

BLOM BANK SAL

SEPARATE 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

IBDO

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 separate financial statements of BLOM Bank SAL (the "Bank"), which comprise the statement of financial position as at 31 December 2015 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the separate financial statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the financial position of the Bank 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

Ernst & Young

18 March 2016
Beirut, Lebanon

BDO, Semaan, Gholam & Co.
BDO, Semaan, Gholam & Co.

BLOM Bank SAL

INCOME STATEMENT

For the year ended 31 December 2015

	<i>Notes</i>	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Interest and similar income	4	1,924,601	1,805,393
Interest and similar expense	5	(1,214,570)	(1,146,284)
Net interest income		710,031	659,109
Fee and commission income		126,454	124,466
Fee and commission expense		(17,365)	(16,071)
Net fee and commission income	6	109,089	108,395
Net gain from financial instruments at fair value through profit or loss	7	26,196	48,266
Net gain from derecognition of financial assets at amortized cost	8	6,024	40,341
Other operating income	9	6,014	10,065
Total operating income		857,354	866,176
Net credit losses	10	(30,222)	(53,749)
Net operating income		827,132	812,427
Personnel expenses	11	(176,657)	(181,040)
Other operating expenses	12	(114,696)	(110,083)
Depreciation of property and equipment	23	(22,737)	(18,916)
Amortization of intangible assets	24	(2,902)	(785)
Total operating expenses		(316,992)	(310,824)
Operating profits		510,140	501,603
Net gain on disposal of property and equipment		495	699
Profit before tax		510,635	502,302
Income tax expense	13	(82,098)	(82,532)
Profit for the year		428,537	419,770

The accompanying notes 1 to 48 form part of these separate financial statements.

BLOM Bank SAL

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Profit for the year	428,537	419,770
Other comprehensive loss to be reclassified to income statement in subsequent periods:		
Exchange difference on translation of foreign operations	(350)	(228)
Other comprehensive loss for the year	(350)	(228)
Total comprehensive income for the year	428,187	419,542

The accompanying notes 1 to 48 form part of these separate financial statements.

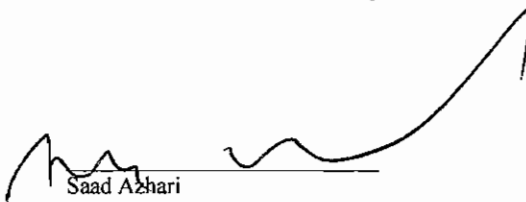
BLOM Bank SAL

STATEMENT OF FINANCIAL POSITION

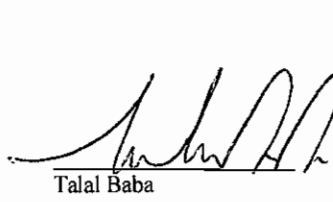
At 31 December 2015

	Notes	2015 LL million	2014 LL million
Assets			
Cash and balances with central banks	14	12,498,170	11,608,666
Due from banks and financial institutions	15	1,896,729	2,379,103
Due from sister banks	16	728,720	641,605
Loans to banks and financial institutions	17	34,681	43,258
Derivative financial instruments	18	14,587	75,574
Financial assets at fair value through profit or loss	19	321,265	435,527
Net loans and advances to customers at amortized cost	20	8,510,136	8,242,591
Net loans and advances to related parties at amortized cost	41	22,505	24,163
Debtors by acceptances		67,873	106,253
Financial assets at amortized cost	21	10,895,518	10,217,837
Investments in subsidiaries and associates	22	800,547	736,236
Property and equipment	23	427,960	405,113
Intangible assets	24	4,087	1,135
Assets obtained in settlement of debt	25	26,335	4,562
Other assets	26	17,378	29,188
Total assets		36,266,491	34,950,811
Liabilities and equity			
Liabilities			
Due to central banks	27	459,642	384,895
Due to banks and financial institutions	28	349,060	508,087
Due to sister banks	29	461,126	431,236
Derivative financial instruments	18	14,562	68,488
Customers' deposits at amortized cost	30	31,038,496	29,808,869
Deposits from related parties at amortized cost	41	179,850	184,535
Engagements by acceptances		67,873	106,253
Other liabilities	31	242,879	202,632
Provisions for risks and charges	32	92,218	84,151
Total liabilities		32,905,706	31,779,146
Equity			
Share capital - common shares	33	258,000	258,000
Share capital - preferred shares	33	24,000	24,000
Share premium on common shares	33	374,085	374,085
Share premium on preferred shares	33	277,500	277,500
Non distributable reserves	34	899,595	768,526
Distributable reserves	35	37,696	37,696
Treasury shares	36	(75,914)	(58,158)
Retained earnings	37	1,126,428	1,059,038
Revaluation reserve of real estate	38	11,842	11,842
Foreign currency translation reserve		(984)	(634)
Profit for the year		428,537	419,770
Total equity		3,360,785	3,171,665
Total liabilities and equity		36,266,491	34,950,811

The separate financial statements were authorized for issue in accordance with a resolution of the board of directors on 18 March 2016 by:


Saad Azhari
Chairman and General Manager


Habib-Rahal
General Manager


Talal Baba
Chief Financial Officer

The accompanying notes 1 to 48 form part of these separate financial statements.

BLOM Bank SAL

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	<i>Notes</i>	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
OPERATING ACTIVITIES			
Profit for the year before income tax		510,635	502,302
Adjustments for:			
Depreciation of property and equipment	23	22,737	18,916
Amortization of intangible assets	24	2,902	785
Gain from sale of property and equipment		(495)	(699)
Provision for risks and charges		11,312	9,116
Net credit losses	10	30,222	53,749
Gain on disposal of assets obtained in settlement of debt		(432)	(3)
Net gain from derecognition of financial assets at amortized cost	8	(6,024)	(40,341)
Unrealized fair value gains on financial assets at fair value through profit or loss		(2,510)	(15,936)
(Write back) provision on impairment of assets obtained in settlement of debt		(573)	34
Other adjustments		-	(340)
		<u>567,774</u>	<u>527,583</u>
Changes in operating assets and liabilities:			
Due from banks and financial institutions		(668,492)	(292,839)
Balances with central banks		(745,300)	(2,757,234)
Due from sister banks		(332,109)	(11,456)
Loans to banks and financial institutions		8,577	8,607
Derivative financial instruments – debit		60,987	(32,311)
Financial assets at fair value through profit or loss		116,772	108,752
Net loans and advances to customers at amortized cost		(297,767)	(860,524)
Net loans and advances to related parties at amortized cost		1,658	(8,626)
Assets obtained in settlement of debt		(22,763)	(1,364)
Other assets		11,810	(8,030)
Due to banks and financial institutions		(12,544)	27,908
Due to sister banks		(440)	(3,014)
Derivative financial instruments – credit		(53,926)	21,943
Customers' deposits at amortized cost		1,229,627	1,795,063
Deposits from related parties at amortized cost		(4,685)	23,883
Other liabilities		36,174	26,773
Cash used in operations		<u>(104,647)</u>	<u>(1,434,886)</u>
Taxes paid		(78,018)	(81,934)
Retirement benefits obligation paid	32	(3,033)	(1,343)
Net cash used in operating activities		<u>(185,698)</u>	<u>(1,518,163)</u>
INVESTING ACTIVITIES			
Change in investments in subsidiaries and associates		(64,311)	14,470
Financial assets at amortized cost		(671,657)	2,066,254
Purchase of property and equipment and intangible assets	23,24	(58,288)	(76,413)
Transfer of property and equipment and intangible assets		2,683	16,773
Transfer of assets obtained in settlement of debt		(225)	-
Cash proceeds from the sale of property and equipment		4,537	1,396
Cash proceeds from disposal of assets obtained in settlement of debt		2,220	748
Net cash (used in) from investing activities		<u>(785,041)</u>	<u>2,023,228</u>
FINANCING ACTIVITIES			
(Purchase) sale of treasury shares – net		(17,756)	29,041
Net gain on sale of treasury shares		10,167	4,971
Dividends paid	40	(231,478)	(178,630)
Net cash used in financing activities		<u>(239,067)</u>	<u>(144,618)</u>
Effect of exchange rate changes		(420)	56
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(1,210,226)</u>	<u>360,503</u>
Cash and cash equivalents at 1 January		3,035,536	2,675,033
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	<u>1,825,310</u>	<u>3,035,536</u>
Operational cash flows from interest and dividends			
Interest paid		1,216,863	1,142,696
Interest received		1,903,380	1,821,761
Dividend received		4,515	3,368

The accompanying notes 1 to 48 form part of these separate financial statements.

BLOM Bank SAL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	2015											
Notes	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	Foreign currency translation reserve LL million	Profit for the year LL million	Total LL million
Balance at 1 January 2015	258,000	24,000	374,085	277,500	768,526	37,696	(58,158)	1,059,038	11,842	(634)	419,770	3,171,665
Profit for the year 2015	-	-	-	-	-	-	-	-	-	-	428,537	428,537
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(350)	-	(350)
Total comprehensive income	-	-	-	-	-	-	-	-	-	(350)	428,537	428,187
Dividends distributions	40	-	-	-	-	-	-	-	-	-	(231,478)	(231,478)
Appropriation of 2014 profits	-	-	-	-	120,902	-	-	67,390	-	-	(188,292)	-
Purchase of treasury shares	36	-	-	-	-	-	(55,852)	-	-	-	-	(55,852)
Sale of treasury shares	36	-	-	-	-	-	38,096	-	-	-	-	38,096
Net gain on sale of treasury shares	36	-	-	-	10,167	-	-	-	-	-	-	10,167
Balance at 31 December 2015	258,000	24,000	374,085	277,500	899,595	37,696	(75,914)	1,126,428	11,842	(984)	428,537	3,360,785

	2014											
Notes	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	Foreign currency translation reserve LL million	Profit for the year LL million	Total LL million
Balance at 1 January 2014	258,000	24,000	374,085	277,500	674,566	37,696	(87,199)	913,609	11,842	(66)	413,048	2,897,081
Profit for the year 2014	-	-	-	-	-	-	-	-	-	-	419,770	419,770
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(228)	-	(228)
Total comprehensive income	-	-	-	-	-	-	-	-	-	(228)	419,770	419,542
Dividends distributions	40	-	-	-	-	-	-	-	-	-	(178,630)	(178,630)
Appropriation of 2013 profits	-	-	-	-	88,989	-	-	145,429	-	-	(234,418)	-
Purchase of treasury shares	36	-	-	-	-	-	(23,895)	-	-	-	-	(23,895)
Sale of treasury shares	36	-	-	-	-	-	52,936	-	-	-	-	52,936
Net gain on sale of treasury shares	36	-	-	-	4,971	-	-	-	-	-	-	4,971
Other adjustments	-	-	-	-	-	-	-	-	-	(340)	-	(340)
Balance at 31 December 2014	258,000	24,000	374,085	277,500	768,526	37,696	(58,158)	1,059,038	11,842	(634)	419,770	3,171,665

The accompanying notes 1 to 48 form part of these separate 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 headquarters of the Bank are located in Verdun, Rashid Karameh Street, Beirut, Lebanon.

The Bank provides all banking activities (commercial, investing and private), through 72 branches in Lebanon, one branch in Cyprus, 14 branches in the Hashemite Kingdom of Jordan, and 2 branches in Iraq.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The separate 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 and financial assets 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 separate financial statements include head office and, Lebanese and foreign branches. In addition, the Bank prepares consolidated financial statements to include related banks and subsidiaries.

The separate financial statements have been presented in million of Lebanese Lira (LL million). Balances denominated in other currencies have been presented in thousands.

These financial statements incorporate the results of operations, assets and liabilities of the Bank and foreign branches only, without consolidating the operating results and financial position of the subsidiaries. Consolidated financial statements as of 31 December 2015 are also presented by the Bank, and are available at the Bank's offices.

Statement of compliance

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

Presentation of separate financial statements

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

Financial assets and financial liabilities are offset and the net amount reported in the 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. Income and expense are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 New standards, interpretations and amendments

New and amended standards and interpretations

The accounting policies adopted in the preparation of the separate financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2014 except for the adoption of new standards and interpretations effective as of 1 January 2015, noted 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.

2 ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (continued)

This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Bank, since it does not have defined benefit plans with contributions from employees or third parties.

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 Bank has applied these improvements for the first time in these separate 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 Bank has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Bank had not granted any awards during the second half of 2014 and 2015. Thus, these amendments did not impact the Bank'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 Bank's current accounting policy, and thus this amendment does not impact the Bank'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 Bank'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 Bank 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 Bank as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

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

2 ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments (continued)

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

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 Bank 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 Bank 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 Bank.

2.3 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 Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

- *IFRS 9 Financial Instruments*
- *IFRS 14 Regulatory Deferral Accounts*
- *IFRS 15 Revenue from Contracts with Customers*
- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*
- *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*
- *Amendments to IAS 27: Equity Method in Separate Financial Statements*
- *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *Annual Improvements 2012-2014 Cycle*
- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 19 Employee Benefits*
- *IAS 34 Interim Financial Reporting*
- *Amendments to IAS 1 Disclosure Initiative*
- *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

These amendments will not have a significant impact on the Bank's financial statements.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

(1) Foreign currency translation

The separate financial statements are presented in Lebanese Lira which is the Bank's presentation currency. Each foreign branch of the Bank determines its own functional currency and items included in the separate financial statements of each foreign branch 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 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).

(ii) Translation of foreign branches

As at the reporting date, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position 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 branch, the deferred cumulative amount recognized in equity relating to that particular foreign branch is recognized in the income statement.

(2) 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 Bank 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 amortised cost or at 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 recognising 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.

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

Financial assets at amortized cost

Financial assets that meet both of the following conditions are subsequently measured at amortized cost less any impairment loss (except for financial assets 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, less allowance for impairment. Amortized cost is calculated by taking into account any discount of 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 income statement. The losses arising from impairment are recognised in the income statement in “Net credit losses”.

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.

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

Balances with central banks, due from banks and financial institutions, due from sister banks, 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”, “Due from sister banks”, “Loans to banks and financial institutions” and “Net loans and advances to customers and related parties” are subsequently measured at amortized cost using the Effective Interest Rate (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 income statement. The losses arising from impairment are recognized in the 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 “*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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

a. *Financial assets (continued)*

Financial assets at fair value through profit or loss (continued)

Debt instruments at fair value through profit or loss

These financial assets are recorded in the 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 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 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 Bank 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 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 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 income statement.

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 Bank 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

An entity 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 recognising 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 Bank is provided internally on that basis to the entity's key management personnel.

2 ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(2) Financial instruments – classification and measurement (continued)****(ii) Classification and measurement of financial instruments (continued)****b. Financial liabilities (continued)**

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 income statement. Changes in fair value attributable to changes in credit risk are not reclassified to income statement.

As at 31 December 2014 and 2013, there are no financial liabilities designated at fair value through profit or loss by the Bank except for derivative financial instruments. Financial liabilities measured at amortized cost consist of due to central banks, repurchase agreements, due to banks and financial institutions, due to sister banks, customers' and related parties' deposits.

Due to central banks, repurchase agreements, due to banks and financial institutions, due to sister banks, customers' deposits and related parties deposits – at amortized cost

After initial measurement, due to Central Banks, repurchase agreements, due to banks and financial institutions, due to sister banks, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized 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 Bank uses derivatives such as forward foreign exchange contracts and currency 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 included in "Net gain from financial instruments at fair value through profit or loss" in the income statement.

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 Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the 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 income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets

The Bank 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 Bank's senior management as a result of external or internal changes when significant to the Bank'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.

2 ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(3) 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 derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Bank 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:
 - (a) the Bank has transferred substantially all the risks and rewards of the asset, or
 - (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank 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 recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects rights and obligations that the Bank 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 Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognised 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 income statement.

(4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the 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 Bank. 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 Bank reclassifies those securities in its statement of financial position to "Financial assets at fair value through profit or loss pledged as collateral" as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest is recorded in the 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 Bank. 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 income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(5) Fair Value Measurement

The Bank measures financial instruments, such as, derivatives, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

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

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

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

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For 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 Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(6) Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2 ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(6) Impairment of financial assets (continued)****(ii) Renegotiated loans**

Where possible, the Bank 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. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral valuation

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

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

(iv) Collateral repossessed

The Bank accounts for collateral repossessed in accordance with the Central Bank of Lebanon main circular 78 and the Banking Control Commission circulars 173 and 267. Repossessed assets should be sold within two years from the date of approval of repossession by the Banking Control Commission. These are immediately transferred to "Assets obtained in settlement of debt" at their fair value at the repossession date, as approved by the Banking Control Commission.

Upon sale of repossessed assets, any gain or loss realized is recognized in the 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.

For assets which were not disposed of within the specified period of two years, an amount computed as 20% of their gross carrying value is transferred to "Reserves for capital increase" in the following financial year.

(7) Hedge accounting

The Bank 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 Bank applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Bank 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 income statement in "Net gain on financial assets and liabilities designated at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

2 ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(7) 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 income statement in "Net gain from financial instruments at fair value through profit or loss". 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 the income statement in "Net gain from financial instruments at fair value through profit or loss" in the 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 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 income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the 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 recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

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 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 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 other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in other comprehensive income is transferred to the income statement.

(8) Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(9) Recognition of income and expenses

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

(i) Interest and similar income and expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate (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 Bank 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 or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The Bank 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 effective interest rate 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.

Fee income from providing transaction services

Fees 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. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognized when the Bank's right to receive the payment is established.

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

Results arising from financial instruments 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.

(10) 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 central banks, deposits with banks and financial institutions, due to central banks, repurchase agreements, deposits due to banks and financial institutions, and treasury bills.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(11) Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried at cost less impairment. Associates are enterprises in which the Bank exercises significant influence, but not control, normally where it holds 20% to 50% of the voting power. Subsidiaries are enterprises which the Bank controls, normally where it holds more than 50% of the voting power.

(12) 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 Bank recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the 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

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 property and equipment” in the income statement in the year in which the asset is derecognised.

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

(13) Intangible assets

The Bank’s intangible assets include the value of computer software and key money. 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 Bank.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization 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 amortized over the useful economic life. The amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the 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 cost	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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(13) Intangible assets (continued)

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 statement of profit or loss when the asset is derecognised.

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

(14) Assets obtained in settlement of debt

The Bank occasionally acquires real estate in settlement of certain loans and advances. Such real estate is stated at the lower of the amount of the related loans and advances and the current fair value of such assets based on the instructions of the Regulatory Authorities. Gains or losses on disposal are recognized in the 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 year.

(15) Impairment of non-financial assets

The Bank 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 Bank 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 the 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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the income statement.

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

(16) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the separate financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the 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 income statement in "Net credit losses". The premium received is recognised in the income statement on a straight line basis over the life of the guarantee in "Net fee and commission income".

(17) Provisions for risks and charges

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

31 December 2015

2 ACCOUNTING POLICIES (continued)**2.4 Summary of significant accounting policies (continued)****(18) Employees' end-of-service benefits**

For the Bank and its branches 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 Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

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

(19) Taxes

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Bank and its branches operate.

(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 by the reporting date.

The Bank's profits from operations in Lebanon are subject to a tax rate of 15% taking into account the 5% tax on interest received on financial assets such as certificate of deposits and Lebanese treasury bills denominated in Lebanese Lira, according to Law no. 497/2003 dated 30 January 2003.

Dividends are subject to a flat 10% tax, reducible to 5% provided that the Bank is listed on regulated Lebanese stock exchange.

(ii) Deferred tax

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:

- Where 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, 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.

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, 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 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 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(19) Taxes (continued)

(ii) Deferred tax (continued)

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 statement of financial position date.

Current tax and deferred tax relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income and not in the income statement.

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.

(20) Treasury shares

Own equity instruments of the Bank 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 Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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

(21) Assets-held in custody and under administration

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

(22) 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.

(23) Customers' acceptances

Customers' acceptances represent term documentary credits which the Bank 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 statement of financial position for the same amount.

(24) Segment reporting

The Bank's segmental reporting is based on the following operating segments: retail banking, corporate banking, treasury, money and capital markets.

2.5 Significant accounting estimates and judgments

The preparation of the Bank's separate 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.

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting estimates and judgments (continued)

Judgments

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

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the separate 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 Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the 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 input 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.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment 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 Bank 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.

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 levels of arrears, credit utilization, loan to collateral ratios etc...), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

31 December 2015

2 ACCOUNTING POLICIES (continued)**2.5 Significant accounting estimates and judgments (continued)***Judgments (continued)**Deferred tax assets*

Deferred tax assets are recognized in respect of 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.

3 SEGMENTAL INFORMATION

For management purposes, the Bank is organized into three operating segments based on products and services as follows:

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 Bank as well as managing the Bank'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.

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 separate financial statements. Income tax expense, personnel expenses, other operating expenses, dividend income from subsidiaries and associates, and net gain on disposal of other assets are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as 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 income and profit and certain asset and liability information regarding the Bank's operating segments.

	2015			
	<i>Treasury, money and capital markets</i> LL million	<i>Corporate banking</i> LL million	<i>Retail banking</i> LL million	<i>Total</i> LL million
Net interest income	420,620	102,283	187,128	710,031
Net fee and commission income	31,873	17,049	60,167	109,089
Net gain from financial instruments at fair value through profit or loss	24,233	-	1,963	26,196
Net gain from derecognition of financial assets at amortized cost	6,024	-	-	6,024
Other operating income	-	-	6,014	6,014
Net credit losses	-	(7,060)	(23,162)	(30,222)
Net operating income	482,750	112,272	232,110	827,132
Extracts of results				
Depreciation and amortization				(25,639)
Segment loss				
Unallocated income				495
Unallocated expenses				(291,353)
Income tax expense				(82,098)
Profit for the year				428,537

3 SEGMENTAL INFORMATION (continued)

	2014			
	Treasury, money and capital markets LL million	Corporate banking LL million	Retail banking LL million	Total LL million
Net interest income	385,602	87,709	185,798	659,109
Net fee and commission income	39,306	15,207	53,882	108,395
Net gain from financial instruments at fair value through profit or loss	34,251	-	14,015	48,266
Net gain from derecognition of financial assets at amortized cost	40,341	-	-	40,341
Other operating income	-	-	10,065	10,065
Net credit losses	-	(20,930)	(32,819)	(53,749)
Net operating income	499,500	81,986	230,941	812,427
Extracts of results				
Depreciation and amortization				(19,701)
Segment loss				
Unallocated income				699
Unallocated expenses				(291,123)
Income tax expense				(82,532)
Profit for the year				419,770

Financial position information

	2015					
	Treasury, money and capital markets LL million	Corporate banking LL million	Retail banking LL million	Investments in subsidiaries and associates LL million	Other ¹ LL million	Total LL million
Total assets	26,389,670	4,541,137	4,059,377	800,547	475,760	36,266,491
Total liabilities	24,564,822	4,227,117	3,778,670	-	335,097	32,905,706

	2014					
	Treasury, money and capital markets LL million	Corporate banking LL million	Retail banking LL million	Investments in subsidiaries and associates LL million	Other ¹ LL million	Total LL million
Total assets	25,401,570	4,542,267	3,830,740	736,236	439,998	34,950,811
Total liabilities	23,685,136	4,235,337	3,571,890	-	286,783	31,779,146

¹ Other includes certain activities related to assets obtained in settlement of debt, property and equipment, intangible assets and other assets.

Geographic information

The Bank 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 Bank's net operating income and non-current assets.

	2015		
	Domestic LL million	International LL million	Total LL million
Total operating income	897,311	(39,957)	857,354
Net credit losses	(22,894)	(7,328)	(30,222)
Net operating income²	874,417	(47,285)	827,132
Non-current assets³	576,443	682,486	1,258,929

31 December 2015

3 SEGMENTAL INFORMATION (continued)**Geographic information (continued)**

	2014		
	Domestic LL million	International LL million	Total LL million
Total operating income	902,773	(36,597)	866,176
Net credit losses	(60,117)	6,368	(53,749)
Net operating income²	842,656	(30,229)	812,427
Non-current assets³	418,229	728,817	1,147,046

² Net operating income is attributed to the geographical segment on the basis of the location where the income is generated.

³ Non-current assets consist of investments in subsidiaries and associates, property and equipment, intangible assets, and assets obtained in settlement of debt.

4 INTEREST AND SIMILAR INCOME

	2015 LL million	2014 LL million
Interest income on financial assets at amortized cost	712,319	729,962
Deposits and similar accounts with banks and financial institutions	621,889	516,368
Deposits with sister banks	2,443	1,381
Loans and advances to customers at amortized cost	587,150	556,817
Loans and advances to related parties at amortized cost	800	865
	1,924,601	1,805,393

5 INTEREST AND SIMILAR EXPENSE

	2015 LL million	2014 LL million
Deposits and similar accounts from banks and financial institutions	12,219	12,864
Deposits from sister banks	12,733	12,155
Deposits from customers and other credit balances	1,179,448	1,111,024
Deposits from related parties at amortized cost	10,170	10,241
	1,214,570	1,146,284

6 NET FEE AND COMMISSION INCOME

	2015 LL million	2014 LL million
Fee and commission income		
Trade finance	7,121	7,049
Credit related fees and commissions	26,302	20,189
Asset management	109	153
Electronic banking	49,682	46,413
General banking income	35,665	35,593
Trust and fiduciary activities	45	32
Other services	7,530	15,037
	126,454	124,466
Fee and commission expense:		
Correspondents' accounts	(17,365)	(16,071)
Net fee and commission income	109,089	108,395

31 December 2015

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

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Governmental debt securities	8,322	7,590
- Corporate debt securities	2,559	4,139
- Certificates of deposits	800	-
- Funds	63	-
	<u>11,744</u>	<u>11,729</u>
Gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	557	-
- Corporate debt securities	5,039	3,218
	<u>5,596</u>	<u>3,218</u>
Unrealized (loss) gain from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Governmental debt securities	(2,118)	(31)
- Corporate debt securities	1,400	5,624
- Certificates of deposits	60	-
- Funds	6	47
	<u>(652)</u>	<u>5,640</u>
Net gain from debt instruments and other financial assets at fair value through profit or loss	<u>16,688</u>	<u>20,587</u>
Net gain from equity instruments at fair value through profit or loss:		
- Unrealized gain from revaluation	3,162	10,296
- Dividend income	4,405	3,368
- Loss from sale	(22)	-
Net gain from equity instruments at fair value through profit or loss	<u>7,545</u>	<u>13,664</u>
Foreign exchange income	<u>1,963</u>	<u>14,015</u>
	<u>26,196</u>	<u>48,266</u>

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

8 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>LL million</i>	<i>(Losses)</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	107	-	107
Treasury bills and bonds	7,012	(21)	6,991
Placements with the Central Bank	-	(1,074)	(1,074)
	<u>7,119</u>	<u>(1,095)</u>	<u>6,024</u>
	<i>2014</i>		
	<i>Gains</i> <i>LL million</i>	<i>(Losses)</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	40,275	(5,050)	35,225
Treasury bills and bonds	5,118	(2)	5,116
	<u>45,393</u>	<u>(5,052)</u>	<u>40,341</u>

9 OTHER OPERATING INCOME

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Net gain from sale of assets obtained in settlement of debt	432	3
Other operating income	5,582	10,062
	<u>6,014</u>	<u>10,065</u>

Other operating income corresponds mainly to income generated from fiscal stamps.

10 NET CREDIT LOSSES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Provision for commitment by signature	(8)	(1,227)
Provision for loans and advances to customers		
Commercial loans (note 20)	(17,499)	(69,886)
Consumer loans (note 20)	(23,553)	(41,671)
	<u>(41,052)</u>	<u>(111,557)</u>
Write-back of provisions for loans and advances to customers		
Commercial loans (note 20)	6,942	47,484
Consumer loans (note 20)	390	8,852
Off-financial position loans (note 20)	3,506	2,648
Sundry debtors (note 26)	-	51
	<u>10,838</u>	<u>59,035</u>
	<u>(30,222)</u>	<u>(53,749)</u>

31 December 2015

11 PERSONNEL EXPENSES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Wages and salaries	85,932	82,513
Social security contributions	17,626	17,266
Provision for retirement benefits obligations (note 32)	646	7,577
Additional allowances paid	29,663	28,499
Other provisions (including allowances and bonuses)	42,790	45,185
	<u>176,657</u>	<u>181,040</u>

12 OTHER OPERATING EXPENSES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Provision for guarantee of deposits	14,772	13,702
Marketing and advertising	11,733	11,229
Provision for risks and charges	10,656	213
Maintenance and repairs	9,798	10,256
Professional fees	9,134	9,556
Postage and telecommunications	5,856	6,011
Stationary and printings	5,815	7,543
Rent and related charges	5,007	5,350
Insurance	4,812	5,401
Electricity and fuel	4,177	4,325
Fiscal stamps	3,116	3,161
Taxes and fees	2,765	4,242
Travel expenses	1,795	2,755
Board of directors' attendance fees	1,195	972
Others	24,065	25,367
	<u>114,696</u>	<u>110,083</u>

"Others" includes mainly custody fees, guarding expenses, gifts, money transfer expenses, donations and provision for litigations and claims.

13 INCOME TAX

Income tax expense for the years ended 31 December 2015 and 2014 was as follows:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Income tax expense	82,098	82,532

31 December 2015

13 INCOME TAX (continued)**Reconciliation of the total tax charge**

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2015 and 2014 is as follows:

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Accounting profit before income tax	510,635	502,302
Add:		
Provisions non tax deductible	8,539	22,436
Other non-tax deductible charges	29,051	26,023
	<u>548,225</u>	<u>550,761</u>
Less:		
Income received and previously subject to income tax	(196)	(220)
Remunerations already taxed	(15,376)	(13,150)
Unrealized gains from revaluation of debt instruments and other financial assets at fair value through profit or loss	(2,510)	(15,095)
Realized gain from disposal of financial assets at fair value through profit or loss already subject to income tax	-	(1,642)
Provisions previously subject to income tax	(573)	(46,184)
Net gain on disposal of fixed assets	(397)	(707)
Non taxable income	(4,730)	(3,241)
	<u>524,443</u>	<u>470,522</u>
Effective income tax rate	16.08%	17.02%
Income tax expense in the income statement	<u>82,098</u>	<u>82,532</u>

14 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Cash on hand	185,502	178,892
Current accounts with central banks	800,913	747,877
Deposits with central banks	11,511,755	10,681,897
	<u>12,498,170</u>	<u>11,608,666</u>

Cash and balances with Central Banks include non-interest bearing balances held by the Bank 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. 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\$ 1,941,681 thousands (equivalent to LL 2,927 billion) as at 31 December 2015 (2014: US\$ 1,869,649 thousands equivalent to LL 2,818 billion).

Foreign branches 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.

31 December 2015

15 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Current accounts		
Current accounts	519,302	329,893
Time deposits	1,377,427	2,049,210
	<u>1,896,729</u>	<u>2,379,103</u>

16 DUE FROM SISTER BANKS

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Current accounts	209,515	233,845
Time deposits	519,205	407,760
	<u>728,720</u>	<u>641,605</u>

17 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Loans to banks and financial institutions	34,258	42,773
Accrued interest receivable	423	485
Balance at 31 December	<u>34,681</u>	<u>43,258</u>

18 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 the year end and are indicative of neither the market risk nor the credit risk.

	<i>2015</i>			<i>2014</i>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Total</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>notional amount</i>	<i>LL million</i>	<i>LL million</i>	<i>notional amount</i>
			<i>LL million</i>			<i>LL million</i>
Hedge of a net investment in foreign operations						
Forward foreign exchange contracts	62	-	177,679	5,147	-	197,882
Derivatives held-for-trading						
Forward foreign exchange contracts	-	37	1,613,900	1,939	-	552,129
Currency options	14,525	14,525	118,173	68,488	68,488	4,431,718
	<u>14,587</u>	<u>14,562</u>	<u>1,909,752</u>	<u>75,574</u>	<u>68,488</u>	<u>5,181,729</u>

18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

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

Options

The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Derivative financial instruments held-for-trading purposes

Most of the Bank'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 Bank uses derivatives for hedging purposes in order to reduce its exposure to currency risk.

The Bank 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) are designated as a hedge of the Bank's net investment in its French subsidiary, and are being used to hedge the Bank'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.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Equity instruments at fair value through profit or loss	133,632	120,823
Debt and other instruments at fair value through profit or loss	187,633	314,704
	<u>321,265</u>	<u>435,527</u>

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

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Quoted equity securities	121,161	109,094
Unquoted equity securities	12,471	11,729
Quoted governmental debt securities	85,042	-
Unquoted governmental debt securities	21,672	101,865
Quoted corporate debt securities	59,837	209,027
Unquoted corporate debt securities	1,696	1,696
Funds	4,654	2,116
Unquoted certificates of deposits – Central Banks	14,732	-
	<u>321,265</u>	<u>435,527</u>

31 December 2015

20 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Commercial loans (*)	4,700,400	4,642,959
Consumer loans	4,114,340	3,881,190
	<u>8,814,740</u>	<u>8,524,149</u>
Less:		
Individual impairment allowances	(170,207)	(173,116)
Collective impairment allowances	(74,099)	(65,178)
Unrealized interest	(60,298)	(43,264)
	<u>8,510,136</u>	<u>8,242,591</u>

(*) Included under commercial loans as at 31 December 2015, an amount of LL 1,640,067 million (31 December 2014: LL 1,368,409 million) representing SME loans.

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 balance sheet accounts. The gross balance of these loans amounted to LL 206,243 million as of 31 December 2015 (2014: LL 164,893 million).

Movement of collective impairment allowances for the year ended 31 December was as follows:

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Beginning balance	65,178	81,856
Charge for the year	9,573	29,508
Write-back of provisions	(654)	(46,184)
Foreign exchange difference	2	(2)
	<u>74,099</u>	<u>65,178</u>

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

	<i>2015</i>	<i>2014</i>
	<i>Commercial loans LL million</i>	<i>Commercial loans LL million</i>
Balance at 1 January	43,264	28,496
Add:		
Unrealized interest for the year	24,202	27,866
	<u>67,466</u>	<u>56,362</u>
Less:		
Recoveries of unrealized interest (note 10)	(5,265)	(2,729)
Amounts written-off	(295)	(96)
Transferred to off-financial position	(1,515)	(10,241)
Foreign exchange difference	(93)	(32)
Balance at 31 December	<u>60,298</u>	<u>43,264</u>
Unrealized interest on substandard loans	7,908	4,374
Unrealized interest on doubtful loans	52,390	38,890
	<u>60,298</u>	<u>43,264</u>

20 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 loans LL million	Consumer loans LL million	Total LL million	Commercial loans LL million	Consumer loans LL million	Total LL million
Balance at 1 January	180,687	57,607	238,294	201,219	50,977	252,196
Add:						
Charge for the year (note 10)	17,499	23,553	41,052	69,886	41,671	111,557
	<u>198,186</u>	<u>81,160</u>	<u>279,346</u>	<u>271,105</u>	<u>92,648</u>	<u>363,753</u>
Less:						
Provisions written-off	836	930	1,766	4,149	463	4,612
Write-back of provisions (note 10)	1,677	390	2,067	44,755	8,852	53,607
Provision transferred to off financial position	12,675	17,873	30,548	40,754	25,689	66,443
Exchange differences	648	11	659	760	37	797
	<u>15,836</u>	<u>19,204</u>	<u>35,040</u>	<u>90,418</u>	<u>35,041</u>	<u>125,459</u>
Balance at 31 December	<u>182,350</u>	<u>61,956</u>	<u>244,306</u>	<u>180,687</u>	<u>57,607</u>	<u>238,294</u>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Individual impairment	126,542	43,665	170,207	132,023	41,093	173,116
Collective impairment	55,808	18,291	74,099	48,664	16,514	65,178
	<u>182,350</u>	<u>61,956</u>	<u>244,306</u>	<u>180,687</u>	<u>57,607</u>	<u>238,294</u>
Gross amount of loans individually determined to be impaired	<u>280,890</u>	<u>67,330</u>	<u>348,220</u>	<u>295,441</u>	<u>55,312</u>	<u>350,753</u>

The fair value of collateral that the Bank holds relating to loans and advances to corporate customers determined to be impaired individually as at 31 December 2015 amounts to LL 214,543 million (2014: LL 229,595 million). The collateral consists of cash, securities, letters of guarantees 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 LL million	2014 LL million
Balance at 1 January	164,893	81,841
Add:		
Unrealized interest for the year	15,814	9,462
Unrealized interest transferred from the statement of financial position	1,515	10,241
Provision transferred from the statement of financial position	30,548	66,443
	<u>212,770</u>	<u>167,987</u>
Less:		
Recoveries / provisions written-back (note 10)	(2,842)	(1,281)
Unrealized interest written-back (note 10)	(664)	(1,367)
Amounts written-off	(1,807)	(40)
Foreign exchange difference	(1,214)	(406)
	<u>(6,527)</u>	<u>(3,094)</u>
Balance at 31 December	<u>206,243</u>	<u>164,893</u>

31 December 2015

21 FINANCIAL ASSETS AT AMORTIZED COST

	2015	2014
	LL million	LL million
Quoted:		
Government debt securities	2,330,106	2,316,267
Corporate debt securities	1,129,129	780,327
	<u>3,459,235</u>	<u>3,096,594</u>
Unquoted:		
Government debt securities	3,799,352	4,354,783
Corporate debt securities	64,963	68,807
Certificates of deposit – Central Bank of Lebanon	3,205,701	2,309,218
Certificates of deposit – Commercial banks and financial institutions	366,267	388,435
	<u>7,436,283</u>	<u>7,121,243</u>
	<u>10,895,518</u>	<u>10,217,837</u>

22 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Country of origin	Activity	Contribution's share		2015 LL million	2014 LL million
			2015 %	2014 %		
BLOMInvest Bank SAL	Lebanon	Banking	99.93	99.93	9,993	9,993
Bank of Syria and Overseas SA (BSO)	Syria	Banking	49.00	49.00	85,611	85,611
BLOM Bank France SA	France	Banking	99.99	99.99	177,679	197,882
BLOM Bank Egypt SAE	Egypt	Banking	99.42	99.42	222,227	222,227
AROPE Insurance SAL	Lebanon	Insurance	88.98	88.98	37,227	37,227
Syria International Insurance (AROPE Syria) SA	Syria	Insurance	10.00	10.00	2,973	2,973
BLOMInvest – Saudi Arabia	Saudi Arabia	Financial Institution	10.00	10.00	9,849	9,849
BLOM Bank Qatar LLC	Qatar	Banking	99.75	99.75	67,687	67,687
BLOM Development Bank SAL	Lebanon	Islamic Banking	33.32	33.32	17,493	17,493
Blom Securities	Jordan	Financial Institution	100.00	100.00	10,415	10,415
Aza Holding SAL	Lebanon	Investment	37.44	-	107,123	-
					<u>748,277</u>	<u>661,357</u>
Subordinated loans:						
BLOM Bank Egypt SAE					-	22,613
BLOM Bank Qatar LLC					15,075	15,075
BLOMInvest – Saudi Arabia					37,185	37,185
Accrued interest					10	6
					<u>52,270</u>	<u>74,879</u>
					<u>800,547</u>	<u>736,236</u>

BLOM Bank France SA

The Bank hedges its investment in BLOM Bank France SA amounting to EUR 107,904 thousand through long-term contracts denominated in foreign currency by which the Bank sells EUR 107,904 thousand in exchange for USD based on prevailing exchange rates at each maturity date. Gain from difference of exchange on investment in BLOM Bank France SA is matched with an equal loss in long-term operations denominated in foreign currency.

BLOM Bank Egypt SAE

The Bank has entered into a subordinated loan agreement dated 28 December 2005 with Blom Bank Egypt SAE for US\$ 50,000,000 (equivalent to LL 75,375 million) maturing on 28 December 2011. The subordinated loan carries an interest rate of 3 month LIBOR and is payable in five equal yearly installments starting 28 December 2007. Blom Bank Egypt SAE made four equal payments amounting to US\$ 10,000,000 each and was granted by the Bank an additional subordinated loan of US\$ 5,000,000 on 20 June 2011 payable by the end of December 2012. Following the resolution of the board of directors' meeting held on 5 February 2014, the remaining loan balance of US\$ 15 million was rescheduled and had a maturity date on 26 December 2014. On 7 December 2014, the Bank agreed to extend the maturity of the remaining balance amounting to US\$ 15 million to 28 June 2015. Blom Bank Egypt SAE made a payment of US\$ 15 million on 29 June 2015, fully settling the subordinated loan.

31 December 2015

22 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)***BLOM Bank Qatar LLC***

The Bank has entered into a subordinated loan agreement dated 29 September 2010 with BLOM Bank Qatar LLC for US\$ 10,000,000 (equivalent to LL 15,075 million). The subordinated loan forms part of the subsidiary capital resources in compliance with applicable QFC regulations. The subordinated loan has a final maturity date of 30 September 2015 and carries an interest rate of 3 month LIBOR payable quarterly. On 23 January 2015, an addendum to the subordinated loan agreement was signed between the Bank and Blom Bank Qatar LLC to extend the maturity of the balance amounting to US\$ 10,000,000 (equivalent to LL 15,075 million) to 31 December 2020.

BlomInvest – Saudi Arabia

The Bank has entered into a subordinated loan agreement dated 29 June 2011 with BlomInvest – Saudi Arabia for US\$ 10,000,000 (equivalent to LL 15,075 million). The subordinated loan has a final maturity date of 29 June 2016 and carries a floating interest rate payable on a quarterly basis.

In 2013, The Bank has entered into a new subordinated loan agreement dated 12 September 2013 with BlomInvest – Saudi Arabia for US\$ 14,666,667 (equivalent to LL 22,110 million). The subordinated loan has a final maturity date on 19 November 2018 and carries a floating interest rate payable on a quarterly basis.

Capital increase

On 18 July 2014, the Bank's board of directors approved to increase the capital of BlomInvest – Saudi Arabia from SAR 145 million to SAR 245 million, whereby the Bank will subscribe in 10% of the issued shares, thus increasing its investment in BlomInvest – Saudi Arabia from SAR 14.5 million (equivalent to LL 5,829 million) to SAR 24.5 million (equivalent to LL 9,849 million). On 8 September 2014, the Bank obtained the approval of the Central Bank of Lebanon to subscribe in the increase of capital relating to BlomInvest – Saudi Arabia.

BLOM Development Bank SAL***Capital increase***

On 8 April 2014, the Bank's board of directors approved to increase the capital of BLOM Development Bank SAL from LL 30,000 million to LL 52,500 million, whereby the Bank will subscribe in 33.32% of the issued shares, thus increasing its investment in BLOM Development Bank SAL from LL 9,994 million to LL 17,493 million. On 11 June 2014, the Bank obtained the approval of the Central Bank of Lebanon to subscribe in the increase of capital relating to BLOM Development Bank SAL.

Aza Holding SAL

On 17 December 2014, a transfer of share agreement was signed between Audi Investment Bank SAL and Blom Bank SAL to transfer ownership of 37,440 shares (class B) of Aza Holding SAL at a price of \$1,897.96 per share for a total consideration of US\$ 71,060 thousands (equivalent to LL 107,123 million).

23 PROPERTY AND EQUIPMENT

	<i>Freehold land and buildings LL million</i>	<i>Vehicles LL million</i>	<i>Furniture, office installations and computer equipment LL million</i>	<i>Advances on acquisition of property and equipment in progress LL million</i>	<i>Total LL million</i>
Cost					
At 1 January 2015	294,918	4,106	208,385	62,928	570,337
Additions	8,106	1,190	11,220	35,815	56,331
Disposals	(4,134)	(1,057)	(1,585)	-	(6,776)
Transfers	10,030	-	7,823	(24,433)	(6,580)
Foreign exchange difference	(27)	(2)	(118)	(2)	(149)
At 31 December 2015	308,893	4,237	225,725	74,308	613,163
Depreciation					
At 1 January 2015	45,012	1,947	118,265	-	165,224
Charge for the year	5,101	783	16,853	-	22,737
Relating to disposals	(389)	(1,041)	(1,304)	-	(2,734)
Foreign exchange difference	(3)	-	(21)	-	(24)
At 31 December 2015	49,721	1,689	133,793	-	185,203
Net carrying value					
At 31 December 2015	259,172	2,548	91,932	74,308	427,960

31 December 2015

23 PROPERTY AND EQUIPMENT (continued)

	<i>Freehold land and buildings LL million</i>	<i>Vehicles LL million</i>	<i>Furniture, office installations and computer equipment LL million</i>	<i>Advances on acquisition of property and equipment in progress LL million</i>	<i>Total LL million</i>
Cost					
At 1 January 2014	266,887	3,440	178,775	66,284	515,386
Additions	13,545	1,789	18,842	41,443	75,619
Disposals	(699)	(1,212)	(1,760)	-	(3,671)
Transfers	15,228	90	12,570	(44,795)	(16,907)
Foreign exchange difference	(43)	(1)	(42)	(4)	(90)
At 31 December 2014	294,918	4,106	208,385	62,928	570,337
Depreciation					
At 1 January 2014	40,593	2,588	106,128	-	149,309
Charge for the year	4,697	570	13,649	-	18,916
Relating to disposals	(276)	(1,211)	(1,487)	-	(2,974)
Foreign exchange difference	(2)	-	(25)	-	(27)
At 31 December 2014	45,012	1,947	118,265	-	165,224
Net carrying value					
At 31 December 2014	249,906	2,159	90,120	62,928	405,113

24 INTANGIBLE ASSETS

	<i>Key money LL million</i>	<i>Software development LL million</i>	<i>Total LL million</i>
Cost			
At 1 January 2015	1,758	5,496	7,254
Additions	-	1,957	1,957
Transfers	-	3,897	3,897
At 31 December 2015	1,758	11,350	13,108
Amortization			
At 1 January 2015	1,545	4,574	6,119
Charge for the year	53	2,849	2,902
At 31 December 2015	1,598	7,423	9,021
Net carrying value			
At 31 December 2015	160	3,927	4,087

31 December 2015

24 INTANGIBLE ASSETS (continued)

	<i>Key money</i> <i>LL million</i>	<i>Software</i> <i>development</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Cost			
At 1 January 2014	1,758	4,568	6,326
Additions	-	794	794
Transfers	-	134	134
At 31 December 2014	<u>1,758</u>	<u>5,496</u>	<u>7,254</u>
Amortization			
At 1 January 2014	1,492	3,842	5,334
Charge for the year	53	732	785
At 31 December 2014	<u>1,545</u>	<u>4,574</u>	<u>6,119</u>
Net carrying value			
At 31 December 2014	<u>213</u>	<u>922</u>	<u>1,135</u>

25 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Cost		
At 1 January	4,562	3,977
Additions	22,763	1,364
Disposals	(1,788)	(745)
Transfers	225	-
Write-back	573	-
Impairment	-	(34)
31 December	<u>26,335</u>	<u>4,562</u>

26 OTHER ASSETS

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Customers' transactions between head office and branches	1,500	6,170
Prepayments	13,304	13,718
Precious metals and stamps	1,103	1,113
Sundry debtors	1,261	6,139
Others	210	2,048
	<u>17,378</u>	<u>29,188</u>

Customers' transactions between head office and branches

This account represents checks between head office and branches and some letters of credit and guarantees outstanding at year end.

26 OTHER ASSETS (continued)

Sundry debtors

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Sundry debtors	2,481	7,359
Less: Provision against sundry debtors	(1,220)	(1,220)
	<u>1,261</u>	<u>6,139</u>

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

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Balance at 1 January	1,220	1,271
Amounts written back (note 10)	-	(51)
Balance at 31 December	<u>1,220</u>	<u>1,220</u>

27 DUE TO CENTRAL BANKS

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Loan due to Central Bank of Lebanon	442,381	372,252
Loan due to Central Bank of Jordan	13,172	9,781
Accrued interest payable	4,089	2,862
Balance at 31 December	<u>459,642</u>	<u>384,895</u>

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).

28 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Current accounts	204,691	320,290
Time deposits	144,369	187,797
	<u>349,060</u>	<u>508,087</u>

31 December 2015

29 DUE TO SISTER BANKS

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Current accounts	308,497	290,841
Time deposits	152,629	140,395
	<u>461,126</u>	<u>431,236</u>

30 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Sight deposits	2,716,825	2,550,721
Time deposits	13,675,995	13,412,366
Saving accounts	12,547,213	11,924,166
Credit accounts and deposits against debit accounts	2,068,176	1,888,082
Margins on letters of credit	30,287	33,534
	<u>31,038,496</u>	<u>29,808,869</u>

Customers' deposits include coded deposit accounts amounting to LL 48,019 million as of 31 December 2015 (2014: LL 51,875 million).

31 OTHER LIABILITIES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Current tax liability	63,845	59,772
Sundry creditors	42,816	22,743
Dividends payable	53	23
Accrued expenses and other regularization accounts	33,699	32,402
Transactions pending between branches	90,810	77,392
Other taxes	11,656	10,300
	<u>242,879</u>	<u>202,632</u>

32 PROVISIONS FOR RISKS AND CHARGES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Retirement benefits obligation	46,117	48,716
Provision for risks and charges	41,213	30,557
Provision on commitment by signature	3,831	3,823
Other provisions	1,057	1,055
	<u>92,218</u>	<u>84,151</u>

32 PROVISIONS FOR RISKS AND CHARGES (continued)

The movement of the retirement benefits obligation is as follows:

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	48,716	41,648
Charge for the year (note 11)	646	7,577
Transfer (to) from sister banks	(24)	602
Benefits paid	(3,033)	(1,343)
Foreign exchange difference	(188)	232
Balance at 31 December	<u>46,117</u>	<u>48,716</u>

The movement of the provision for risks and charges is as follows:

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Balance at 1 January	30,557	30,344
Charge for the year	10,656	213
Balance at 31 December	<u>41,213</u>	<u>30,557</u>

33 SHARE CAPITAL AND PREMIUMS

	<i>2015</i>		<i>2014</i>	
	<i>Share capital</i>	<i>Share premium</i>	<i>Share capital</i>	<i>Share premium</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Common shares – Authorized, issued and fully paid				
215,000,000 shares at LL 1,200 per share as of 31 December 2015 (31 December 2014: same)	<u>258,000</u>	<u>374,085</u>	<u>258,000</u>	<u>374,085</u>
Preferred shares – Authorized, issued and fully paid				
20,000,000 preferred shares (2011 issue) at LL 1,200 per share as of 31 December 2015 (31 December 2014: same)	<u>24,000</u>	<u>277,500</u>	<u>24,000</u>	<u>277,500</u>

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 (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 (2014: the same).

34 NON DISTRIBUTABLE RESERVES

	<i>Reserve for general banking risks LL million</i>	<i>Legal reserve LL million</i>	<i>Reserve for increase of share capital LL million</i>	<i>Reserve for retail loans LL million</i>	<i>Total LL million</i>
At 1 January 2014	279,000	342,904	52,662	-	674,566
Appropriation of 2013 profits	47,250	41,305	434	-	88,989
Net gain on sale of treasury shares	-	-	4,971	-	4,971
At 31 December 2014	<u>326,250</u>	<u>384,209</u>	<u>58,067</u>	<u>-</u>	<u>768,526</u>
Appropriation of 2014 profits	55,000	41,977	18,675	5,250	120,902
Net gain on sale of treasury shares	-	-	10,167	-	10,167
At 31 December 2015	<u>381,250</u>	<u>426,186</u>	<u>86,909</u>	<u>5,250</u>	<u>899,595</u>

Reserve for general banking risks

According to the Central Bank of Lebanon regulations, banks 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 1.25% of these risks at the end of year ten (2017) and 2% at the end of year twenty (2027). This reserve is part of the Bank's equity and cannot be distributed as dividends.

The appropriation in 2015 from the profits of the year 2014 amounted to LL 55,000 million (2014: LL 47,250 million).

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, 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 Bank appropriated LL 41,977 million from 2014 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2014: LL 41,305 million).

Reserve for increase of share capital

The balance amounting to LL 86,909 million (2014: LL 58,067 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.

Reserve for retail loans

According to BCC Circular no 280 dated 2 January 2015, banks are required to appropriate from their annual profit 0.5% of performing retail loans up to 30 days past due (with certain exemptions) as at 31 December 2014 with effect the year 2015. Additionally the Bank will appropriate an addition 0.5% every year until 2020. On 15 April 2015, the General Assembly Meeting of the Bank allocated an amount of LL 5,250 million as a reserve for retail loans (2014: nil).

35 DISTRIBUTABLE RESERVES

	<i>2015 LL million</i>	<i>2014 LL million</i>
General reserves	<u>37,696</u>	<u>37,696</u>

General reserves

The Bank appropriates general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 37,696 million (2014: the same) is available for dividends distribution.

31 December 2015

36 TREASURY SHARES

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

	<i>2015</i>	
	<i>No. of common shares</i>	<i>Amount LL million</i>
At 1 January	4,581,436	58,158
Purchase of treasury shares	3,871,092	55,852
Sale of treasury shares	(2,879,110)	(38,096)
At 31 December	5,573,418	75,914

	<i>2014</i>	
	<i>No. of common shares</i>	<i>Amount LL million</i>
At 1 January	7,121,166	87,199
Purchase of treasury shares	1,758,551	23,895
Sale of treasury shares	(4,298,281)	(52,936)
At 31 December	4,581,436	58,158

The treasury shares represent 3,653,828 Global Depository Receipts (GDR) and 1,919,590 ordinary shares owned by the Bank as at 31 December 2015 (2014: 3,314,948 Global Depository Receipts (GDR) and 1,266,488 ordinary shares). The market value of one GDR and one ordinary share were USD 9.75 and USD 9.40 respectively as of 31 December 2015 (2014: USD 9.8 and USD 8.8 respectively).

The Bank 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".

37 RETAINED EARNINGS

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

	<i>2015 LL million</i>	<i>2014 LL million</i>
Unrealized gain on financial assets at fair value through profit or loss	56,985	59,311

38 REVALUATION RESERVE OF REAL ESTATE

	<i>2015 LL million</i>	<i>2014 LL million</i>
Revaluation reserve accepted in Tier II capital	11,842	11,842

31 December 2015

39 CASH AND CASH EQUIVALENTS

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Cash and balances with central banks	1,295,879	1,236,635
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	922,387	2,073,253
Deposits with sister banks (whose original maturities are less than 3 months)	323,497	568,491
	<u>2,541,763</u>	<u>3,878,379</u>
Less:		
Due to central banks	(13,350)	(23,563)
Due to banks and financial institutions (whose original maturities are less than 3 months)	(241,561)	(388,044)
Due to sister banks (whose original maturities are less than 3 months)	(461,542)	(431,236)
	<u>(716,453)</u>	<u>(842,843)</u>
	<u>1,825,310</u>	<u>3,035,536</u>

40 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 in LL</i>	<i>Total 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 in LL</i>	<i>Total 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.

41 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, associates, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

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.

Subsidiaries

A list of the Bank's principal subsidiaries is shown in note 22. Transactions between the Bank and its subsidiaries meet the definition of related party transactions.

Associates

The Bank provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits and current accounts are provided to these entities as well as other services. These transactions are conducted on the same terms as third-party transactions.

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year.

31 December 2015:

	<u>Key management personnel</u> Outstanding balance LL million	<u>Subsidiaries</u> Outstanding balance LL million	<u>Other related parties</u> Outstanding balance LL million	<u>Total</u> Outstanding Balance LL million
Deposits	45,994	20,932	112,924	179,850
Net loans and advances	4,662	-	17,843	22,505
Subordinated loans	-	52,270	-	52,270
Due from sister banks	-	728,720	-	728,720
Due to sister banks	-	461,126	-	461,126
Placement of funds – Wakala and Murabaha operations	-	14,592	-	14,592
Guarantees given	4,167	19,026	45	23,238
Commitments given	-	9,911	-	9,911
Guarantees received	-	237	-	237
Commitments received	-	201	-	201
End of service indemnity	-	(23)	-	(23)
Assets under custody given	-	3,838,821	-	3,838,821
	<u>Key management personnel</u> LL million	<u>Subsidiaries</u> LL million	<u>Other related parties</u> LL million	<u>Total</u> LL million
Interest paid on deposits	2,503	823	6,844	10,170
Interest received from net loans and advances	218	-	582	800
Insurance expenses	-	8,809	-	8,809
Interest revenues	-	2,262	-	2,262
Interest expenses	-	12,733	-	12,733
Interest revenue from subordinated loans	-	181	-	181
Commission income	-	2,630	-	2,630
Custody expense	-	742	-	742
Custody income	-	5	-	5
Dividend Income	-	111	-	111
Profit from sale of fixed assets	-	389	-	389

31 December 2015

41 RELATED PARTY TRANSACTIONS (continued)

31 December 2014:

	<u>Key management personnel</u> Outstanding balance LL million	<u>Subsidiaries</u> Outstanding balance LL million	<u>Other related parties</u> Outstanding balance LL million	<u>Total</u> Outstanding balance LL million
Deposits	39,509	24,551	120,475	184,535
Net loans and advances	5,410	-	18,753	24,163
Subordinated loans	-	74,879	-	74,879
Due from sister banks	-	641,605	-	641,605
Due to sister banks	-	431,236	-	431,236
Placement of funds – Wakala and Murabaha operations	-	14,830	-	14,830
Guarantees given	2,481	19,821	45	22,347
Commitments given	-	13,426	-	13,426
Guarantees received	-	1,368	-	1,368
Commitments received	-	173	-	173
End of service indemnity	-	602	-	602
Assets under custody given	-	3,546,731	-	3,546,731

	<u>Key management personnel</u> LL million	<u>Subsidiaries</u> LL million	<u>Other related parties</u> LL million	<u>Total</u> LL million
Interest paid on deposits	2,075	891	7,275	10,241
Interest received from net loans and advances	267	-	598	865
Insurance expenses	-	9,009	-	9,009
Interest revenues	-	1,202	-	1,202
Interest expenses	-	12,155	-	12,155
Interest revenue from subordinated loans	-	179	-	179
Accounting services' revenues	-	-	19	19
Commission income	-	2,491	-	2,491
Custody expense	-	816	-	816
Custody income	-	17	-	17

Compensation of the Key Management Personnel of the Bank

	2015 LL million	2014 LL million
Short-term benefits	32,276	29,441
Post-employment benefits charged for the year	1,009	1,492

The following transactions have been entered into with related parties during 2015 and 2014:

	2015 LL million	2014 LL million
Purchase of certificates of deposit – Central Banks denominated in Lebanese Lira classified at amortized cost from BlomInvest Bank SAL (subsidiary)	10,000	-
Purchase of governmental treasury bills denominated in Lebanese Lira classified at amortized cost from BlomInvest Bank SAL (subsidiary)	27,784	35,000
Sale of governmental treasury bills denominated in Lebanese Lira classified at amortized cost to BlomInvest Bank SAL (subsidiary)	(118,750)	(74,000)

42 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit – related commitments

To meet the financial needs of customers, the Bank 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 statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. 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.

	<i>2015</i>		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Guarantee and contingent liabilities			
Financial guarantees	31,177	207,585	238,762
Other guarantees	3,090	61,381	64,471
	<u>34,267</u>	<u>268,966</u>	<u>303,233</u>
Commitments			
Documentary credits	113,609	-	113,609
Undrawn credit lines	-	1,590,069	1,590,069
<i>Of which revocable</i>	-	1,486,751	1,486,751
<i>Of which irrevocable</i>	-	103,318	103,318
Other commitments	11,123	43,174	54,297
	<u>124,732</u>	<u>1,633,243</u>	<u>1,757,975</u>
	<i>2014</i>		
	<i>Banks LL million</i>	<i>Customers LL million</i>	<i>Total LL million</i>
Guarantee and contingent liabilities			
Financial guarantees	32,821	185,983	218,804
Other guarantees	3,458	66,997	70,455
	<u>36,279</u>	<u>252,980</u>	<u>289,259</u>
Commitments			
Documentary credits	95,115	-	95,115
Undrawn credit lines	-	1,378,223	1,378,223
<i>Of which revocable</i>	-	1,307,411	1,307,411
<i>Of which irrevocable</i>	-	70,812	70,812
Other commitments	14,975	50,352	65,327
	<u>110,090</u>	<u>1,428,575</u>	<u>1,538,665</u>

Guarantees

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 provided include mainly performance guarantees, advance payment guarantees and tender guarantees.

31 December 2015

42 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)*Documentary credits*

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

Undrawn credit lines

Undrawn credit lines to lend are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had several unresolved legal claims.

Based on advice from legal counsel, management believes that legal claims will not result in any significant financial loss to the Bank.

Capital and operating lease commitments

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

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
<i>Capital commitments</i>		
Property and equipment purchases	61,340	29,367
	<hr/>	<hr/>
<i>Operating lease commitments</i>		
Future minimum lease payments under operating leases:		
During one year	1,253	1,401
More than 1 year and less than five years	4,838	5,809
More than five years	3,817	5,330
	<hr/>	<hr/>
Total operating lease commitments at the statement of financial position date	9,908	12,540
	<hr/>	<hr/>

Other 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.

Contingent liabilities

Since 2011, substantial events took place in Syria, one of the significant credit markets of the Bank, which will impact the economic environment of future periods. In this context, management has performed a stress testing on its loan portfolio which is subject to the risks of the Syrian market, and as a result booked a collective provision. The Bank's management continues to monitor its loan portfolio and evaluate the impact of these events during 2015.

43 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Assets held in custody and under administration	1,280,600	2,162,553

The Bank 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.

44 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 Bank as a going concern.

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities.

	<i>2015</i>			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Assets measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts used for hedging purposes	-	62	-	62
Currency options	-	14,525	-	14,525
Financial assets at fair value through profit or loss:				
Quoted equity securities	121,161	-	-	121,161
Unquoted equity securities	-	12,471	-	12,471
Quoted governmental debt securities	85,042	-	-	85,042
Unquoted governmental debt securities	-	21,672	-	21,672
Quoted corporate debt securities	59,837	-	-	59,837
Unquoted corporate debt securities	-	1,696	-	1,696
Funds	-	4,654	-	4,654
Unquoted certificates of deposits- Central Banks	-	14,732	-	14,732
	<i>2014</i>			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Assets measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts used for hedging purposes	-	5,147	-	5,147
Forward foreign exchange contracts	-	1,939	-	1,939
Currency options	-	68,488	-	68,488
Financial assets at fair value through profit or loss:				
Quoted equity securities	109,094	-	-	109,094
Unquoted equity securities	-	11,729	-	11,729
Unquoted governmental debt securities	-	101,865	-	101,865
Quoted corporate debt securities	209,027	-	-	209,027
Unquoted corporate debt securities	-	1,696	-	1,696
Funds	-	2,116	-	2,116

44 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

	2015			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Assets for which fair values are disclosed:				
Cash and balances with central banks	185,502	12,678,363	-	12,863,865
Due from banks and financial institutions	-	1,896,282	-	1,896,282
Due from sister banks	-	728,678	-	728,678
Loans to banks and financial institutions	-	38,322	-	38,322
Net loans and advances to customers at amortized cost	-	-	8,554,727	8,554,727
Net loans and advances to related parties at amortized cost	-	-	22,671	22,671
Financial assets at amortized cost				
Government debt securities	2,327,248	3,905,171	-	6,232,419
Certificates of deposit - Central Banks	-	3,341,513	-	3,341,513
Corporate debt securities	1,151,541	64,963	-	1,216,504
Certificates of deposit - Commercial banks and financial institutions	362,248	-	-	362,248
Liabilities measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts	-	37	-	37
Currency options	-	14,525	-	14,525
Liabilities for which fair values are disclosed:				
Due to central banks	-	299,202	-	299,202
Due to banks and financial institutions	-	349,046	-	349,046
Due to sister banks	-	461,126	-	461,126
Customers' deposits at amortized cost	-	31,107,287	-	31,107,287
Deposits from related parties at amortized cost	-	180,176	-	180,176

	2014			
	<i>Valuation techniques</i>			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Assets for which fair values are disclosed:				
Cash and balances with central banks	178,892	12,127,168	-	12,306,060
Due from banks and financial institutions	-	2,379,023	-	2,379,023
Due from sister banks	-	641,595	-	641,595
Loans to banks and financial institutions	-	48,853	-	48,853
Net loans and advances to customers at amortized cost	-	-	8,284,891	8,284,891
Net loans and advances to related parties at amortized cost	-	-	24,372	24,372
Financial assets at amortized cost				
Government debt securities	2,366,104	4,430,125	-	6,796,229
Certificates of deposit - Central Banks	-	2,382,673	-	2,382,673
Corporate debt securities	823,283	68,807	-	892,090
Certificates of deposit - Commercial banks and financial institutions	363,950	22,661	-	386,611
Liabilities measured at fair value:				
Derivative financial instruments:				
Currency options	-	68,488	-	68,488
Liabilities for which fair values are disclosed:				
Due to central banks	-	252,836	-	252,836
Due to banks and financial institutions	-	508,089	-	508,089
Due to sister banks	-	431,236	-	431,236
Customers' deposits at amortized cost	-	29,873,009	-	29,873,009
Deposits from related parties at amortized cost	-	185,761	-	185,761

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

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Financial assets and liabilities are classified according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined 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.

44 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)**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.

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 deposits and other debt securities

The Bank 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, credit spreads and broker statements.

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)**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 deposits and other debt securities

The Bank 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, credit spreads and broker statements.

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 the year 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.

44 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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 Bank'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.

	2015		2014	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
Financial assets				
Cash and balances with central banks	12,498,170	12,863,865	11,608,666	12,306,060
Due from banks and financial institutions	1,896,729	1,896,282	2,379,103	2,379,023
Due from sister banks	728,720	728,678	641,605	641,595
Loans to banks and financial institutions	34,681	38,322	43,258	48,853
Net loans and advances to customers at amortized cost	8,510,136	8,554,727	8,242,591	8,284,891
Net loans and advances to related parties at amortized cost	22,505	22,671	24,163	24,372
Financial assets at amortized cost	10,895,518	11,152,684	10,217,837	10,457,603
Government debt securities	6,129,458	6,232,419	6,671,050	6,796,229
Certificates of deposit - Central Banks	3,205,701	3,341,513	2,309,218	2,382,673
Corporate debt securities	1,194,092	1,216,504	849,134	892,090
Certificates of deposit - Commercial banks and financial institutions	366,267	362,248	388,435	386,611
Financial liabilities				
Due to central banks	459,642	299,202	384,895	252,836
Due to banks and financial institutions	349,060	349,046	508,087	508,089
Due to sister banks	461,126	461,126	431,236	431,236
Customers' deposits at amortized cost	31,038,496	31,107,287	29,808,869	29,873,009
Deposits from related parties at amortized cost	179,850	180,176	184,535	185,761

45 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 Bank's assets and liabilities as at 31 December 2015 is as follows:

	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with central banks	2,061,425	10,436,745	12,498,170
Due from banks and financial institutions	1,896,729	-	1,896,729
Due from sister banks	728,720	-	728,720
Loans to banks and financial institutions	422	34,259	34,681
Derivative financial instruments	14,587	-	14,587
Financial assets at fair value through profit or loss	37,456	283,809	321,265
Net loans and advances to customers at amortized cost	6,435,956	2,074,180	8,510,136
Net loans and advances to related parties at amortized cost	11,862	10,643	22,505
Debtors by acceptances	67,873	-	67,873
Financial assets at amortized cost	1,951,559	8,943,959	10,895,518
Investments in subsidiaries and associates	15,085	785,462	800,547
Property and equipment	-	427,960	427,960
Intangible assets	-	4,087	4,087
Assets obtained in settlement of debt	-	26,335	26,335
Other assets	16,382	996	17,378
TOTAL ASSETS	13,238,056	23,028,435	36,266,491
LIABILITIES			
Due to central banks	44,775	414,867	459,642
Due to banks and financial institutions	349,060	-	349,060
Due to sister banks	461,126	-	461,126
Derivative financial instruments	14,562	-	14,562
Customers' deposits at amortized cost	30,967,545	70,951	31,038,496
Deposits from related parties at amortized cost	179,765	85	179,850
Engagements by acceptances	67,873	-	67,873
Other liabilities	240,519	2,360	242,879
Provisions for risks and charges	10,379	81,839	92,218
TOTAL LIABILITIES	32,335,604	570,102	32,905,706
NET	(19,097,548)	22,458,333	3,360,785

45 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

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) (continued)

The maturity profile of the Bank's assets and liabilities as at 31 December 2014 is as follows:

	<i>Less than one year LL million</i>	<i>More than one year LL million</i>	<i>Total LL million</i>
ASSETS			
Cash and balances with central banks	1,585,567	10,023,099	11,608,666
Due from banks and financial institutions	2,379,103	-	2,379,103
Due from sister banks	641,605	-	641,605
Loans to banks and financial institutions	486	42,772	43,258
Derivative financial instruments	75,574	-	75,574
Financial assets at fair value through profit or loss	140,397	295,130	435,527
Net loans and advances to customers at amortized cost	6,467,226	1,775,365	8,242,591
Net loans and advances to related parties at amortized cost	17,099	7,064	24,163
Debtors by acceptances	106,253	-	106,253
Financial assets at amortized cost	985,485	9,232,352	10,217,837
Investments in subsidiaries and associates	37,696	698,540	736,236
Property and equipment	-	405,113	405,113
Intangible assets	-	1,135	1,135
Assets obtained in settlement of debt	-	4,562	4,562
Other assets	27,009	2,179	29,188
TOTAL ASSETS	12,463,500	22,487,311	34,950,811
LIABILITIES			
Due to central banks	38,021	346,874	384,895
Due to banks and financial institutions	508,087	-	508,087
Due to sister banks	431,236	-	431,236
Derivative financial instruments	68,488	-	68,488
Customers' deposits at amortized cost	29,772,222	36,647	29,808,869
Deposits from related parties at amortized cost	184,535	-	184,535
Engagements by acceptances	106,253	-	106,253
Other liabilities	200,657	1,975	202,632
Provisions for risks and charges	12	84,139	84,151
TOTAL LIABILITIES	31,309,511	469,635	31,779,146
NET	(18,846,011)	22,017,676	3,171,665

46 RISK MANAGEMENT

The Bank manages its business activities within risk management guidelines as set by the Bank's "Risk Management Policy" approved by the Board of Directors. The Bank 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 Bank'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 Bank's 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 Bank 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 Bank, (2) review the adequacy of the Bank's capital and its allocation within the Bank, and (3) review risk limits and reports and make recommendations to the Board.

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

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

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

46 RISK MANAGEMENT (continued)

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 Bank'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 Bank's Risk Management in Lebanon, risk managers and / or risk officers were assigned within the Bank'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 Bank.
- 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 Bank. 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. Bank 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 Group on an individual and consolidated basis. The Bank 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 Bank 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 Bank's performance developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank'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 Bank applies stress testing on its concentrations in order to assess their effect on the Bank's financial standing and capital adequacy in a stressed situation.

46-1 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 Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the creditworthiness of counter parties.

The Bank manages credit risk in line with the guidelines set by the Basel Framework and regulatory guidance. BLOM Bank 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 Bank 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. Analysis of investments by counterparty is provided in the notes. For details of the composition of the loans and advances refer to note 20. Information on credit risk relating to derivative instruments is provided in note 18 and for commitments and contingencies in note 42. The information on the Bank's net maximum exposure by economic sectors is given in note (A) below.

The Bank'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. Bank Risk Management is responsible for monitoring the risk profile of the Bank's loan portfolio by producing internal reports highlighting any exposure of concern in corporate, commercial and consumer lending. The Bank examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Bank monitors non-performing loans and takes the required provisions for these loans.

46 RISK MANAGEMENT (continued)

46-1 Credit risk (continued)

The Bank in the ordinary course of lending activities holds collaterals and guarantees as security to mitigate credit risk in the 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 Bank dynamically manages and takes remedial actions for non-performing loans.

The Bank applies the BDL risk classifications in addition to an internal rating system for its Corporate and Small and Medium Enterprises (SMEs) that provides a rating at the 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 (normal credit facilities: risk rating "1", follow up credit facilities: risk rating "2" and follow up and arrange credit facilities: 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 Bank'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 Bank 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.

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 Bank 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 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.

	2015		
	Domestic LL million	International LL million	Total LL million
Financial assets			
Balances with central banks	12,111,819	200,849	12,312,668
Due from banks and financial institutions	197,928	1,698,801	1,896,729
Due from sister banks	1,934	726,786	728,720
Loans to banks and financial institutions	34,681	-	34,681
Derivative financial instruments	14,587	-	14,587
Financial assets at fair value through profit or loss	123,825	197,440	321,265
<i>Government debt securities</i>	92,139	14,575	106,714
<i>Corporate debt securities</i>	-	61,533	61,533
<i>Certificates of deposits- Central Banks</i>	14,732	-	14,732
<i>Funds</i>	3,695	959	4,654
<i>Shares</i>	13,259	120,373	133,632
Net loans and advances to customers at amortized cost	7,331,202	1,178,934	8,510,136
<i>Commercial loans</i>	3,980,952	476,801	4,457,753
<i>Retail loans</i>	3,350,250	702,133	4,052,383
Net loans and advances to related parties at amortized cost	20,811	1,694	22,505
Debtors by acceptances	67,232	641	67,873
Financial assets at amortized cost	9,170,870	1,724,648	10,895,518
<i>Government debt securities</i>	5,568,717	560,741	6,129,458
<i>Corporate debt securities</i>	30,185	1,163,907	1,194,092
<i>Certificates of deposit - Central Bank of Lebanon</i>	3,205,701	-	3,205,701
<i>Certificates of deposit - Commercial banks and financial institutions</i>	366,267	-	366,267
Total credit exposure	29,074,889	5,729,793	34,804,682

46 RISK MANAGEMENT (continued)

46-1 Credit risk (continued)

A- Analysis of risk concentration (continued)

	2014		
	Domestic LL million	International LL million	Total LL million
Financial assets			
Balances with central banks	11,298,001	131,773	11,429,774
Due from banks and financial institutions	259,102	2,120,001	2,379,103
Due from sister banks	2,482	639,123	641,605
Loans to banks and financial institutions	43,258	-	43,258
Derivative financial instruments	75,574	-	75,574
Financial assets at fair value through profit or loss	24,203	411,324	435,527
<i>Government debt securities</i>	11,613	90,252	101,865
<i>Corporate debt securities</i>	-	210,723	210,723
<i>Funds</i>	-	2,116	2,116
<i>Shares</i>	12,590	108,233	120,823
Net loans and advances to customers at amortized cost	7,039,483	1,203,108	8,242,591
<i>Commercial loans</i>	3,930,091	488,917	4,419,008
<i>Retail loans</i>	3,109,392	714,191	3,823,583
Net loans and advances to related parties at amortized cost	22,350	1,813	24,163
Debtors by acceptances	102,312	3,941	106,253
Financial assets at amortized cost	8,780,768	1,437,069	10,217,837
<i>Government debt securities</i>	6,075,592	595,458	6,671,050
<i>Corporate debt securities</i>	30,185	818,949	849,134
<i>Certificates of deposit – Central Bank of Lebanon</i>	2,309,218	-	2,309,218
<i>Certificates of deposit – Commercial banks and financial institutions</i>	365,773	22,662	388,435
Total credit exposure	27,647,533	5,948,152	33,595,685

Analysis of 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						
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Other LL million	Net credit exposure LL million
Balances with central banks	12,312,668	-	-	-	-	-	12,312,668
Due from banks and financial institutions	1,896,729	-	4,000	-	-	-	1,892,729
Due from sister banks	728,720	-	-	-	-	-	728,720
Loans to banks and financial institutions	34,681	-	-	-	-	-	34,681
Derivative financial instruments	14,587	-	-	-	-	-	14,587
Financial assets at fair value through profit or loss	187,633	-	-	-	-	-	187,633
Net loans and advances to customers at amortized cost:	8,510,136	1,277,952	93,870	63,442	4,112,752	1,700,338	1,261,782
<i>Commercial loans</i>	4,457,753	1,277,952	93,870	63,442	1,529,468	583,994	909,027
<i>Consumer loans</i>	4,052,383	-	-	-	2,583,284	1,116,344	352,755
	23,685,154	1,277,952	97,870	63,442	4,112,752	1,700,338	16,432,800
Net loans and advances to related parties at amortized cost	22,505	1,003	1	-	10,876	95	10,530
Debtors by acceptances	67,873	-	-	-	-	-	67,873
Financial assets at amortized cost	10,895,518	-	-	-	-	-	10,895,518
	34,671,050	1,278,955	97,871	63,442	4,123,628	1,700,433	27,406,721
Financial guarantees							2,477,300
Non financial guarantees							12,802,640
Documentary credits							76,891
							15,356,831

46 RISK MANAGEMENT (continued)

46-1 Credit risk (continued)

A- Analysis of maximum exposure to credit risk and collateral and other credit enhancements (continued)

	2014					Net credit exposure LL million
	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	
Balances with central banks	11,429,774	-	-	-	-	11,429,774
Due from banks and financial institutions	2,379,103	-	75,000	-	-	2,304,103
Due from sister banks	641,605	-	-	-	-	641,605
Loans to banks and financial institutions	43,258	-	-	-	-	43,258
Derivative financial instruments	75,574	-	-	-	-	75,574
Financial assets at fair value through profit or loss	314,704	-	-	-	-	314,704
Net loans and advances to customers at amortized cost:	8,242,591	1,141,615	73,395	53,171	3,377,968	1,787,379
Commercial loans	4,419,008	1,141,615	73,395	53,171	1,567,167	544,064
Consumer loans	3,823,583	-	-	-	1,810,801	1,243,315
	23,126,609	1,141,615	148,395	53,171	3,377,968	1,830,637
Net loans and advances to related parties at amortized cost	24,163	1,073	-	-	11,330	74
Debtors by acceptances	106,253	-	-	-	-	-
Financial assets at amortized cost	10,217,837	-	-	-	-	-
	33,474,862	1,142,688	148,395	53,171	3,389,298	1,830,711
Financial guarantees						2,299,995
Non financial guarantees						11,747,843
Documentary credits						81,890
						14,129,728

The schedules shown above exclude the undrawn commitments to lend of LL 1,560,069 million for the year ended 31 December 2015 (2014: LL 1,378,223 million).

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 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 Bank 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 Bank and are net of any surplus collateral.

Real estate (commercial and residential):

The Bank 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 Bank 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 Bank and are net of any surplus collateral.

31 December 2015

46 RISK MANAGEMENT (continued)

46-1 Credit risk (continued)

B- Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal and 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 Bank'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
	Regular and special mention	Regular and special mention	Regular and special mention	Sub-standard	Non-performing	
LL million	LL million	LL million	LL million	LL million	LL million	
Balances with central banks	12,312,668	-	-	-	-	12,312,668
Due from banks and financial institutions	-	1,896,729	-	-	-	1,896,729
Due from sister banks	-	728,720	-	-	-	728,720
Loans to banks and financial institutions	-	34,681	-	-	-	34,681
Derivative financial instruments	-	14,587	-	-	-	14,587
Financial assets at fair value through profit or loss	121,446	66,187	-	-	-	187,633
- Government debt securities	196,714	-	-	-	-	196,714
- Corporate debt securities	-	61,533	-	-	-	61,533
- Funds	-	4,654	-	-	-	4,654
- Certificates of deposits - Central Banks	14,732	-	-	-	-	14,732
Gross loans and advances to customers at amortized cost	-	8,077,078	334,956	54,486	348,220	8,814,740
- Commercial loans	-	4,239,103	134,930	45,477	280,890	4,700,400
- Consumer loans	-	3,837,975	200,026	9,009	67,330	4,114,340
Gross loans and advances to related parties at amortized cost	-	22,505	-	-	-	22,505
Financial assets at amortized cost	9,335,159	1,560,359	-	-	-	10,895,518
- Government debt securities	6,129,458	-	-	-	-	6,129,458
- Corporate debt securities	-	1,194,092	-	-	-	1,194,092
- Certificates of deposit - Central Banks	3,205,701	-	-	-	-	3,205,701
- Certificates of deposit - Commercial banks and financial institutions	-	366,267	-	-	-	366,267
Total	21,769,273	12,400,846	334,956	54,486	348,220	34,907,781

	2014					
	Sovereign			Non-sovereign		
	Neither past due nor impaired	Neither past due nor impaired	Past due but not impaired	Individually impaired		Total
	Regular and special mention	Regular and special mention	Regular and special mention	Sub-standard	Non-performing	
LL million	LL million	LL million	LL million	LL million	LL million	
Balances with central banks	11,429,774	-	-	-	-	11,429,774
Due from banks and financial institutions	-	2,379,103	-	-	-	2,379,103
Due from sister banks	-	641,605	-	-	-	641,605
Loans to banks and financial institutions	-	43,258	-	-	-	43,258
Derivative financial instruments	-	75,574	-	-	-	75,574
Financial assets at fair value through profit or loss	101,865	212,839	-	-	-	314,704
- Government debt securities	101,865	-	-	-	-	101,865
- Corporate debt securities	-	210,723	-	-	-	210,723
- Funds	-	2,116	-	-	-	2,116
Gross loans and advances to customers at amortized cost	-	7,787,605	326,987	58,804	350,753	8,524,149
- Commercial loans	-	4,139,175	158,630	49,693	295,441	4,642,959
- Consumer loans	-	3,648,430	168,337	9,111	55,312	3,881,190
Gross loans and advances to related parties at amortized cost	-	24,163	-	-	-	24,163
Financial assets at amortized cost	8,980,268	1,237,569	-	-	-	10,217,837
- Government debt securities	6,671,050	-	-	-	-	6,671,050
- Corporate debt securities	-	849,134	-	-	-	849,134
- Certificates of deposit - Central Banks	2,309,218	-	-	-	-	2,309,218
- Certificates of deposit - Commercial banks and financial institutions	-	388,435	-	-	-	388,435
Total	20,511,907	12,401,716	326,987	58,804	350,753	33,650,167

46 RISK MANAGEMENT (continued)

46-1 Credit risk (continued)

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

	2015				Total LL million
	Less than 30 days LL million	30 to 60 days LL million	61 to 90 days LL million	More than 90 days LL million	
Consumer loans	113,019	60,033	17,514	9,460	200,026
Commercial loans	84,739	15,120	17,774	17,297	134,930
	<u>197,758</u>	<u>75,153</u>	<u>35,288</u>	<u>26,757</u>	<u>334,956</u>
	2014				Total LL million
	Less than 30 days LL million	30 to 60 days LL million	61 to 90 days LL million	More than 90 days LL million	
Consumer loans	104,436	48,871	15,030	-	168,337
Commercial loans	95,068	6,875	27,122	29,585	158,650
	<u>199,504</u>	<u>55,746</u>	<u>42,152</u>	<u>29,585</u>	<u>326,987</u>

See note 20 for more detailed information with respect of the allowance for impairment losses on 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.

	2015 LL million	2014 LL million
Commercial loans	<u>55,499</u>	<u>24,434</u>

Collateral repossessed

During the year, the Bank took possession of real estates with a carrying value of LL 22,763 million (2014: LL 1,364 million) at the statement of financial position date. The Bank is in the process of selling these real estates.

46-2 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its 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 Bank 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.

The Bank 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 Bank 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.

31 December 2015

46 RISK MANAGEMENT (continued)**46-2 Liquidity risk and funding management (continued)**

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 Bank. The Bank 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 deposits and acceptances and other debt instruments issued by the Bank and loans from the public sector that mature within one year.

Furthermore, in accordance with the Central Bank of Lebanon circulars, the ratio of liquid assets to net tier 1 capital in Lebanese Lira should not be less than 40%. The liquid assets consist of cash and deposits with the Central Bank of Lebanon (excluding reserve requirements) and deposits due from other banks that mature within one year as well as Lebanese Treasury Bills that mature within one year.

	2015	2014
	%	%
Liquidity ratios		
Advances to deposit ratios		
Year-end	27.33%	27.56%
Average	27.22%	27.28%
Maximum	27.70%	27.78%
Minimum	26.70%	26.65%

The Bank stresses the importance of current accounts and savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers' deposits.

Net liquid assets to customer liabilities ratios

	2015	2014
	%	%
At 31 December	7.31%	9.43%
Average during the year	7.23%	9.32%
Highest	8.07%	9.95%
Lowest	6.60%	8.63%

Net liquid assets are liquid assets less all funds maturing in the next 30 days from wholesale market sources and from customers who are deemed to be professional. The Bank defines liquid assets for the purposes of the liquidity ratio as cash balances, short-term interbank deposits and highly rated debt securities available for immediate sale and for which a liquid market exists.

31 December 2015

46 RISK MANAGEMENT (continued)

46-2 Liquidity risk and funding management (continued)

46-2-1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December based on their contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were being given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. The table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	31 December 2015					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	986,415	992,576	699,165	5,577,659	9,133,630	17,389,445
Due from banks and financial institutions	519,302	905,983	473,477	-	-	1,898,762
Due from sister banks	209,515	411,700	108,327	-	-	729,542
Loans to banks and financial institutions	-	721	1,143	38,558	-	40,422
Derivative financial instruments	-	13,793	794	-	-	14,587
Financial assets at fair value through profit or loss	-	39,198	6,964	73,004	293,775	412,941
Net loans and advances to customers at amortized cost	-	4,028,751	2,650,253	1,736,763	806,935	9,222,702
Net loans and advances to related parties at amortized cost	-	12,100	515	6,605	7,279	26,499
Debtors by acceptances	-	67,805	68	-	-	67,873
Financial assets classified at amortized cost	-	480,454	2,175,812	6,296,827	5,734,847	14,687,940
Total undiscounted financial assets	1,715,232	6,953,081	6,116,518	13,729,416	15,976,466	44,490,713
Financial liabilities						
Due to central banks	-	27,566	21,131	160,071	271,496	480,264
Due to banks and financial institutions	204,691	95,530	51,030	-	-	351,251
Due to sister banks	308,497	153,004	-	-	-	461,501
Derivative financial instruments	-	13,768	794	-	-	14,562
Customers' deposits at amortized cost	2,711,284	25,364,442	3,013,614	72,810	-	31,162,150
Deposits from related parties at amortized cost	-	160,342	20,253	87	-	180,682
Engagements by acceptances	-	67,805	68	-	-	67,873
Total undiscounted financial liabilities	3,224,472	25,882,457	3,106,890	232,968	271,496	32,718,283
Net undiscounted financial assets / (liabilities)	(1,509,240)	(18,929,376)	3,009,628	13,496,448	15,704,970	11,772,430

	31 December 2014					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial assets						
Cash and balances with central banks	926,769	696,332	517,127	5,972,897	7,539,604	15,652,729
Due from banks and financial institutions	329,893	1,829,795	220,433	-	-	2,380,121
Due from sister banks	233,845	334,736	73,191	-	-	641,772
Loans to banks and financial institutions	-	818	1,310	30,910	18,295	51,333
Derivative financial instruments	-	76,046	(472)	-	-	75,574
Financial assets at fair value through profit or loss	-	5,421	143,547	176,606	124,625	450,199
Net loans and advances to customers at amortized cost	-	3,982,899	2,709,081	1,493,349	656,973	8,842,302
Net loans and advances to related parties at amortized cost	-	17,329	407	2,233	7,529	27,498
Debtors by acceptances	-	106,253	-	-	-	106,253
Financial assets classified at amortized cost	-	450,676	1,199,182	7,020,714	4,918,816	13,589,388
Total undiscounted financial assets	1,490,507	7,500,305	4,863,806	14,696,709	13,265,842	41,817,169
Financial liabilities						
Due to central banks	-	24,396	16,850	137,103	223,962	402,311
Due to banks and financial institutions	320,290	171,273	16,731	-	-	508,294
Due to sister banks	290,841	140,767	-	-	-	431,608
Derivative financial instruments	-	68,960	(472)	-	-	68,488
Customers' deposits at amortized cost	2,547,309	24,997,148	2,335,107	37,573	-	29,917,137
Deposits from related parties at amortized cost	-	171,955	14,156	-	-	186,111
Engagements by acceptances	-	106,253	-	-	-	106,253
Total undiscounted financial liabilities	3,158,440	25,680,752	2,382,372	174,676	223,962	31,620,202
Net undiscounted financial assets / (liabilities)	(1,667,933)	(18,180,447)	2,481,434	14,522,033	13,041,880	10,196,967

46 RISK MANAGEMENT (continued)

46-2 Liquidity risk and funding management (continued)

46-2-1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

	2015					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 Months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial guarantees	238,762	-	-	-	-	238,762
Documentary credits	-	113,609	-	-	-	113,609
Other commitments	-	54,297	-	-	-	54,297
Total	238,762	167,906	-	-	-	406,668

	2014					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	
Financial guarantees	218,804	-	-	-	-	218,804
Documentary credits	-	95,115	-	-	-	95,115
Other commitments	-	65,327	-	-	-	65,327
Total	218,804	160,442	-	-	-	379,246

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

46-3 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.

Bank Risk Management is responsible for generating internal reports quantifying the Bank's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank'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 on a monthly basis. The Bank's Asset and Liability Management (ALM) policy assigns authority for its formulation, revision and administration to the Asset / Liability Committee (ALCO) of BLOM Bank SAL. Bank 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. The Bank has an Asset and Liability Management system "Focus ALM" that automates the risk measurement of the Bank's assets and liabilities including stress testing and extensive scenario analysis.

46-3-1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities and off-financial position items that mature or are re-priced in a given period. The Bank manages the risk by matching the re-pricing 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

31 December 2015

46 RISK MANAGEMENT (continued)

46-3 Market risk (continued)

46-3-1 Interest rate risk (continued)

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 Bank's income statement.

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

2015

Currency	Increase in basis points	Sensitivity of net interest income LL million
Lebanese Lira	+0.5%	(18,390)
United States Dollar	+0.5%	(37)
Euro	+0.25%	(2,203)

A decrease in basis points will have an opposite effect on net interest income.

2014

Currency	Increase in basis points	Sensitivity of net interest income LL million
Lebanese Lira	+0.5%	(17,733)
United States Dollar	+0.5%	6,388
Euro	+0.25%	(2,080)

A decrease in basis points will have an opposite effect on net interest income.

Interest sensitivity gap

The Bank's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2015 and 31 December 2014 was as follows:

	2015							Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 - 2) years LL million	(2 - 5) years LL million	More than 5 years LL million	Non-interest sensitive LL million	
ASSETS								
Cash and balances with central banks	1,320,193	999,473	195,975	-	1,672,555	7,161,718	1,148,256	12,490,170
Due from banks and financial institutions	645,452	257,192	472,499	-	-	-	521,586	1,896,729
Due from sister banks	242,327	205,996	70,208	-	-	-	210,189	728,720
Loans to banks and financial institutions	-	8,200	26,058	-	-	-	423	34,681
Derivative financial instruments	-	-	-	-	-	-	14,587	14,587
Financial assets at fair value through profit or loss	28,365	29,542	6	75	18,288	104,493	140,496	321,265
Net loans and advances to customers at amortized cost	3,580,749	1,422,169	2,182,334	724,568	447,951	29,081	123,284	8,510,136
Net loans and advances to related parties at amortized cost	11,863	-	-	46	3,818	6,778	-	22,505
Debtors by acceptances	-	-	-	-	-	-	67,873	67,873
Financial assets at amortized cost	183,027	180,321	1,463,938	1,239,613	3,246,922	4,429,179	152,518	10,895,518
TOTAL	6,011,976	3,102,893	4,411,018	1,964,302	5,389,534	11,731,249	2,379,212	34,990,184
LIABILITIES								
Due to central banks	4,154	17,226	18,295	31,509	103,528	280,839	4,091	459,642
Due to banks and financial institutions	50,017	42,531	50,235	-	-	-	206,277	349,060
Due to sister banks	152,352	-	-	-	-	-	308,774	461,126
Derivative financial instruments	-	-	-	-	-	-	14,562	14,562
Customers' deposits at amortized cost	22,786,268	3,151,658	2,005,385	26,531	-	-	3,068,654	31,038,496
Deposits from related parties at amortized cost	159,634	223	19,908	85	-	-	-	179,850
Engagements by acceptances	-	-	-	-	-	-	67,873	67,873
Other liabilities	-	-	-	-	-	-	242,879	242,879
TOTAL	23,152,425	3,211,638	2,093,823	58,125	103,528	280,839	3,913,110	32,813,488
Total interest rate sensitivity gap	(17,140,449)	(108,745)	2,317,195	1,906,177	5,286,006	11,450,410	(1,533,898)	2,176,696

46 RISK MANAGEMENT (continued)

46-3 Market risk (continued)

46-3-2 Currency risk (continued)

	2014							
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	(1 - 2) years LL million	(2 - 5) years LL million	More than 5 years LL million	Non- interest sensitive LL million	Total LL million
ASSETS								
Cash and balances with central banks	1,455,952	1,074,848	233,663	905,696	832,522	6,034,185	1,071,800	11,608,666
Due from banks and financial institutions	1,505,674	322,479	220,095	-	-	-	330,855	2,379,103
Due from sister banks	184,384	150,173	73,114	-	-	-	233,934	641,605
Loans to banks and financial institutions	-	10,000	32,773	-	-	-	485	43,258
Derivative financial instruments	-	-	-	-	-	-	75,574	75,574
Financial assets at fair value through profit or loss	115,818	79,739	86,595	5,705	19,843	1,658	126,169	435,527
Net loans and advances to customers at amortized cost	3,329,587	1,394,792	2,086,660	729,614	458,564	15,029	228,345	8,242,591
Net loans and advances to related parties at amortized cost	17,100	-	-	74	-	-	6,989	24,163
Debtors by acceptances	-	-	-	-	-	-	106,253	106,253
Financial assets at amortized cost	214,294	139,908	642,960	1,794,948	3,356,398	3,932,009	137,370	10,217,837
TOTAL	6,822,809	3,171,939	3,375,860	3,436,037	4,667,327	9,989,870	2,310,735	33,774,577
LIABILITIES								
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	78,248	59,117	48,578	-	-	-	322,144	508,087
Due to sister banks	117,654	22,500	-	-	-	-	291,082	431,236
Derivative financial instruments	-	-	-	-	-	-	68,488	68,488
Customers' deposits at amortized cost	21,891,766	2,750,470	2,151,427	3,465	-	-	3,011,741	29,808,869
Deposits from related parties at amortized	29,729	140,881	13,925	-	-	-	-	184,535
Engagements by acceptances	-	-	-	-	-	-	106,253	106,253
Other liabilities	-	-	-	-	-	-	202,632	202,632
TOTAL	22,124,759	2,985,846	2,228,401	23,049	85,362	242,376	4,005,202	31,694,995
Total interest rate sensitivity gap	(15,301,950)	186,093	1,147,459	3,412,988	4,381,965	9,747,494	(1,694,467)	2,079,582

46-3-2 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 trading position, debit or credit, that does not exceed at any time 1% of net Tier 1 equity on condition that the global open FX position does not exceed 40% of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

The table below indicates the statement of financial position detailed by currency.

The following statement of financial position as of 31 December 2015 is detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	LL million	Foreign currencies in Lebanese Lira			Total foreign currencies LL million	Total LL million
		US Dollars in LL million	Euro in LL million	Other foreign currencies LL million		
ASSETS						
Cash and balances with central banks	3,727,312	6,701,879	1,899,736	169,243	8,770,858	12,498,170
Due from banks and financial institutions	32,274	1,198,090	221,940	444,425	1,864,455	1,896,729
Due from sister banks	88	533,948	177,804	16,880	728,632	728,720
Loans to banks and financial institutions	34,681	-	-	-	-	34,681
Derivative financial instruments	14,587	-	-	-	-	14,587
Financial assets at fair value through profit or loss	33,290	242,717	165	45,093	287,975	321,265
Net loans and advances to customers at amortized cost	2,260,216	5,448,858	105,357	695,705	6,249,920	8,510,136
Net loans and advances to related parties at amortized cost	5,533	15,005	273	1,694	16,972	22,505
Debtors by acceptances	100	51,539	14,675	1,559	67,773	67,873
Financial assets at amortized cost	6,503,798	3,819,837	49	571,834	4,391,720	10,895,518
Investments in subsidiaries and associates	64,713	558,155	177,679	-	735,834	800,547
Property and equipment	377,390	241	-	50,329	50,570	427,960
Intangible assets	3,729	39	-	319	358	4,087
Assets obtained in settlement of debt	(1,316)	24,804	-	2,847	27,651	26,335
Other assets	12,354	645	754	3,625	5,024	17,378
TOTAL ASSETS	13,068,749	18,595,757	2,598,432	2,003,553	23,197,742	36,266,491
LIABILITIES						
Due to central banks	446,396	-	-	13,246	13,246	459,642
Due to banks and financial institutions	901	64,857	176,371	106,931	348,159	349,060
Due to sister banks	78,421	344,150	30,593	7,962	382,705	461,126
Derivative financial instruments	14,562	-	-	-	-	14,562
Customers' deposits at amortized cost	10,410,706	16,860,229	2,144,300	1,623,261	20,627,790	31,038,496
Deposits from related parties at amortized cost	124,171	41,467	5,109	9,103	55,679	179,850
Engagements by acceptances	100	51,539	14,675	1,559	67,773	67,873
Other liabilities	115,817	86,846	4,855	35,361	127,062	242,879
Provisions for risks and charges	43,947	37,728	-	10,543	48,271	92,218
Total liabilities	11,235,021	17,486,816	2,375,903	1,807,966	21,670,685	32,905,706
NET EXPOSURE	1,833,728	1,108,941	222,529	195,587	1,527,057	3,360,785

31 December 2015

46 RISK MANAGEMENT (continued)

46-3 Market risk (continued)

46-3-2 Currency risk (continued)

The following statement of financial position as of 31 December 2014 is detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	LL million	Foreign currencies in Lebanese Lira				Total LL million
		US Dollars in LL million	Euro in LL million	Other foreign currencies LL million	Total foreign currencies LL million	
ASSETS						
Cash and balances with central banks	3,672,713	5,776,862	2,051,553	107,538	7,935,953	11,608,666
Due from banks and financial institutions	117,570	1,775,650	65,639	420,244	2,261,533	2,379,103
Due from sister banks	483	428,665	178,979	33,478	641,122	641,605
Loans to banks and financial institutions	43,258	-	-	-	-	43,258
Derivative financial instruments	75,574	-	-	-	-	75,574
Financial assets at fair value through profit or loss	22,399	291,484	97	121,547	413,128	435,527
Net loans and advances to customers at amortized cost	2,117,200	5,380,088	91,836	653,467	6,125,391	8,242,591
Net loans and advances to related parties at amortized cost	5,693	16,345	313	1,812	18,470	24,163
Debtors by acceptances	176	94,248	10,596	1,233	106,077	106,253
Financial assets at amortized cost	6,197,097	3,481,696	55	538,989	4,020,740	10,217,837
Investments in subsidiaries and associates	64,713	473,641	197,882	-	671,523	736,236
Property and equipment	349,902	558	-	54,653	55,211	405,113
Intangible assets	768	59	-	308	367	1,135
Assets obtained in settlement of debt	(1,893)	4,739	-	1,716	6,455	4,562
Other assets	18,800	4,698	42	5,648	10,388	29,188
TOTAL ASSETS	12,684,453	17,728,733	2,596,992	1,940,633	22,266,358	34,950,811
LIABILITIES						
Due to central banks	375,068	-	-	9,827	9,827	384,895
Due to banks and financial institutions	2,324	297,052	90,617	118,094	505,763	508,087
Due to sister banks	74,980	317,360	29,102	9,794	356,256	431,236
Derivative financial instruments	68,488	-	-	-	-	68,488
Customers' deposits at amortized cost	10,070,738	16,213,393	1,971,707	1,553,031	19,738,131	29,808,869
Deposits from related parties at amortized cost	121,499	47,633	5,175	10,228	63,036	184,535
Engagements by acceptances	176	94,248	10,596	1,233	106,077	106,253
Other liabilities	96,037	73,311	8,233	25,051	106,595	202,632
Provisions for risks and charges	46,540	37,386	-	225	37,611	84,151
Total liabilities	10,855,850	17,080,383	2,115,430	1,727,483	20,923,296	31,779,146
NET EXPOSURE	1,828,603	648,350	481,562	213,150	1,343,062	3,171,665

The table below shows the currencies to which the Bank 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 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	Change in currency rate % 2015	Effect on profit before tax	
		LL million	LL million
USD	± 1%	13,363	11,337
EUR	± 3%	(51)	97

46-4 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. A 5 percent increase in the value of the Bank's equities at 31 December 2015 would have increased net income by LL 6,682 million (2014: LL 6,041 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

31 December 2015

46 RISK MANAGEMENT (continued)**46-5 Prepayment risk**

Prepayment risk is the risk that the Bank 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 Bank operates. Accordingly, the Bank considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

46-6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank 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.

47 CAPITAL MANAGEMENT

By maintaining an actively managed capital base, the Bank'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 Bank'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 Bank'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 a ratio of total regulatory capital to risk-weighted assets at or above 12% to be achieved in 2015. The limit of the Common Equity tier 1 Ratio is expected to increase to 8%, the Tier 1 ratio to 10% and the Total Capital Ratio to 12% by the end of 2015.

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Risk weighted assets:		
Credit risk	15,328,623	14,722,372
Market risk	524,725	439,211
Operational risk	1,517,270	1,487,125
Total risk weighted assets	17,370,618	16,648,708

The capital base as per Basel III requirements 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	2,896,037	2,739,259	3,093,096	2,980,445
Tier 2 Capital	11,842	11,842	11,842	11,842
Total Capital	2,907,879	2,751,101	3,104,938	2,992,287

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the 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.

31 December 2015

47 CAPITAL MANAGEMENT (continued)

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 – Tier 1	16.67%	16.45%	17.81%	17.90%
Capital adequacy – Total Capital	16.74%	16.52%	17.87%	17.97%

48 NOTES TO THE STATEMENT OF CASH FLOWS

Non cash transactions in the operating activities include an increase in due to sister banks in the amount of LL 24 million against a decrease in provision for risks and charges for the same amount during 2015.

Non cash transactions in the operating activities include a decrease in due from sister banks in the amount of LL 604 million against an increase in provision for risks and charges for the same amount during 2014.