Building a better working world

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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 (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

18 March 2014
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	*2013* *LL million*	*2012* *LL million*
Interest and similar income	7	**2,015,256**	1,946,653
Interest and similar expense	8	**(1,218,898)**	(1,158,894)
Net interest income		**796,358**	787,759
Fee and commission income		**222,905**	204,116
Fee and commission expense		**(38,618)**	(34,438)
Net fee and commission income	9	**184,287**	169,678
Net gain from financial instruments at fair value through profit or loss	10	**136,946**	194,378
Net gain from derecogniton of financial assets at amortized cost	11	**70,277**	32,501
Revenue from financial assets at fair value through other comprehensive income	25	**290**	257
Other operating income	12	**18,215**	12,916
Total operating income		**1,206,373**	1,197,489
Net credit losses	13	**(106,541)**	(158,382)
Write-back of provision on other financial assets		**1,317**	-
Net operating income		**1,101,149**	1,039,107
Personnel expenses	14	**(264,108)**	(247,498)
Other operating expenses	15	**(151,044)**	(149,101)
Depreciation of property and equipment	26	**(30,227)**	(30,957)
Amortization of intangible assets	27	**(1,681)**	(1,898)
Total operating expenses		**(447,060)**	(429,454)
Operating profit		**654,089**	609,653
Net gain on disposal of fixed assets		**256**	1,863
Profit before tax		**654,345**	611,516
Income tax expense	16	**(123,045)**	(105,104)
Profit for the year		**531,300**	506,412
Attributable to:			
Equity holders of the parent		**520,763**	501,210
Non-controlling interests		**10,537**	5,202
		531,300	506,412
		LL	*LL*
Basic/diluted earnings per share attributable to equity holders of the parent for the year	17	**2,377**	2,304

The accompanying notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	2013 ***LL million***	*2012* *LL million*
Profit for the year	**531,300**	506,412
Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(94,751)**	(50,754)
Other comprehensive gain not to be reclassified to consolidated income statement in subsequent periods:		
Net gain on sale of financial assets at fair value through other comprehensive income	**-**	180
Net unrealized gain from financial assets at fair value through other comprehensive income	**406**	544
Net other comprehensive income not to be reclassified to consolidated income statement in subsequent periods	**406**	724
Other comprehensive loss for the year	**(94,345)**	(50,030)
Total comprehensive income for the year	**436,955**	456,382
Attributable to:		
Equity holders of the parent	**458,671**	478,471
Non-controlling interests	**(21,716)**	(22,089)
	436,955	456,382

The accompanying notes 1 to 53 form part of these consolidated financial statements.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	***2013*** ***LL million***	*2012* *LL million*
Assets			
Cash and balances with central banks	18	**9,847,077**	7,458,577
Due from banks and financial institutions	19	**4,423,450**	5,070,495
Loans to banks and financial institutions	20	**103,758**	114,610
Derivative financial instruments	21	**62,611**	37,082
Financial assets at fair value through profit or loss	22	**944,261**	847,367
Net loans and advances to customers at amortized cost	23	**9,536,401**	9,070,287
Net loans and advances to related parties at amortized cost	46	**28,422**	16,197
Debtors by acceptances		**88,202**	104,191
Financial assets at amortized cost	24	**13,613,542**	14,308,536
Financial assets at fair value through other comprehensive income	25	**6,450**	5,958
Property and equipment	26	**536,036**	492,092
Intangible assets	27	**2,941**	3,865
Assets obtained in settlement of debt	28	**23,514**	27,467
Other assets	29	**148,596**	147,690
Goodwill	30	**53,833**	60,208
Total assets		**39,419,094**	37,764,622
Liabilities and equity			
Liabilities			
Due to central banks	31	**108,590**	-
Repurchase agreements	31	**36,396**	140,499
Due to banks and financial institutions	32	**786,036**	618,780
Derivative financial instruments	21	**71,340**	52,494
Financial liabilities at fair value through profit or loss	33	**3,032**	22,053
Customers' deposits at amortized cost	34	**33,873,830**	32,649,831
Deposits from related parties at amortized cost	46	**151,042**	177,376
Engagements by acceptances		**88,202**	104,191
Other liabilities	35	**618,869**	590,982
Provisions for risks and charges	36	**140,911**	119,408
Total liabilities		**35,878,248**	34,475,614
Equity			
Share capital - common shares	37	**258,000**	258,000
Share capital - preferred shares	37	**24,000**	24,000
Share premium on common shares	37	**374,059**	374,059
Share premium on preferred shares	37	**277,500**	277,500
Non distributable reserves	38	**812,269**	709,310
Distributable reserves	39	**449,463**	395,042
Treasury shares	40	**(87,199)**	(67,302)
Retained earnings	41	**917,522**	745,955
Revaluation reserve of real estate	42	**14,727**	14,727
Change in fair value of financial assets at fair value through other comprehensive income	43	**-**	(406)
Foreign currency translation reserve		**(99,095)**	(36,597)
Profit for the year		**520,763**	501,210
Equity attributable to equity holders of parent		**3,462,009**	3,195,498
Non-controlling interests		**78,837**	93,510
Total equity		**3,540,846**	3,289,008
Total liabilities and equity		**39,419,094**	37,764,622

The consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on 18 March 2014 by:

Saad Azhari	Habib Rahal	Talal Baba
Chairman and General Manager	General Manager	Chief Financial Officer

The accompanying notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

2013

	Attributable to equity holders of the parent														
	Share capital-common shares LL million	*Share capital-preferred shares LL million*	*Share premium on common shares LL million*	*Share premium on preferred shares LL million*	*Non distributable reserves LL million*	*Distributable reserves LL million*	*Treasury shares LL million*	*Retained earnings LL million*	*Revaluation reserve of real estate LL million*	*Change in fair value of financial assets at fair value through other comprehensive income LL million*	*Foreign currency translation reserve LL million*	*Profit for the year LL million*	*Total LL million*	*Non-controlling interests LL million*	*Total equity LL million*
Balance at 1 January 2013	258,000	24,000	374,059	277,500	709,310	395,042	(67,302)	745,955	14,727	(406)	(36,597)	501,210	3,195,498	93,510	3,289,008
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	520,763	520,763	10,537	531,300
Other comprehensive loss	-	-	-	-	-	-	-	-	-	406	(62,498)	-	(62,092)	(32,253)	(94,345)
Total comprehensive income	-	-	-	-	-	-	-	-	-	406	(62,498)	520,763	458,671	(21,716)	436,955
Appropriation of 2012 profits	-	-	-	-	101,781	54,404	-	181,676	-	-	-	(337,861)	-	-	-
Dividends distributions (note 45)	-	-	-	-	-	-	-	-	-	-	-	(163,357)	(163,357)	-	(163,357)
Adjustments related to change in ownership in subsidiaries	-	-	-	-	2	17	-	(27)	-	-	-	8	-	(32)	(32)
Purchase of treasury shares (note 40)	-	-	-	-	-	-	(41,152)	-	-	-	-	-	(41,152)	-	(41,152)
Sale of treasury shares (note 40)	-	-	-	-	-	-	21,255	-	-	-	-	-	21,255	-	21,255
Net gain on sale of treasury shares	-	-	-	-	1,176	-	-	-	-	-	-	-	1,176	-	1,176
Non-controlling interest share in capital increase of a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	7,235	7,235
Adjustment relating to prior years	-	-	-	-	-	-	-	(10,082)	-	-	-	-	(10,082)	(160)	(10,242)
Balance at 31 December 2013	**258,000**	**24,000**	**374,059**	**277,500**	**812,269**	**449,463**	**(87,199)**	**917,522**	**14,727**	**-**	**(99,095)**	**520,763**	**3,462,009**	**78,837**	**3,540,846**

2012

	Attributable to equity holders of the parent														
	Share capital-common shares LL million	*Share capital-preferred shares LL million*	*Share premium on common shares LL million*	*Share premium on preferred shares LL million*	*Non distributable reserves LL million*	*Distributable reserves LL million*	*Treasury shares LL million*	*Retained earnings LL million*	*Revaluation reserve of real estate LL million*	*Change in fair value of financial assets at fair value through other comprehensive income LL million*	*Foreign currency translation reserve LL million*	*Profit for the year LL million*	*Total LL million*	*Non-controlling interests LL million*	*Total equity LL million*
Balance at 1 January 2012	258,000	24,000	374,059	277,500	612,470	363,961	(83,162)	557,835	14,727	(950)	(13,134)	487,878	2,873,184	116,199	2,989,383
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	501,210	501,210	5,202	506,412
Profit from sale of shares at fair value through other comprehensive income	-	-	-	-	-	-	-	180	-	-	-	-	180	-	180
Other comprehensive loss	-	-	-	-	-	-	-	-	-	544	(23,463)	-	(22,919)	(27,291)	(50,210)
Total comprehensive income	-	-	-	-	-	-	-	180	-	544	(23,463)	501,210	478,471	(22,089)	456,382
Appropriation of 2011 profits	-	-	-	-	100,384	31,081	-	194,238	-	-	-	(325,703)	-	-	-
Dividends distributions (note 45)	-	-	-	-	-	-	-	-	-	-	-	(162,175)	(162,175)	-	(162,175)
Adjustments related to change in ownership in subsidiaries	-	-	-	-	-	-	-	(54)	-	-	-	-	(54)	51	(3)
Purchase of treasury shares (note 40)	-	-	-	-	-	-	(85,028)	-	-	-	-	-	(85,028)	(32)	(85,060)
Sale of treasury shares (note 40)	-	-	-	-	-	-	100,888	-	-	-	-	-	100,888	32	100,920
Net loss on sale of treasury shares	-	-	-	-	(3,544)	-	-	-	-	-	-	-	(3,544)	(37)	(3,581)
Non-controlling interest from dividends distributions in a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	(670)	(670)
Non-controlling interest share in capital increase of a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	56	56
Other adjustment related to a subsidiary	-	-	-	-	-	-	-	(6,244)	-	-	-	-	(6,244)	-	(6,244)
Balance at 31 December 2012	258,000	24,000	374,059	277,500	709,310	395,042	(67,302)	745,955	14,727	(406)	(36,597)	501,210	3,195,498	93,510	3,289,008

The accompanying notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2013

	Notes	*2013* **LL million**	*2012* *LL million*
OPERATING ACTIVITIES			
Profit for the year before income tax		**654,345**	611,516
Adjustments for:			
Depreciation of property and equipment	26	**30,227**	30,957
Amortization of intangible assets	27	**1,681**	1,898
Gain on disposal of property and equipment		**(256)**	(1,863)
Provision for loans and advances to customers, net	13	**106,541**	158,382
Provision for impairment of assets obtained in settlement of debt	28	**331**	-
Write-back of provision on other financial assets	24&29	**(1,317)**	-
(Write back) provision for placements with other banks	19	**(4,466)**	703
Net provision for risks and charges		**65,874**	73,367
Loss (gain) on disposal of assets obtained in settlement of debt		**149**	(421)
Gain from sale of financial assets at amortized cost	11	**(70,277)**	(32,501)
Unrealized fair value gains on financial assets at fair value through profit or loss	10	**(45,190)**	(94,371)
Adjustment relating to prior years		**(10,082)**	(6,244)
		727,560	741,423
Changes in operating assets and liabilities:			
Balances with central banks		**(2,028,865)**	(891,745)
Due from banks and financial institutions		**928,199**	(290,811)
Loans to banks and financial institutions		**10,852**	2,171
Derivative financial instruments – debit		**(25,529)**	(11,534)
Financial assets at fair value through profit or loss		**(51,704)**	104,470
Net loans and advances to customers at amortized cost		**(572,655)**	(819,219)
Net loans and advances to related parties at amortized cost		**(12,225)**	2,073
Other assets		**82**	5,298
Due to banks and financial institutions		**(16,663)**	37,347
Derivative financial instruments – credit		**18,846**	38,743
Financial liabilities at fair value through profit or loss		**(19,021)**	(19,001)
Customers' deposits at amortized cost		**1,223,999**	2,283,288
Deposits from related parties at amortized cost		**(26,334)**	(11,345)
Other liabilities		**(1,215)**	(17,944)
Cash from operations		**155,327**	1,153,214
Taxes paid		**(95,191)**	(128,283)
Provisions for risks and charges paid		**(32,228)**	(59,111)
Net cash from operating activities		**27,908**	965,820
INVESTING ACTIVITIES			
Financial assets at amortized cost		**765,600**	(627,376)
Financial assets at fair value through other comprehensive income		**(86)**	1,411
Assets obtained in settlement of debt		**1,237**	356
Purchase of property and equipment	26	**(119,860)**	(104,357)
Purchase of intangible assets	27	**(1,041)**	(1,162)
Cash proceeds from the sale of property and equipment and intangible assets		**14,533**	7,489
Acquisition of a subsidiary		**(986)**	-
Net cash from (used in) investing activities		**659,397**	(723,639)
FINANCING ACTIVITIES			
(Purchase) sale of treasury shares, net		**(19,897)**	15,860
Net gain (loss) on sale of treasury shares		**1,176**	(3,544)
Non-controlling interests		**7,075**	(27,945)
Dividends paid	45	**(163,357)**	(162,175)
Net cash used in financing activities		**(175,003)**	(177,804)
Effect of exchange rate changes		**(64,385)**	(9,616)
Increase in cash and cash equivalents		**447,917**	54,761
Cash and cash equivalents at 1 January		**5,120,024**	5,065,263
Cash and cash equivalents at 31 December	44	**5,567,941**	5,120,024
Operational cash flows from interest and dividends			
Interest paid		**(1,202,426)**	(1,148,480)
Interest received		**2,030,380**	1,933,400
Dividends received		**1,717**	1,458