,516                       | 690,691             |
| Net loans and advances to customers at amortized cost             | 3,291,612                      | 1,349,142                           | 3,556,373                       | 2,694,388                     | 936,737                       | 11,828,252          |
| Net loans and advances to related parties at amortized cost       | 18,629                         | 376                                 | 1,539                           | 9,946                         | 7,307                         | 37,797              |
| Debtors by acceptances  | 31,566                         | 54,001                              | 2,882                           | -                             | 405                           | 88,854              |
| Financial assets at amortized cost                                | 298,640                        | 524,393                             | 2,952,300                       | 7,182,240                     | 6,114,602                     | 17,072,175          |
| Financial assets at fair value through other comprehensive income | -                              | -                                   | -                               | -                             | 6,229                         | 6,229               |
| <b>Total undiscounted financial assets</b>                        | <b>9,404,430</b>               | <b>3,349,348</b>                    | <b>8,022,292</b>                | <b>15,801,874</b>             | <b>16,665,837</b>             | <b>53,243,781</b>   |
| <b>Financial liabilities</b>                                      |                                |                                     |                                 |                               |                               |                     |
| Due to central banks  | 9,585                          | 17,980                              | 21,131                          | 160,071                       | 271,496                       | 480,263             |
| Repurchase Agreements   | -                              | 626                                 | -                               | -                             | -                             | 626                 |
| Due to banks and financial institutions                           | 391,548                        | 46,343                              | 51,030                          | -                             | -                             | 488,921             |
| Derivative financial instruments                                  | 26,377                         | 9,142                               | 5,285                           | -                             | -                             | 40,804              |
| Customers' deposits at amortized cost                             | 26,307,472                     | 6,491,298                           | 4,206,354                       | 878,236                       | 55,046                        | 37,938,406          |
| Deposits from related parties at amortized cost                   | 180,314                        | 327                                 | 20,718                          | 87                            | -                             | 201,446             |
| Engagements by acceptances  | 31,566                         | 54,001                              | 2,882                           | -                             | 405                           | 88,854              |
| <b>Total undiscounted financial liabilities</b>                   | <b>26,946,862</b>              | <b>6,619,717</b>                    | <b>4,307,400</b>                | <b>1,038,394</b>              | <b>326,947</b>                | <b>39,239,320</b>   |
| <b>Net undiscounted financial assets / (liabilities)</b>          | <b>(17,542,432)</b>            | <b>(3,270,369)</b>                  | <b>3,714,892</b>                | <b>14,763,480</b>             | <b>16,338,890</b>             | <b>14,004,461</b>   |



**50 RISK MANAGEMENT (continued)**

**50-2 Liquidity risk and funding management (continued)**

**50-2-1 Analysis of financial assets and liabilities by remaining contractual maturities (continued)**

|   | 31 December 2014               |                                     |                                 |                               |                               | Total<br>LL million |
|---|--------------------------------|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|---------------------|
|   | Up to<br>1 month<br>LL million | Less than<br>3 months<br>LL million | 3 to 12<br>months<br>LL million | 1 to 5<br>years<br>LL million | Over 5<br>years<br>LL million |                     |
| <b>Financial assets</b>   |                                |                                     |                                 |                               |                               |                     |
| Cash and balances with central banks                              | 2,755,302                      | 323,637                             | 517,292                         | 6,003,596                     | 7,595,382                     | 17,195,209          |
| Due from banks and financial institutions                         | 3,485,255                      | 577,979                             | 465,819                         | 47,701                        | -                             | 4,576,754           |
| Loans to banks and financial institutions                         | 484                            | 641                                 | 53,666                          | 30,910                        | 18,295                        | 103,996             |
| Derivative financial instruments                                  | 43,961                         | 63,899                              | 1,374                           | -                             | -                             | 109,234             |
| Financial assets at fair value through profit or loss             | 4,350                          | 20,432                              | 188,027                         | 436,372                       | 166,111                       | 815,292             |
| Net loans and advances to customers at amortized cost             | 3,309,369                      | 1,407,776                           | 3,504,980                       | 2,222,343                     | 775,110                       | 11,219,578          |
| Net loans and advances to related parties at amortized cost       | 23,393                         | 391                                 | 1,674                           | 5,158                         | 7,566                         | 38,182              |
| Debtors by acceptances  | 50,407                         | 82,962                              | 4,294                           | 3,379                         | 128                           | 141,170             |
| Financial assets at amortized cost                                | 344,198                        | 543,531                             | 1,946,406                       | 7,698,250                     | 5,311,854                     | 15,844,239          |
| Financial assets at fair value through other comprehensive income | -                              | -                                   | -                               | -                             | 7,305                         | 7,305               |
| <b>Total undiscounted financial assets</b>                        | <b>10,016,719</b>              | <b>3,021,248</b>                    | <b>6,683,532</b>                | <b>16,447,709</b>             | <b>13,881,751</b>             | <b>50,050,959</b>   |
| <b>Financial liabilities</b>                                      |                                |                                     |                                 |                               |                               |                     |
| Due to central banks  | 10,923                         | 13,473                              | 16,850                          | 137,103                       | 223,962                       | 402,311             |
| Due to banks and financial institutions                           | 597,080                        | 27,728                              | 16,731                          | -                             | -                             | 641,539             |
| Derivative financial instruments                                  | 34,778                         | 56,469                              | 1,374                           | -                             | -                             | 92,621              |
| Customers' deposits at amortized cost                             | 26,464,554                     | 5,671,844                           | 3,396,652                       | 660,160                       | 45,359                        | 36,238,569          |
| Deposits from related parties at amortized cost                   | 35,093                         | 141,751                             | 14,673                          | -                             | -                             | 191,517             |
| Engagements by acceptances  | 50,407                         | 82,845                              | 4,411                           | 3,379                         | 128                           | 141,170             |
| <b>Total undiscounted financial liabilities</b>                   | <b>27,192,835</b>              | <b>5,994,110</b>                    | <b>3,450,691</b>                | <b>800,642</b>                | <b>269,449</b>                | <b>37,707,727</b>   |
| Net undiscounted financial assets / (liabilities)                 | (17,176,116)                   | (2,972,862)                         | 3,232,841                       | 15,647,067                    | 13,612,302                    | 12,343,232          |

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

|                     | 2015                    |                                     |                                 |                               |                               | Total<br>LL million |
|---------------------|-------------------------|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|---------------------|
|                     | On demand<br>LL million | Less than<br>3 months<br>LL million | 3 to 12<br>months<br>LL million | 1 to 5<br>years<br>LL million | Over 5<br>years<br>LL million |                     |
| Guarantees issued   | 840,464                 | -                                   | -                               | -                             | -                             | 840,464             |
| Documentary credits | -                       | 182,850                             | -                               | -                             | -                             | 182,850             |
| Other commitments   | -                       | 51,296                              | -                               | -                             | -                             | 51,296              |
| <b>Total</b>        | <b>840,464</b>          | <b>234,146</b>                      | <b>-</b>                        | <b>-</b>                      | <b>-</b>                      | <b>1,074,610</b>    |

|                     | 2014                    |                                     |                                 |                               |                               | Total<br>LL million |
|---------------------|-------------------------|-------------------------------------|---------------------------------|-------------------------------|-------------------------------|---------------------|
|                     | On demand<br>LL million | Less than<br>3 months<br>LL million | 3 to 12<br>months<br>LL million | 1 to 5<br>years<br>LL million | Over 5<br>years<br>LL million |                     |
| Guarantees issued   | 803,817                 | -                                   | -                               | -                             | -                             | 803,817             |
| Documentary credits | -                       | 176,528                             | -                               | -                             | -                             | 176,528             |
| Other commitments   | -                       | 67,244                              | -                               | -                             | -                             | 67,244              |
| <b>Total</b>        | <b>803,817</b>          | <b>243,772</b>                      | <b>-</b>                        | <b>-</b>                      | <b>-</b>                      | <b>1,047,589</b>    |

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

**50 RISK MANAGEMENT (continued)**

**50-3 Market risk**

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

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

**50-3-1 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

**Interest rate sensitivity**

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the profit or loss for one year, based on the floating rate financial assets and financial liabilities and due to the reinvestment or refunding of fixed rated financial assets and liabilities at the assumed rate, including the effect of hedging instruments.

| <b>2015</b>          | <b><i>Increase in</i></b>       | <b><i>Sensitivity of net</i></b> |
|----------------------|---------------------------------|----------------------------------|
| <b>Currency</b>      | <b><i>basis points</i></b>      | <b><i>interest income</i></b>    |
|                      |                                 | <b><i>LL million</i></b>         |
| Lebanese Lira        | +0.5%                           | (18,213)                         |
| United States Dollar | +0.5%                           | (288)                            |
| Euro                 | +0.25%                          | (2,181)                          |
| Others               | +0.25%                          | 1,793                            |
| <b>2014</b>          | <b><i>Increase in basis</i></b> | <b><i>Sensitivity of net</i></b> |
| <b>Currency</b>      | <b><i>points</i></b>            | <b><i>interest income</i></b>    |
|                      |                                 | <b><i>LL million</i></b>         |
| Lebanese Lira        | +0.5%                           | (17,545)                         |
| United States Dollar | +0.5%                           | 6,995                            |
| Euro                 | +0.25%                          | (1,889)                          |
| Others               | +0.25%                          | 1,266                            |

An equivalent decrease would have resulted in an equivalent but opposite impact for the years ended 31 December 2015 and 31 December 2014.

**50 RISK MANAGEMENT (continued)**

**50-3 Market risk (continued)**

**50-3-1 Interest rate risk (continued)**

**Interest rate sensitivity gap**

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

|   | 2015                           |                                |                                     |                                |                                |                                    |   | Total<br>LL million |
|---|--------------------------------|--------------------------------|-------------------------------------|--------------------------------|--------------------------------|------------------------------------|---|---------------------|
|   | Up to<br>1 month<br>LL million | 1 to<br>3 months<br>LL million | 3 months to<br>1 year<br>LL million | (1 - 2)<br>years<br>LL million | (2 - 5)<br>years<br>LL million | More than<br>5 years<br>LL million | Non interest<br>sensitive<br>LL million |                     |
| <b>ASSETS</b>   |                                |                                |                                     |                                |                                |                                    |   |                     |
| Cash and balances with central banks                              | 1,768,788                      | 1,057,240                      | 206,943                             | 3,316                          | 1,724,263                      | 7,217,495                          | 2,318,403                               | 14,296,448          |
| Due from banks and financial institutions                         | 1,374,237                      | 578,028                        | 846,210                             | 7,937                          | 63,828                         | -                                  | 1,343,288                               | 4,213,528           |
| Loans to banks and financial institutions                         | -                              | 8,200                          | 39,717                              | -                              | 14,883                         | -                                  | 576                                     | 63,376              |
| Derivative financial instruments                                  | -                              | -                              | -                                   | -                              | -                              | -                                  | 40,719                                  | 40,719              |
| Financial assets at fair value through profit or loss             | 35,713                         | 106,245                        | 6                                   | 11,641                         | 18,692                         | 105,316                            | 317,656                                 | 595,269             |
| Net loans and advances to customers at amortized cost             | 3,990,807                      | 2,123,419                      | 2,950,451                           | 827,546                        | 753,927                        | 96,995                             | 72,561                                  | 10,815,706          |
| Net loans and advances to related parties at amortized cost       | 18,417                         | 3,035                          | 65                                  | 103                            | 3,818                          | 6,778                              | -                                       | 32,216              |
| Debtors by acceptances  | -                              | -                              | -                                   | -                              | -                              | -                                  | 88,854                                  | 88,854              |
| Financial assets at amortized cost                                | 308,874                        | 347,333                        | 2,175,462                           | 1,477,087                      | 3,642,899                      | 4,690,385                          | 184,339                                 | 12,826,379          |
| Financial assets at fair value through other comprehensive income | -                              | -                              | -                                   | -                              | -                              | -                                  | 6,229                                   | 6,229               |
| <b>TOTAL ASSETS</b>   | <b>7,496,836</b>               | <b>4,223,500</b>               | <b>6,218,854</b>                    | <b>2,327,630</b>               | <b>6,222,310</b>               | <b>12,116,969</b>                  | <b>4,372,625</b>                        | <b>42,978,724</b>   |
| <b>LIABILITIES</b>  |                                |                                |                                     |                                |                                |                                    |   |                     |
| Due to central banks  | 4,154                          | 17,226                         | 18,295                              | 31,509                         | 103,528                        | 280,839                            | 4,091                                   | 459,642             |
| Repurchase Agreements   | -                              | -                              | -                                   | -                              | -                              | -                                  | 626                                     | 626                 |
| Due to banks and financial institutions                           | 129,219                        | 46,619                         | 50,235                              | -                              | -                              | -                                  | 260,620                                 | 486,693             |
| Derivative financial instruments                                  | -                              | -                              | -                                   | -                              | -                              | -                                  | 40,804                                  | 40,804              |
| Customers' deposits at amortized cost                             | 23,733,325                     | 4,023,438                      | 3,184,930                           | 259,045                        | 455,599                        | 51,007                             | 5,916,433                               | 37,623,777          |
| Deposits from related parties at amortized cost                   | 179,508                        | 223                            | 20,372                              | 85                             | -                              | -                                  | 417                                     | 200,605             |
| Engagements by acceptances  | -                              | -                              | -                                   | -                              | -                              | -                                  | 88,854                                  | 88,854              |
| Other liabilities   | -                              | -                              | -                                   | -                              | -                              | -                                  | 698,815                                 | 698,815             |
| <b>TOTAL LIABILITIES</b>  | <b>24,046,206</b>              | <b>4,087,506</b>               | <b>3,273,832</b>                    | <b>290,639</b>                 | <b>559,127</b>                 | <b>331,846</b>                     | <b>7,010,660</b>                        | <b>39,599,816</b>   |
| <b>Total interest rate sensitivity gap</b>                        | <b>(16,549,370)</b>            | <b>135,994</b>                 | <b>2,945,022</b>                    | <b>2,036,991</b>               | <b>5,663,183</b>               | <b>11,785,123</b>                  | <b>(2,638,035)</b>                      | <b>3,378,908</b>    |

|   | 2014                           |                                |                                     |                                |                                |                                    |   | Total<br>LL million |
|---|--------------------------------|--------------------------------|-------------------------------------|--------------------------------|--------------------------------|------------------------------------|---|---------------------|
|   | Up to<br>1 month<br>LL million | 1 to<br>3 months<br>LL million | 3 months to<br>1 year<br>LL million | (1 - 2)<br>years<br>LL million | (2 - 5)<br>years<br>LL million | More than<br>5 years<br>LL million | Non interest<br>sensitive<br>LL million |                     |
| <b>ASSETS</b>   |                                |                                |                                     |                                |                                |                                    |   |                     |
| Cash and balances with central banks                              | 1,644,390                      | 1,167,103                      | 233,663                             | 908,711                        | 850,913                        | 6,089,964                          | 2,255,805                               | 13,150,549          |
| Due from banks and financial institutions                         | 2,310,151                      | 588,651                        | 469,900                             | 28,373                         | 19,145                         | -                                  | 1,158,768                               | 4,574,988           |
| Loans to banks and financial institutions                         | -                              | 10,000                         | 84,599                              | -                              | -                              | -                                  | 689                                     | 95,288              |
| Derivative financial instruments                                  | -                              | -                              | -                                   | -                              | -                              | -                                  | 109,234                                 | 109,234             |
| Financial assets at fair value through profit or loss             | 175,208                        | 239,472                        | 94,056                              | 5,778                          | 31,486                         | 3,249                              | 243,331                                 | 792,580             |
| Net loans and advances to customers at amortized cost             | 3,847,371                      | 2,054,203                      | 2,754,898                           | 789,608                        | 699,088                        | 62,417                             | 176,026                                 | 10,383,611          |
| Net loans and advances to related parties at amortized cost       | 23,107                         | 37                             | 2,472                               | 74                             | -                              | 6,989                              | -                                       | 32,679              |
| Debtors by acceptances  | -                              | -                              | -                                   | -                              | -                              | -                                  | 141,170                                 | 141,170             |
| Financial assets at amortized cost                                | 367,189                        | 381,734                        | 1,296,656                           | 1,930,187                      | 3,682,994                      | 4,208,212                          | 168,957                                 | 12,035,929          |
| Financial assets at fair value through other comprehensive income | -                              | -                              | -                                   | -                              | -                              | -                                  | 7,305                                   | 7,305               |
| <b>TOTAL ASSETS</b>   | <b>8,367,416</b>               | <b>4,441,200</b>               | <b>4,936,244</b>                    | <b>3,662,731</b>               | <b>5,283,626</b>               | <b>10,370,831</b>                  | <b>4,261,285</b>                        | <b>41,323,333</b>   |
| <b>LIABILITIES</b>  |                                |                                |                                     |                                |                                |                                    |   |                     |
| Due to central banks  | 7,362                          | 12,878                         | 14,471                              | 19,584                         | 85,362                         | 242,376                            | 2,862                                   | 384,895             |
| Due to banks and financial institutions                           | 143,733                        | 60,719                         | 48,697                              | -                              | -                              | -                                  | 388,152                                 | 641,301             |
| Derivative financial instruments                                  | -                              | -                              | -                                   | -                              | -                              | -                                  | 92,621                                  | 92,621              |
| Customers' deposits at amortized cost                             | 23,124,422                     | 3,488,242                      | 3,203,720                           | 267,736                        | 277,261                        | 42,084                             | 5,595,461                               | 35,998,926          |
| Deposits from related parties at amortized cost                   | 34,854                         | 140,617                        | 14,442                              | -                              | -                              | -                                  | -                                       | 189,913             |
| Engagements by acceptances  | -                              | -                              | -                                   | -                              | -                              | -                                  | 141,170                                 | 141,170             |
| Other liabilities   | 70,473                         | -                              | -                                   | -                              | -                              | -                                  | 702,023                                 | 772,496             |
| <b>TOTAL LIABILITIES</b>  | <b>23,380,844</b>              | <b>3,702,456</b>               | <b>3,281,330</b>                    | <b>287,320</b>                 | <b>362,623</b>                 | <b>284,460</b>                     | <b>6,922,289</b>                        | <b>38,221,322</b>   |
| <b>Total interest rate sensitivity gap</b>                        | <b>(15,013,428)</b>            | <b>738,744</b>                 | <b>1,654,914</b>                    | <b>3,375,411</b>               | <b>4,921,003</b>               | <b>10,086,371</b>                  | <b>(2,661,004)</b>                      | <b>3,102,011</b>    |

50 RISK MANAGEMENT (continued)

50-3 Market risk (continued)

50-3-2 Currency risk

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

The Central Bank of Lebanon allows the Bank to maintain a net open FX position, receivable or payable, that does not exceed at any time 1% of total net equity on condition that the global open FX position does not exceed 40% of total net equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required solvency rate.

The following tables present the breakdown of assets and liabilities by currency:

|   | 2015                                |                          |                    |                                     |                          | Total             |
|---|-------------------------------------|--------------------------|--------------------|-------------------------------------|--------------------------|-------------------|
|   | Foreign currencies in Lebanese Lira |                          |                    |                                     | Total foreign currencies |                   |
|   | LL million                          | US Dollars in LL million | Euro in LL million | Other foreign currencies LL million | LL million               | LL million        |
| <b>ASSETS</b>   |                                     |                          |                    |                                     |                          |                   |
| Cash and balances with central banks                              | 3,738,999                           | 6,941,278                | 1,940,046          | 1,676,125                           | 10,557,449               | 14,296,448        |
| Due from banks and financial institutions                         | 62,768                              | 2,281,265                | 762,470            | 1,107,025                           | 4,180,760                | 4,213,528         |
| Loans to banks and financial institutions                         | 34,681                              | 25,450                   | 3,245              | -                                   | 28,695                   | 63,376            |
| Derivative financial instruments                                  | 14,587                              | 10,056                   | 1,907              | 14,169                              | 26,132                   | 40,719            |
| Financial assets at fair value through profit or loss             | 51,250                              | 310,699                  | 19,831             | 213,489                             | 544,019                  | 595,269           |
| Net loans and advances to customers at amortized cost             | 2,264,022                           | 5,921,206                | 292,202            | 2,338,276                           | 8,551,684                | 10,815,706        |
| Net loans and advances to related parties at amortized cost       | 5,533                               | 15,025                   | 1,544              | 10,114                              | 26,683                   | 32,216            |
| Debtors by acceptances  | 100                                 | 64,249                   | 17,293             | 7,212                               | 88,754                   | 88,854            |
| Financial assets at amortized cost                                | 6,641,936                           | 4,155,454                | 10,635             | 2,018,354                           | 6,184,413                | 12,826,379        |
| Financial assets at fair value through other comprehensive income | -                                   | 640                      | 25                 | 5,564                               | 6,229                    | 6,229             |
| Property and equipment  | 417,701                             | 241                      | 38,226             | 187,946                             | 226,413                  | 644,114           |
| Intangible assets   | 3,772                               | 39                       | 63                 | 1,316                               | 1,418                    | 5,190             |
| Assets obtained in settlement of debt                             | (1,316)                             | 24,804                   | -                  | 14,550                              | 39,354                   | 38,038            |
| Other assets  | 61,922                              | 32,544                   | 5,635              | 52,928                              | 91,107                   | 153,029           |
| Goodwill  | -                                   | -                        | -                  | 47,876                              | 47,876                   | 47,876            |
| <b>TOTAL ASSETS</b>   | <b>13,295,955</b>                   | <b>19,782,950</b>        | <b>3,093,122</b>   | <b>7,694,944</b>                    | <b>30,571,016</b>        | <b>43,866,971</b> |
| <b>LIABILITIES</b>  |                                     |                          |                    |                                     |                          |                   |
| Due to central banks  | 446,396                             | -                        | -                  | 13,246                              | 13,246                   | 459,642           |
| Repurchase Agreements   | -                                   | -                        | -                  | 626                                 | 626                      | 626               |
| Due to banks and financial institutions                           | 1,229                               | 131,945                  | 218,821            | 134,698                             | 485,464                  | 486,693           |
| Derivative financial instruments                                  | 14,562                              | 18,046                   | 613                | 7,583                               | 26,242                   | 40,804            |
| Customers' deposits at amortized cost                             | 10,504,962                          | 19,003,963               | 2,648,924          | 5,465,928                           | 27,118,815               | 37,623,777        |
| Deposits from related parties at amortized cost                   | 120,251                             | 46,197                   | 13,514             | 20,643                              | 80,354                   | 200,605           |
| Engagements by acceptances  | 100                                 | 64,249                   | 17,293             | 7,212                               | 88,754                   | 88,854            |
| Other liabilities   | 268,699                             | 266,837                  | 15,038             | 148,241                             | 430,116                  | 698,815           |
| Provisions for risks and charges                                  | 93,112                              | 15,387                   | 6,531              | 49,320                              | 71,238                   | 164,350           |
| <b>Total liabilities</b>  | <b>11,449,311</b>                   | <b>19,546,624</b>        | <b>2,920,734</b>   | <b>5,847,497</b>                    | <b>28,214,855</b>        | <b>39,764,166</b> |
| <b>NET EXPOSURE</b>   | <b>1,846,644</b>                    | <b>236,326</b>           | <b>172,388</b>     | <b>1,847,447</b>                    | <b>2,256,161</b>         | <b>4,102,805</b>  |

|   | 2014                                |                          |                    |                                     |                          | Total             |
|---|-------------------------------------|--------------------------|--------------------|-------------------------------------|--------------------------|-------------------|
|   | Foreign currencies in Lebanese Lira |                          |                    |                                     | Total foreign currencies |                   |
|   | LL million                          | US Dollars in LL million | Euro in LL million | Other foreign currencies LL million | LL million               | LL million        |
| <b>ASSETS</b>   |                                     |                          |                    |                                     |                          |                   |
| Cash and balances with central banks                              | 3,681,886                           | 6,005,613                | 2,102,192          | 1,360,858                           | 9,468,663                | 13,150,549        |
| Due from banks and financial institutions                         | 136,974                             | 2,733,211                | 648,951            | 1,055,852                           | 4,438,014                | 4,574,988         |
| Loans to banks and financial institutions                         | 43,258                              | 48,356                   | 3,674              | -                                   | 52,030                   | 95,288            |
| Derivative financial instruments                                  | 75,574                              | 32,177                   | 24                 | 1,459                               | 33,660                   | 109,234           |
| Financial assets at fair value through profit or loss             | 40,111                              | 471,137                  | 7,140              | 274,192                             | 752,469                  | 792,580           |
| Net loans and advances to customers at amortized cost             | 2,120,579                           | 5,830,561                | 323,631            | 2,108,840                           | 8,263,032                | 10,383,611        |
| Net loans and advances to related parties at amortized cost       | 5,693                               | 16,350                   | 1,061              | 9,575                               | 26,986                   | 32,679            |
| Debtors by acceptances  | 176                                 | 114,755                  | 17,536             | 8,703                               | 140,994                  | 141,170           |
| Financial assets at amortized cost                                | 6,335,111                           | 3,860,547                | 19,427             | 1,820,844                           | 5,700,818                | 12,035,929        |
| Financial assets at fair value through other comprehensive income | -                                   | 648                      | 28                 | 6,629                               | 7,305                    | 7,305             |
| Property and equipment  | 384,710                             | 558                      | 42,037             | 192,320                             | 234,915                  | 619,625           |
| Intangible assets   | 841                                 | 59                       | 71                 | 1,519                               | 1,649                    | 2,490             |
| Assets obtained in settlement of debt                             | (1,893)                             | 4,739                    | -                  | 17,043                              | 21,782                   | 19,889            |
| Other assets  | 66,992                              | 36,928                   | 4,836              | 45,471                              | 87,235                   | 154,227           |
| Goodwill  | -                                   | -                        | -                  | 52,214                              | 52,214                   | 52,214            |
| <b>TOTAL ASSETS</b>   | <b>12,890,012</b>                   | <b>19,155,639</b>        | <b>3,170,608</b>   | <b>6,955,519</b>                    | <b>29,281,766</b>        | <b>42,171,778</b> |
| <b>LIABILITIES</b>  |                                     |                          |                    |                                     |                          |                   |
| Due to central banks  | 375,068                             | -                        | -                  | 9,827                               | 9,827                    | 384,895           |
| Due to banks and financial institutions                           | 2,588                               | 396,285                  | 115,773            | 126,655                             | 638,713                  | 641,301           |
| Derivative financial instruments                                  | 68,488                              | 7,945                    | 12,616             | 3,572                               | 24,133                   | 92,621            |
| Customers' deposits at amortized cost                             | 10,159,538                          | 18,407,900               | 2,513,002          | 4,918,486                           | 25,839,388               | 35,998,926        |
| Deposits from related parties at amortized cost                   | 118,921                             | 52,984                   | 10,324             | 7,684                               | 70,992                   | 189,913           |
| Engagements by acceptances  | 176                                 | 114,755                  | 17,536             | 8,703                               | 140,994                  | 141,170           |
| Other liabilities   | 321,209                             | 288,045                  | 25,823             | 137,419                             | 451,287                  | 772,496           |
| Provisions for risks and charges                                  | 90,243                              | 13,001                   | 7,354              | 36,780                              | 57,135                   | 147,378           |
| <b>Total liabilities</b>  | <b>11,136,231</b>                   | <b>19,280,915</b>        | <b>2,702,428</b>   | <b>5,249,126</b>                    | <b>27,232,469</b>        | <b>38,368,700</b> |
| <b>NET EXPOSURE</b>   | <b>1,753,781</b>                    | <b>(125,276)</b>         | <b>468,180</b>     | <b>1,706,393</b>                    | <b>2,049,297</b>         | <b>3,803,078</b>  |

**50 RISK MANAGEMENT (continued)****50-3 Market risk (continued)****50-3-2 Currency risk (continued)***Group's sensitivity to currency exchange rates*

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

| Currency | <i>Change in<br/>currency rate<br/>%</i><br>2015 | <i>Effect on profit<br/>before tax<br/>2015<br/>LL million</i> | <i>Change in<br/>currency rate<br/>%</i><br>2014 | <i>Effect on profit<br/>before tax<br/>2014<br/>LL million</i> |
|----------|--|--|--|--|
| USD      | ± 1%   | 12,903   | ± 1%   | 13,014   |
| EUR      | ± 3%   | 37,787   | ± 3%   | 4,789  |

**50-3-3 Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 percent increase in the value of the Group's equities at 31 December 2015 would have increased other comprehensive income by LL 150 million and net income by LL 8,125 million (2014: LL 179 million and LL 7,662 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

**50-3-4 Prepayment risk**

Prepayment risk is the risk that the Group incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

**50-4 Operational risk**

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

**51 CAPITAL MANAGEMENT**

By maintaining an actively managed capital base, the Group's objectives are to cover risks inherent in the business, to retain sufficient financial strength and flexibility to support new business growth, and to meet national and international regulatory capital requirements at all times. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon according to the provisions of Basic Circular No 44. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets and off-balance sheet commitments at a weighted amount to reflect their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon requires maintaining the following ratios of total regulatory capital to risk-weighted assets for the year ended 31 December 2013 and thereafter:

51 CAPITAL MANAGEMENT (continued)

|                              | Common Tier 1 capital ratio | Tier 1 capital ratio | Total capital ratio |
|------------------------------|-----------------------------|----------------------|---------------------|
| Year ended 31 December 2013  | 6.0 %                       | 8.5 %                | 10.5 %              |
| Year ended 31 December 2014  | 7.0 %                       | 9.5 %                | 11.5 %              |
| Year ended 31 December 2015  | 8.0 %                       | 10.0 %               | 12.0 %              |
|                              |                             |                      | <i>2015</i>         |
|                              |                             |                      | <i>2014</i>         |
|                              |                             |                      | <i>LL million</i>   |
|                              |                             |                      | <i>LL million</i>   |
| <b>Risk weighted assets:</b> |                             |                      |                     |
| Credit risk                  |                             |                      | 17,629,012          |
| Market risk                  |                             |                      | 1,087,579           |
| Operational risk             |                             |                      | 2,140,857           |
|                              |                             |                      | 17,292,857          |
|                              |                             |                      | 854,196             |
|                              |                             |                      | 2,140,857           |
| Total risk weighted assets   |                             |                      | <u>20,910,904</u>   |
|                              |                             |                      | <u>20,287,910</u>   |

The regulatory capital as of 31 December is as follows:

|                                | <i>Excluding net income for the year</i> |                   | <i>Including net income for the year less proposed dividends</i> |                   |
|--------------------------------|--|-------------------|--|-------------------|
|                                | <i>2015</i>                              | <i>2014</i>       | <i>2015</i>  | <i>2014</i>       |
|                                | <i>LL million</i>                        | <i>LL million</i> | <i>LL million</i>  | <i>LL million</i> |
| Tier 1 Capital                 | 3,351,284                                | 3,129,586         | 3,667,881  | 3,434,396         |
| <i>Of which: Common Tier 1</i> | 3,047,304                                | 2,822,570         | 3,359,641  | 3,123,898         |
| Tier 2 Capital                 | 16,755                                   | 15,928            | 20,988   | 21,130            |
| Total Capital                  | <u>3,368,039</u>                         | <u>3,145,514</u>  | <u>3,688,869</u>   | <u>3,455,526</u>  |

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

|                                  | <i>Excluding net income for the year</i> |               | <i>Including net income for the year less proposed dividends</i> |               |
|----------------------------------|--|---------------|--|---------------|
|                                  | <i>2015</i>                              | <i>2014</i>   | <i>2015</i>  | <i>2014</i>   |
| Capital adequacy – Common Tier 1 | 14.57%                                   | 13.91%        | 16.07%   | 15.40%        |
| Capital adequacy - Tier 1        | 16.03%                                   | 15.43%        | 17.54%   | 16.93%        |
| Capital adequacy -Total Capital  | <u>16.11%</u>                            | <u>15.50%</u> | <u>17.64%</u>  | <u>17.03%</u> |

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from previous years, however, they are under constant scrutiny of the Board.