BLOM BANK SAL

SEPARATE FINANCIAL STATEMENTS

31 DECEMBER 2016

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Ernst & Young p.c.c.
Starco Building
South Block B - 9th Floor
Mina El Hosn, Omar Daouk Street
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

BDO
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

Qualified Opinion
We have audited the separate financial statements of BLOM Bank SAL (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph below, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion
As disclosed in note 34 to the separate financial statements, during 2016, the Bank deferred part of the gain realized from the operations of sale and purchase of financial instruments transacted with the Central Bank of Lebanon, in order to comply with the accounting treatment enacted for these operations through Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 34 to the separate financial statements, the Bank recorded provisions amounting to LL 260,797 million for loans and advances in excess of the provisioning requirements of IAS 39 in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016 and Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Bank`s accounting for the above-mentioned transactions, events and conditions was made to comply with regulatory requirements and departs from the requirements of International Financial Reporting Standards. Had the Bank properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the separate financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LL 426,897 million through:
  - an increase in "Gain from sale of financial assets at amortized cost" by LL 195,412 million;
  - a decrease in "Provisions for risks and charges" under profit and loss by LL 260,797 million; and
  - an increase in tax expenses by LL 29,312 million;

- Total liabilities as at 31 December 2016 would have decreased, through a decrease in provisions for risks and charges by LL 426,897 million;

- Equity as at 31 December 2016 would have increased, through an increase in net income, by LL 426,897 million.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the separate financial statements in Lebanon, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BLOM BANK SAL (continued)

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the year ended 31 December 2016. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying separate financial statements.

Impairment of loans and advances
Due to the inherently judgmental nature of the computation of impairment provisions for loans and advances, there is a risk that the amount of impairment may be misstated. The impairment of loans and advances is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of loans and advances and related estimation uncertainty, this is considered a key audit risk. The corporate loan portfolio generally comprises larger loans that are monitored individually by management. The assessment of loan loss impairment is therefore based on management's knowledge of each individual borrower. This includes the analysis of the financial performance of the borrower, historic experience when assessing the likelihood of incurred losses in the portfolios and the adequacy of collateral for secure lending. However, consumer loans generally comprises much smaller value loans to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping by product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of loan loss provision. The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.
- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Bank's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.
- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

Other information included in the Bank's 2016 Annual Report
Other information consists of the information included in the Annual Report, other than the separate financial statements and our auditors' report thereon. Management is responsible for the other information. The Bank's 2016 Annual Report is expected to be made available to us after the date of this auditors' report. Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BLOM BANK SAL (continued)

Responsibilities of management and the audit committee for the separate financial statements
Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRSs, 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.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements
Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BLOM BANK SAL (continued)

Auditors' responsibilities for the audit of the separate financial statements (continued)
We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partners in charge of the audit resulting in this independent auditors' report are Nazih Borghol for Ernst & Young and Nicolas Barakat for BDO, Semaan, Gholam & Co.

Ernst & Young

23 March 2017
Beirut, Lebanon

BDO, Semaan, Gholam & Co.

INCOME STATEMENT

For the year ended 31 December 2016

	Notes	*2016* *LL million*	*2015* *LL million*
Interest and similar income	4	**2,062,118**	1,924,601
Interest and similar expense	5	**(1,273,473)**	(1,214,570)
Net interest income		**788,645**	710,031
Fee and commission income		**137,901**	126,454
Fee and commission expense		**(20,652)**	(17,365)
Net fee and commission income	6	**117,249**	109,089
Net gain from financial instruments at fair value through profit or loss	7	**60,681**	26,196
Net gain from derecognition of financial assets at amortized cost	8	**575,461**	6,024
Other operating income	9	**15,451**	6,014
Total operating income		**1,557,487**	857,354
Net credit losses	10	**(129,723)**	(30,222)
Impairment losses on financial investments	11	**(88,585)**	-
Net operating income		**1,339,179**	827,132
Personnel expenses	12	**(202,103)**	(176,657)
Other operating expenses	13	**(122,461)**	(114,696)
Depreciation of property and equipment	25	**(22,519)**	(22,737)
Amortization of intangible assets	26	**(3,569)**	(2,902)
Total operating expenses		**(350,652)**	(316,992)
Operating profits		**988,527**	510,140
Provisions for risks and charges	14	**(260,797)**	-
Net (loss) gain on disposal of property and equipment		**(1,239)**	495
Total non-operating (loss) gain		**(262,036)**	495
Profit before tax		**726,491**	510,635
Income tax expense	15	**(183,802)**	(82,098)
Profit for the year		**542,689**	428,537

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 *LL million*	*2015* *LL million*
Profit for the year	**542,689**	428,537
Other comprehensive loss		
Items to be reclassified to the income statement in subsequent periods:		
Exchange difference on translation of foreign operations	**32**	(350)
Net other comprehensive gain (loss) to be reclassified to the income statement in subsequent periods	**32**	(350)
Items not to be reclassified to the income statement in subsequent periods:		
Net unrealized loss from financial assets at fair value through other comprehensive income	**(104)**	-
Net other comprehensive loss not to be reclassified to the income statement in subsequent periods	**(104)**	-
Other comprehensive loss for the year	**(72)**	(350)
Total comprehensive income for the year	**542,617**	428,187

The accompanying notes 1 to 50 form part of these separate financial statements.

BLOM Bank SAL

STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Notes	2016 LL million	2015 LL million
Assets			
Cash and balances with central banks	16	**16,396,920**	12,498,170
Due from banks and financial institutions	17	**1,435,498**	1,896,729
Due from sister banks	18	**512,780**	728,720
Loans to banks and financial institutions	19	**26,779**	34,681
Derivative financial instruments	20	**21,133**	14,587
Financial assets at fair value through profit or loss	21	**296,136**	321,265
Net loans and advances to customers at amortized cost	22	**8,697,037**	8,510,136
Net loans and advances to related parties at amortized cost	43	**21,280**	22,505
Debtors by acceptances		**96,190**	67,873
Financial assets at amortized cost	23	**9,590,502**	10,895,518
Investments in subsidiaries and associates	24	**637,188**	800,547
Property and equipment	25	**493,221**	427,960
Intangible assets	26	**1,815**	4,087
Assets obtained in settlement of debt	27	**28,759**	26,335
Other assets	28	**16,686**	17,378
Total assets		**38,271,924**	36,266,491
Liabilities and equity			
Liabilities			
Due to central banks	29	**519,020**	459,642
Due to banks and financial institutions	30	**476,620**	349,060
Due to sister banks	31	**236,055**	461,126
Derivative financial instruments	20	**15,182**	14,562
Customers' deposits at amortized cost	32	**32,104,385**	31,038,496
Deposits from related parties at amortized cost	43	**212,509**	179,850
Engagements by acceptances		**96,190**	67,873
Other liabilities	33	**377,530**	242,879
Provisions for risks and charges	34	**522,706**	92,218
Total liabilities		**34,560,197**	32,905,706
Equity			
Share capital - common shares	35	**258,000**	258,000
Share capital - preferred shares	35	**24,000**	24,000
Share premium on common shares	35	**374,085**	374,085
Share premium on preferred shares	35	**277,500**	277,500
Non distributable reserves	36	**1,021,517**	899,595
Distributable reserves	37	**37,696**	37,696
Treasury shares	38	**(16,941)**	(75,914)
Retained earnings	39	**1,182,395**	1,126,428
Revaluation reserve of real estate	40	**11,842**	11,842
Change in fair value of financial assets at fair value through other comprehensive income		**(104)**	-
Foreign currency translation reserve		**(952)**	(984)
Profit for the year		**542,689**	428,537
Total equity		**3,711,727**	3,360,785
Total liabilities and equity		**38,271,924**	36,266,491

The separate financial statements were authorized for issue in accordance with a resolution of the board of directors on 23 March 2017 by:

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

The accompanying notes 1 to 50 form part of these separate financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 LL million	2015 LL million
OPERATING ACTIVITIES			
Profit for the year before income tax		**726,491**	510,635
Adjustments for:			
Depreciation of property and equipment	25	**22,519**	22,737
Amortization of intangible assets	26	**3,569**	2,902
Gain from sale of property and equipment		**(119)**	(495)
Provision for risks and charges		**5,728**	11,312
Excess provisions to comply with the Central Bank of Lebanon	14	**260,797**	-
Net credit losses	10	**129,723**	30,222
Impairment losses on financial investments	11	**88,585**	-
Gain on disposal of assets obtained in settlement of debt		**(144)**	(432)
Net gain from derecognition of financial assets at amortized cost	8	**(575,461)**	(6,024)
Unrealized fair value gains on financial assets at fair value through profit or loss		**(17,896)**	(2,510)
Write back of impairment of assets obtained in settlement of debt	27	**(134)**	(573)
		643,658	567,774
Changes in operating assets and liabilities:			
Due from banks and financial institutions		**974,255**	(668,492)
Balances with central banks		**(3,684,996)**	(745,300)
Due from sister banks		**126,592**	(332,109)
Loans to banks and financial institutions		**7,902**	8,577
Derivative financial instruments – debit		**(6,546)**	60,987
Financial assets at fair value through profit or loss		**43,025**	116,772
Net loans and advances to customers at amortized cost		**(316,624)**	(297,767)
Net loans and advances to related parties at amortized cost		**1,225**	1,658
Assets obtained in settlement of debt		**(4,175)**	(22,763)
Other assets		**692**	11,810
Due to banks and financial institutions		**57,995**	(12,544)
Due to sister banks		**417**	(440)
Derivative financial instruments – credit		**620**	(53,926)
Customers' deposits at amortized cost		**1,065,889**	1,229,627
Deposits from related parties at amortized cost		**32,659**	(4,685)
Other liabilities		**37,817**	36,174
Provisions for risks and charges	34	**166,100**	-
Cash used in operations		**(853,495)**	(104,647)
Taxes paid		**(86,969)**	(78,018)
Retirement benefits obligation paid	34	**(2,137)**	(3,033)
Net cash used in operating activities		**(942,601)**	(185,698)
INVESTING ACTIVITIES			
Change in investments in subsidiaries and associates		**74,774**	(64,311)
Financial assets at amortized cost		**1,880,477**	(671,657)
Purchase of property and equipment and intangible assets	25,26	**(92,390)**	(58,288)
Transfer of property and equipment and intangible assets		**3,200**	2,683
Transfer of assets obtained in settlement of debt		**-**	(225)
Cash proceeds from the sale of property and equipment		**239**	4,537
Cash proceeds from disposal of assets obtained in settlement of debt		**2,029**	2,220
Change in fair value for financial assets at fair value through other comprehensive income		**(104)**	-
Net cash from (used in) investing activities		**1,868,225**	(785,041)
FINANCING ACTIVITIES			
Sale (purchase) of treasury shares – net		**58,973**	(17,756)
Net gain on sale of treasury shares		**22,892**	10,167
Dividends paid	42	**(273,540)**	(231,478)
Net cash used in financing activities		**(191,675)**	(239,067)
Effect of exchange rate changes		**26**	(420)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**733,975**	(1,210,226)
Cash and cash equivalents at 1 January		**1,825,310**	3,035,536
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	41	**2,559,285**	1,825,310
Operational cash flows from interest and dividends			
Interest paid		**1,262,881**	1,216,863
Interest received		**2,041,772**	1,903,380
Dividend received		**16,554**	4,515

The accompanying notes 1 to 50 form part of these separate financial statements.

BLOM Bank SAL

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		2016												
	Notes	*Share capital-common shares*	*Share capital-preferred shares*	*Share premium on common shares*	*Share premium on preferred shares*	*Non distributable reserves*	*Distributable reserves*	*Treasury shares*	*Retained earnings*	*Revaluation reserve of real estate*	*Cumulative changes in fair value (OCI)*	*Foreign currency translation reserve*	*Profit for the year*	*Total*
		LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Balance at 1 January 2016		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
Profit for the year 2016		-	-	-	-	-	-	-	-	-	-	-	542,689	542,689
Other comprehensive loss		-	-	-	-	-	-	-	-	-	(104)	32	-	(72)
Total comprehensive income		-	-	-	-	-	-	-	-	-	(104)	32	542,689	542,617
Dividends distributions	42	-	-	-	-	-	-	-	-	-	-	-	(273,540)	(273,540)
Appropriation of 2015 profits		-	-	-	-	99,030	-	-	55,967	-	-	-	(154,997)	-
Purchase of treasury shares	38	-	-	-	-	-	-	(227,384)	-	-	-	-	-	(227,384)
Sale of treasury shares	38	-	-	-	-	-	-	286,357	-	-	-	-	-	286,357
Net gain on sale of treasury shares	38	-	-	-	-	22,892	-	-	-	-	-	-	-	22,892
Balance at 31 December 2016		**258,000**	**24,000**	**374,085**	**277,500**	**1,021,517**	**37,696**	**(16,941)**	**1,182,395**	**11,842**	**(104)**	**(952)**	**542,689**	**3,711,727**

		2015												
	Notes	*Share capital-common shares*	*Share capital-preferred shares*	*Share premium on common shares*	*Share premium on preferred shares*	*Non distributable reserves*	*Distributable reserves*	*Treasury shares*	*Retained earnings*	*Revaluation reserve of real estate*	*Cumulative changes in fair value (OCI)*	*Foreign currency translation reserve*	*Profit for the year*	*Total*
		LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Balance at 1 January 2015		258,000	24,000	374,085	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	42	-	-	-	-	-	-	-	-	-	-	-	(231,478)	(231,478)
Appropriation of 2014 profits		-	-	-	-	120,902	-	-	67,390	-	-	-	(188,292)	-
Purchase of treasury shares	38	-	-	-	-	-	-	(55,852)	-	-	-	-	-	(55,852)
Sale of treasury shares	38	-	-	-	-	-	-	38,096	-	-	-	-	-	38,096
Net gain on sale of treasury shares	38	-	-	-	-	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

The accompanying notes 1 to 50 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 74 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 amortized 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 separate financial statements incorporate the results of operations, assets and liabilities of the Head Office and Lebanese and foreign branches only, without consolidating the operating results and financial position of the subsidiaries. Consolidated financial statements as of 31 December 2016 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 generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations
The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016.

Although these new standards and amendments have been applied for the first time in 2016, they did not have a material impact on the annual separate financial statements of the Bank. The nature and the impact of each new standard or amendment are described below:

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

Standard	Description	Effective date
Amendments to IAS 1 – Disclosure Initiative	The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of OCI arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements.	1 January 2016
Amendments to IFRS 11 – Accounting for acquisition of interests in Joint Operations	The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11 are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured.	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities – Applying the consolidation exception	The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization	The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	1 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 - Investments in Associates & Joint Ventures	The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: (a) require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations). (b) require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.	1 January 2016
IFRS 15, 'Revenue from contracts with Customers'.	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, with the Bank not opting for early adoption. These have, therefore, not been applied in preparing these separate financial statements.

Standard	Description	Effective date
IAS 12, "Income taxes"	The amendments clarify the following (a) Recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met; and (b) The bottom line of the tax return is not the 'future taxable profit' for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses, will no longer be appropriate instead the taxable income before the deduction will be used, to avoid double counting.	1 January 2017
IAS 7, "Statement of cash flows"	The amendments issued are as follows: (a) introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities; (b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; (c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and (d) are also applicable to financial assets that hedge liabilities arising from financing activities.	1 January 2017
IFRS 9, 'Financial instruments'	In prior years, the Bank has early adopted IFRS 9 (2010) which includes the requirements for the classification and measurement. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 (2014)) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Classification and measurement Debt instruments held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be measured at fair value through OCI but only if they pass the contractual characteristics assessment.	1 January 2018

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective

Standard	Description	Effective date
IFRS 9, 'Financial instruments'	Impairment There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. Hedging IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018
IFRS 16, 'Leases'	The IASB issued the new standard for accounting for leases in January 2016. (a) The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. (b) Lessees must apply a single model for all recognized leases, but will have the option not to recognize 'short-term' leases and leases of 'low-value' assets. (c) Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.	1 January 2019

The Bank is in the process of analyzing the impact of IFRS 9, IFRS 15 and IFRS 16. The Bank has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, the above standards, amendments to standards, revisions and interpretations have no material impact on the separate financial statements of the Bank as at the reporting date.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(i) Transactions and balances (continued)
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 amortized 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.

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".

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 (continued)
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 amortized 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.

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.

Debt instruments at fair value through profit or loss (continued)
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.

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

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 amortized cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortized 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 amortization 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.

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 2016 and 2015, 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

(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 amortized cost, its fair value at the reclassification date becomes its new carrying amount.

(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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(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 substances 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.

(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 amortized 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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(5) Fair Value Measurement (continued)

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.

(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 amortized cost

For financial assets carried at amortized 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(6) Impairment of financial assets (continued)

(i) Financial assets carried at amortized cos (continued)

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.

(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.

(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 amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate (EIR) method. If the hedged item is derecognised, the unamortized 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 as revenues on expiry.

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.

(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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(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.

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 5% or 20% of their gross carrying value is transferred to "Reserves for capital increase" in the following financial 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".

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(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.

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Lebanon and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

(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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(19) Taxes (continued)

(ii) Deferred tax (continued)
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.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(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.

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 amortized 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.

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting estimates and judgments (continued)

Judgments (continued)

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).

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.

3 SEGMENTAL INFORMATION (continued)

The following table presents income and profit and certain asset and liability information regarding the Bank's operating segments.

	2016			
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Total LL million*
Net interest income	492,692	106,325	189,628	788,645
Net fee and commission income	35,573	16,074	65,602	117,249
Net gain from financial instruments at fair value through profit or loss	44,712	-	15,969	60,681
Net gain from derecognition of financial assets at amortized cost	575,461	-	-	575,461
Other operating income	10,399	-	5,052	15,451
Net credit losses	-	(98,468)	(31,255)	(129,723)
Impairment losses on financial investments	(88,585)	-	-	(88,585)
Net operating income	1,070,252	23,931	244,996	1,339,179
Extracts of results				
Depreciation and amortization				(26,088)
Segment loss				
Unallocated expenses				(586,600)
Income tax expense				(183,802)
Profit for the year				542,689

	2015			
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Total 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

Financial position information

	2016					
	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	**28,279,748**	**4,616,485**	**4,198,022**	**637,188**	**540,481**	**38,271,924**
Total liabilities	**25,661,675**	**4,189,000**	**3,809,286**	**-**	**900,236**	**34,560,197**

3 SEGMENTAL INFORMATION (continued)

	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

[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.

	2016		
	Domestic LL million	***International LL million***	***Total LL million***
Total operating income	**1,582,567**	**(25,080)**	**1,557,487**
Net credit losses	**(122,982)**	**(6,741)**	**(129,723)**
Impairment losses on financial investments	**-**	**(88,585)**	**(88,585)**
Net operating income[2]	**1,459,585**	**(120,406)**	**1,339,179**
Non-current assets[3]	**591,619**	**569,364**	**1,160,983**

	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 income[2]	874,417	(47,285)	827,132
Non-current assets[3]	576,443	682,486	1,258,929

[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

	2016 LL million	*2015 LL million*
Interest income on financial assets at amortized cost	**720,490**	712,319
Deposits and similar accounts with banks and financial institutions	**737,835**	621,889
Deposits with sister banks	**5,237**	2,443
Loans and advances to customers at amortized cost	**597,755**	587,150
Loans and advances to related parties at amortized cost	**801**	800
	2,062,118	1,924,601

5 INTEREST AND SIMILAR EXPENSE

	2016 *LL million*	*2015* *LL million*
Deposits and similar accounts from banks and financial institutions	**13,587**	12,219
Deposits from sister banks	**11,607**	12,733
Deposits from customers and other credit balances	**1,236,702**	1,179,448
Deposits from related parties at amortized cost	**11,577**	10,170
	1,273,473	1,214,570

6 NET FEE AND COMMISSION INCOME

	2016 *LL million*	*2015* *LL million*
Fee and commission income		
Trade finance	**6,756**	7,121
Credit related fees and commissions	**29,326**	26,302
Asset management	**124**	109
Electronic banking	**53,451**	49,682
General banking income	**40,326**	35,665
Trust and fiduciary activities	**24**	45
Other services	**7,894**	7,530
	137,901	126,454
Fee and commission expense:		
Correspondents' accounts	**(20,652)**	(17,365)
Net fee and commission income	**117,249**	109,089

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

	2016 *LL million*	*2015* *LL million*
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Governmental debt securities	**6,336**	8,322
- Corporate debt securities	**1,093**	2,559
- Certificates of deposits	**659**	800
- Funds	**187**	63
	8,275	11,744
Net gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	**(174)**	557
- Corporate debt securities	**7,120**	5,039
- Corporate certificates of deposits	**5,440**	-
	12,386	5,596

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

	2016 *LL million*	*2015* *LL million*
Unrealized loss from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Governmental debt securities	**(1,765)**	(2,118)
- Corporate debt securities	**(5,543)**	1,400
- Certificates of deposits	**(14)**	60
- Funds	**22**	6
	(7,300)	(652)
Net gain from debt instruments and other financial assets at fair value through profit or loss	**13,361**	16,688
Net gain from equity instruments at fair value through profit or loss:		
- Unrealized gain from revaluation	**25,196**	3,162
- Dividend income	**6,155**	4,405
- Loss from sale	**-**	(22)
Net gain from equity instruments at fair value through profit or loss	**31,351**	7,545
Foreign exchange income	**15,969**	1,963
	60,681	26,196

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

The Bank derecognises some debt instruments classified at amortized cost due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Bank's investment policy;
- Liquidity gap and yield management;
- Exchange of financial assets by the Central Bank of Lebanon;
- Currency risk management as a result of change in the currency base of deposits; or
- Liquidity for capital expenditures.

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

	2016		
	Gains ***LL million***	***(Losses)*** ***LL million***	***Total*** ***LL million***
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	**284,708**	**-**	**284,708**
Treasury bills and bonds	**295,357**	**(4,604)**	**290,753**
	580,065	**(4,604)**	**575,461**

	2015		
	Gains *LL million*	*(Losses)* *LL million*	*Total* *LL million*
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)
	7,119	(1,095)	6,024

9 OTHER OPERATING INCOME

	2016 LL million	2015 LL million
Net gain from sale of assets obtained in settlement of debt	**144**	432
Dividend income from subsidiaries (i)	**10,399**	111
Other operating income	**4,908**	5,471
	15,451	6,014

(i) Dividend income from subsidiaries represents mainly the dividend received from Arope Lebanon SAL amounting to LL 10,379 million during the year ended 31 December 2016.

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

10 NET CREDIT LOSSES

	2016 LL million	2015 LL million
Recovery (Provision) for commitment by signature	**1,554**	(8)
Provision for loans and advances to customers		
Commercial loans (note 22)	**(107,703)**	(17,499)
Consumer loans (note 22)	**(43,553)**	(23,553)
	(151,256)	(41,052)
Write-back of provisions for loans and advances to customers		
Commercial loans (note 22)	**4,749**	6,942
Consumer loans (note 22)	**12,298**	390
Off-financial position loans (note 22)	**2,932**	3,506
	19,979	10,838
	(129,723)	(30,222)

11 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	2016 LL million	2015 LL million
Impairment losses on financial investments	**88,585**	-

Starting March 2011, Syria has witnessed an extremely violent and crippling civil war between the regime and various opposition groups in different parts of the country. The war has turned into a humanitarian disaster resulting in Syria being ranked number one on the list of the most dangerous countries in the world. The intensity of the war and violations of human rights in Syria have led several international bodies and countries (e.g. EU and U.S.A.) to set and implement several sanctions and restrictions on dealing with Syria. In addition, the business environment of the country has been burdened by heavy state intervention and Syria was ranked one of the eight most unfree economies in the world by Heritage Foundation.

The Syrian pound has lost at least 90% of its value against the US Dollar since 2011. The Syrian government has maintained currency controls and has created exchange mechanisms, which have become extremely illiquid over time, resulting in an other-than-temporary lack of exchangeability between the Syrian Pound and US Dollar. The supply of foreign currencies in the market remains structurally well below demand and there are no obvious limits as to how low the Syrian currency can fall.

11 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS (continued)

Sanctions and the war, combined with the lack of exchangeability between the Syrian Pound and US Dollar, have significantly affected Syria's financial system. Banks are largely isolated from the international banking market, being shut-off from the international payment and settlement systems, as well as the credit markets. There was a major flight of deposits as Syrians have reallocated to safer assets. Syria's economy has contracted considerably in real terms since 2011, which has significantly affected the demand for credit facilities and the investment opportunities available for banks inside Syria. Banks are unable to repatriate funds outside the country and end up placing their funds in non-income generating assets, with the Central Bank of Syria and other local commercial or state-owned banks. The negative evolution of the macroeconomic situation limited the Bank's ability to effectively manage the subsidiary. In addition, regulatory restrictions, such as foreign exchange controls, import authorization control, interest rates controls, and foreign currency credit facilities controls, have added to the limitations already existing on the significant activities of banks, preventing further the Bank from developing and implementing decisions on the relevant activities of the subsidiary. Recently issued regulations requiring board meetings to be held in the Syrian territory and attended by the board members in person have also significantly impacted the Bank's ability to attend the meetings and make and execute key operational and financial decisions regarding its Syrian operations.

Based on the above, the Bank has written off its investments as at 31 December 2016 in the two Syrian subsidiaries, Bank of Syria and Overseas SA (BSO) and Syria International Insurance (AROPE Syria) SA, amounting to LL 85,612 million and LL 2,973 million respectively.

The above impairment losses totalling LL 88,585 million comply with the provisions of the Central Bank of Lebanon Intermediate Circular number 446 dated 30 December 2016.

12 PERSONNEL EXPENSES

	2016	*2015*
	LL million	*LL million*
Wages and salaries	**90,729**	85,932
Social security contributions	**18,897**	17,626
Provision for retirement benefits obligations (note 34)	**7,615**	646
Additional allowances paid	**32,294**	29,663
Other provisions (including allowances and bonuses)	**52,568**	42,790
	202,103	176,657

13 OTHER OPERATING EXPENSES

	2016	*2015*
	LL million	*LL million*
Provision for guarantee of deposits	**15,352**	14,772
Marketing and advertising	**14,174**	11,733
Professional fees	**11,618**	9,134
Maintenance and repairs	**10,017**	9,798
Stationary and printings	**7,396**	5,815
Postage and telecommunications	**6,120**	5,856
Insurance	**5,958**	4,812
Rent and related charges	**4,906**	5,007
Electricity and fuel	**4,085**	4,177
Travel expenses	**3,574**	1,795
Fiscal stamps	**3,116**	3,116
Taxes and fees	**2,351**	2,765
Board of directors' attendance fees	**1,478**	1,195
Others	**32,316**	34,721
	122,461	114,696

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

14 PROVISIONS FOR RISKS AND CHARGES

	2016 LL million	*2015 LL million*
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016 (note 34)	**260,797**	-

15 INCOME TAX

Income tax expense for the years ended 31 December 2016 and 2015 was as follows:

	2016 LL million	*2015 LL million*
Income tax expense	**183,802**	82,098

Reconciliation of the total tax charge
A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2016 and 2015 is as follows:

	2016 LL million	*2015 LL million*
Accounting profit before income tax	**726,491**	510,635
Add:		
Provisions non tax deductible	**370,824**	8,539
Other non-tax deductible charges	**35,067**	29,051
	1,132,382	548,225
Less:		
Income received and previously subject to income tax	**(10,567)**	(196)
Remunerations already taxed	**(14,547)**	(15,376)
Unrealized gains from revaluation of debt instruments and other financial assets at fair value through profit or loss	**(17,896)**	(2,510)
Provisions previously subject to income tax	**(16,938)**	(573)
Net gain on disposal of fixed assets	**(106)**	(397)
Non - taxable income	**(3,383)**	(4,730)
Taxable profit	**1,068,945**	524,443
Effective income tax rate	**18.62%**	16.08%
Effective income tax rate (including SWAP operations)	**25.30%**	-
Income tax expense in the income statement	**183,802**	82,098

16 CASH AND BALANCES WITH CENTRAL BANKS

	2016 LL million	*2015 LL million*
Cash on hand	**199,638**	185,502
Current accounts with central banks	**789,911**	800,913
Deposits with central banks	**15,407,371**	11,511,755
	16,396,920	12,498,170

16 CASH AND BALANCES WITH CENTRAL BANKS (continued)

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 622,479 million at 31 December 2016 (2015: LL 560,635 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$ 1,968,649 thousands (equivalent to LL 2,968 billion) as at 31 December 2016 (2015: US$ 1,941,681 thousands equivalent to LL 2,927 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.

17 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016	*2015*
	LL million	*LL million*
Current accounts		
Current accounts	**707,595**	519,302
Time deposits	**727,903**	1,377,427
	1,435,498	1,896,729

18 DUE FROM SISTER BANKS

	2016	*2015*
	LL million	*LL million*
Current accounts	**49,941**	209,515
Time deposits	**462,839**	519,205
	512,780	728,720

19 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	2016	*2015*
	LL million	*LL million*
Loans to banks and financial institutions	**26,444**	34,258
Accrued interest receivable	**335**	423
Balance at 31 December	**26,779**	34,681

20 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.

	2016			2015		
	Assets LL million	*Liabilities LL million*	*Total notional amount LL million*	*Assets LL million*	*Liabilities LL million*	*Total notional amount LL million*
Hedge of a net investment in foreign operations						
Forward foreign exchange contracts	5,273	-	172,246	62	-	177,679
Derivatives held-for-trading						
Forward foreign exchange contracts	678	-	167,425	-	37	1,613,900
Currency options	15,182	15,182	120,530	14,525	14,525	118,173
	21,133	15,182	460,201	14,587	14,562	1,909,752

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 (2015: Euro 107,904 thousand). The notional amount of these contracts amounted to Euro 107,904 thousand (LL 172,246 million) as at 31 December 2016 (2015: LL 177,679 million). The forward foreign exchange contracts were revalued as of 31 December 2016 and resulted in unrealized gain of LL 678 million (2015: unrealized gain of LL 62 million). The contracts mature on 6 March 2017 at the latest.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 *LL million*	*2015* *LL million*
Equity instruments at fair value through profit or loss	**159,605**	133,632
Debt and other instruments at fair value through profit or loss	**136,531**	187,633
	296,136	321,265

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

	2016 *LL million*	*2015* *LL million*
Quoted equity securities	**146,293**	121,161
Unquoted equity securities	**13,312**	12,471
Quoted governmental debt securities	**80,837**	85,042
Unquoted governmental debt securities	**3,289**	21,672
Quoted corporate debt securities	**38,320**	59,837
Unquoted corporate debt securities	**1,757**	1,696
Funds	**9,029**	4,654
Unquoted certificates of deposits – Central Banks	**3,299**	14,732
	296,136	321,265

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2016 *LL million*	*2015* *LL million*
Commercial loans (*)	**4,877,074**	4,700,400
Consumer loans	**4,266,869**	4,114,340
	9,143,943	8,814,740
Less:		
Individual impairment allowances	**(272,235)**	(170,207)
Collective impairment allowances	**(80,588)**	(74,099)
Unrealized interest	**(94,083)**	(60,298)
	8,697,037	8,510,136

(*) Included under commercial loans as at 31 December 2016, an amount of LL 1,629,227 million (31 December 2015: LL 1,640,067 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 245,273 million as of 31 December 2016 (2015: LL 206,243 million).

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

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

	2016 *LL million*	*2015* *LL million*
Beginning balance	**74,099**	65,178
Charge for the year	**17,634**	9,573
Transfer to individual impairment allowances	**(431)**	-
Write-back of provisions	**(10,715)**	(654)
Foreign exchange difference	**1**	2
	80,588	74,099

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

	2016 *LL million*	*2015* *LL million*
Balance at 1 January	**60,298**	43,264
Add:		
Unrealized interest for the year	**34,923**	24,202
	95,221	67,466
Less:		
Recoveries of unrealized interest (note 10)	**(1,090)**	(5,265)
Amounts written-off	**(18)**	(295)
Transferred to off-financial position	**-**	(1,515)
Foreign exchange difference	**(30)**	(93)
Balance at 31 December	**94,083**	60,298
Unrealized interest on substandard loans	**15,942**	7,908
Unrealized interest on doubtful loans	**78,141**	52,390
	94,083	60,298

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

	2016			*2015*		
	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	**182,350**	**61,956**	**244,306**	180,687	57,607	238,294
Add:						
Charge for the year (note 10)	**107,703**	**43,553**	**151,256**	17,499	23,553	41,052
Transfer of provision from commercial to consumer loans	**-**	**1,135**	**1,135**	-	-	-
Exchange differences	**-**	**2**	**2**	-	-	-
	290,053	**106,646**	**396,699**	198,186	81,160	279,346
Less:						
Provisions written-off	**228**	**1,403**	**1,631**	836	930	1,766
Write-back of provisions (note 10)	**4,648**	**11,309**	**15,957**	1,677	390	2,067
Provision transferred to off financial position	**-**	**24,968**	**24,968**	12,675	17,873	30,548
Transfer of provision from commercial to consumer loans	**1,135**	**-**	**1,135**	-	-	-
Exchange differences	**185**	**-**	**185**	648	11	659
	6,196	**37,680**	**43,876**	15,836	19,204	35,040
Balance at 31 December	**283,857**	**68,966**	**352,823**	182,350	61,956	244,306

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

	2016			2015		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*	*Commercial loans LL million*	*Consumer loans LL million*	*Total LL million*
Individual impairment	**226,335**	**45,900**	**272,235**	126,542	43,665	170,207
Collective impairment	**57,522**	**23,066**	**80,588**	55,808	18,291	74,099
	283,857	**68,966**	**352,823**	182,350	61,956	244,306
Gross amount of loans individually determined to be impaired	**306,240**	**77,647**	**383,887**	280,890	67,330	348,220

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 2016 amounts to LL 192,806 million (2015: LL 214,543 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:

	2016 LL million	*2015 LL million*
Balance at 1 January	**206,243**	164,893
Add:		
Unrealized interest for the year	**17,604**	15,814
Unrealized interest transferred from the statement of financial position	**-**	1,515
Provision transferred from the statement of financial position	**24,968**	30,548
	248,815	212,770
Less:		
Recoveries / provisions written-back (note 10)	**(2,932)**	(2,842)
Unrealized interest written-back (note 10)	**-**	(664)
Amounts written-off	**(163)**	(1,807)
Foreign exchange difference	**(447)**	(1,214)
	(3,542)	(6,527)
Balance at 31 December	**245,273**	206,243

23 FINANCIAL ASSETS AT AMORTIZED COST

	2016 LL million	*2015 LL million*
Quoted:		
Government debt securities	**1,854,200**	2,330,106
Corporate debt securities	**1,006,454**	1,129,129
	2,860,654	3,459,235
Unquoted:		
Government debt securities	**3,547,535**	3,799,352
Corporate debt securities	**49,979**	64,963
Certificates of deposit – Central Bank of Lebanon	**2,765,567**	3,205,701
Certificates of deposit – Commercial banks and financial institutions	**366,767**	366,267
	6,729,848	7,436,283
	9,590,502	10,895,518

24 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Country of origin	Activity	Contribution's share 2016 %	Contribution's share 2015 %	2016 LL million	2015 LL million
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	-	85,612
BLOM Bank France SA	France	Banking	99.99	99.99	172,246	177,679
BLOM Bank Egypt SAE	Egypt	Banking	99.42	99.42	222,227	222,227
AROPE Insurance SAL	Lebanon	Insurance	89.04	88.98	37,318	37,227
Syria International Insurance (AROPE Syria) SA	Syria	Insurance	10.00	10.00	-	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	-	107,122
BLOM Asset Management Company SAL	Lebanon	Investment activities	99.99	-	7,500	-
					554,728	748,277
Subordinated loans:						
BlomInvest Bank SAL					45,225	-
BLOM Bank Qatar LLC					15,075	15,075
BlomInvest – Saudi Arabia					22,110	37,185
Accrued interest					50	10
					82,460	52,270
					637,188	800,547

BlomInvest Bank SAL

The Bank has entered into a subordinated loan agreement dated 20 September 2016 with BlomInvest Bank SAL for US$ 30,000,000 (equivalent to LL 45,225 million). The subordinated loan has a final maturity date of 13 December 2022 and carries an interest rate of 3 month LIBOR +0.25% payable quarterly.

Bank of Syria and Overseas SA (BSO)

During 2016, the bank wrote-off its investment in Bank of Syria and Overseas SA (BSO) amounting to LL 85,612 million (note 11), and this latter is accounted for as "investment in associate" as at 31 December 2016 (2015: investment in subsidiary).

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.

Syria International Insurance (AROPE Syria) SA

During 2016, the bank wrote-off its investment in Syria International Insurance (AROPE Syria) SA amounting to LL 2,973 million (note 11), and this latter is accounted for as "investment in associate" as at 31 December 2016 (2015: investment in subsidiary)..

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. On 29 June 2016, the subordinated loan of US$ 10,000,000 was settled in full.

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.

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.

24 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (continued)

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 107,122 million).

Aza Holding SAL was liquidated on 15 February 2016 and its assets were distributed among its shareholders according to their ownership percentages in the Company.

BLOM Asset Management Company SAL

BLOM Asset Management Company SAL, a Lebanese joint stock company, was incorporated on 11 February 2016, and its capital consists of 750,000 shares (issued, outstanding and fully paid) of LL 10,000 each for a total share capital of LL 7,500 million.

BLOM Bank SAL holds a percentage of 99.99% of the total shares.

25 PROPERTY AND EQUIPMENT

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of property and equipment in progress LL million*	*Total LL million*
Cost					
At 1 January 2016	308,893	4,237	225,725	74,308	613,163
Additions	8,525	790	10,937	70,912	91,164
Disposals	-	(601)	(1,413)	-	(2,014)
Transfers	11,083	-	5,675	(20,029)	(3,271)
Foreign exchange difference	5	1	5	-	11
At 31 December 2016	**328,506**	**4,427**	**240,929**	**125,191**	**699,053**
Depreciation					
At 1 January 2016	49,721	1,689	133,793	-	185,203
Charge for the year	5,434	864	16,221	-	22,519
Relating to disposals	-	(573)	(1,321)	-	(1,894)
Foreign exchange difference	-	1	3	-	4
At 31 December 2016	**55,155**	**1,981**	**148,696**	-	**205,832**
Net carrying value					
At 31 December 2016	**273,351**	**2,446**	**92,233**	**125,191**	**493,221**

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of property and equipment in progress LL million*	*Total LL million*
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

26 INTANGIBLE ASSETS

	Key money LL million	*Software development LL million*	*Total LL million*
Cost			
At 1 January 2016	1,758	11,350	13,108
Additions	-	1,226	1,226
Transfers	-	71	71
At 31 December 2016	**1,758**	**12,647**	**14,405**
Amortization			
At 1 January 2016	1,598	7,423	9,021
Charge for the year	53	3,516	3,569
At 31 December 2016	**1,651**	**10,939**	**12,590**
Net carrying value			
At 31 December 2016	**107**	**1,708**	**1,815**

	Key money LL million	*Software development LL million*	*Total LL million*
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

27 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	***2016* LL million**	*2015 LL million*
Cost		
At 1 January	**26,335**	4,562
Additions	**4,175**	22,763
Disposals	**(1,885)**	(1,788)
Transfers	-	225
Write-back	**134**	573
Impairment	-	-
Balance at 31 December	**28,759**	26,335

28 OTHER ASSETS

	2016 LL million	2015 LL million
Customers' transactions between head office and branches	**925**	1,500
Prepayments	**13,572**	13,304
Precious metals and stamps	**1,097**	1,103
Sundry debtors	**250**	1,261
Others	**842**	210
	16,686	17,378

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.

Sundry debtors

	2016 LL million	2015 LL million
Sundry debtors	**1,470**	2,481
Less: Provision against sundry debtors	**(1,220)**	(1,220)
	250	1,261

29 DUE TO CENTRAL BANKS

	2016 LL million	2015 LL million
Loan due to Central Bank of Lebanon	**493,762**	442,381
Loan due to Central Bank of Jordan	**20,398**	13,172
Accrued interest payable	**4,860**	4,089
Balance at 31 December	**519,020**	459,642

Following the Central Bank of Lebanon Intermediate Circulars No. 313, 318, 382, 408 and 12379 issued on 14 January 2013, 28 February 2013, 10 December 2014, 20 November 2015 and 12 December 2016 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 October 2017. 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 2018. As of 31 December 2016, the Bank obtained facilities amounting to LL 493,762 million (31 December 2015: LL 442,381 million).

30 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016 LL million	2015 LL million
Current accounts	**209,080**	204,691
Time deposits	**240,148**	144,369
Loans	**27,392**	-
	476,620	349,060

31 DUE TO SISTER BANKS

	2016 LL million	2015 LL million
Current accounts	**78,675**	308,497
Time deposits	**157,380**	152,629
	236,055	461,126

32 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2016 LL million	2015 LL million
Sight deposits	**2,630,741**	2,716,825
Time deposits	**14,240,199**	13,675,995
Saving accounts	**13,050,362**	12,547,213
Credit accounts and deposits against debit accounts	**2,151,358**	2,068,176
Margins on letters of credit	**31,725**	30,287
	32,104,385	31,038,496

Customers' deposits include coded deposit accounts amounting to LL 34,647 million as of 31 December 2016 (2015: LL 48,019 million).

33 OTHER LIABILITIES

	2016 LL million	2015 LL million
Current tax liability	**189,991**	63,845
Sundry creditors	**25,546**	42,816
Dividends payable	**151**	53
Accrued expenses and other regularization accounts	**40,042**	33,699
Transactions pending between branches	**108,953**	90,810
Other taxes	**12,847**	11,656
	377,530	242,879

34 PROVISIONS FOR RISKS AND CHARGES

	2016 LL million	2015 LL million
Deferred revenues (*)	**166,100**	-
Excess provisions to comply with the Central Bank of Lebanon Intermediate Circulars number 439 dated 8 November 2016 and 446 dated 30 December 2016 (*) (note 14)	**260,797**	-
Retirement benefits obligation	**51,595**	46,117
Provision for risks and charges	**40,886**	41,213
Provision on commitment by signature	**2,270**	3,831
Other provisions	**1,058**	1,057
	522,706	92,218

34 PROVISIONS FOR RISKS AND CHARGES (continued)

(*) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 defining the accounting treatment for the surplus realized by banks from the transactions made with the Central Bank of Lebanon. In accordance with the provisions of this circular, banks should recognize in the income statement, only part of the gain net of tax, caped to the extent of the losses recorded to comply with certain regulatory provisioning requirements, the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3 respectively and the shortage needed to comply with the capital adequacy requirements, if any. Banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier One. The remaining balance of the gain net of tax should be maintained within deferred revenue and qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

During 2016, as a result of operations with the Central Bank of Lebanon consisting of the sale of Treasury Bills and Certificates of Deposit denominated in Lebanese Lira with a nominal value of LL 825,000 million and LL 1,125,000 million respectively and the simultaneous purchase of Treasury Bills and Certificates of Deposit denominated in US Dollars with a nominal value of US$ 200 million and US$ 1,000 million respectively, and a placement in Euro amounting to EUR 100,000 with the Central Bank of Lebanon. The Bank received a surplus of LL 554,761 million (net of tax) which was credited to "Deferred revenues" under "Provisions for risks and charges". The Bank then recognized an amount of LL 388,661 million (net of tax) in the statement of income and recorded excess provisions under "provisions for risks and charges" amounting to LL 260,797 million to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circulars numbers 439 dated 8 November 2016 and 446 dated 30 December 2016.

The movement of the retirement benefits obligation is as follows:

	2016	*2015*
	LL million	*LL million*
Balance at 1 January	**46,117**	48,716
Charge for the year (note 12)	**7,615**	646
Transfer to sister banks	**-**	(24)
Benefits paid	**(2,137)**	(3,033)
Foreign exchange difference	**-**	(188)
Balance at 31 December	**51,595**	46,117

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

	2016	*2015*
	LL million	*LL million*
Balance at 1 January	**41,213**	30,557
Charge for the year	**10**	10,656
Write back during the year	**(8)**	-
Paid during the year	**(212)**	-
Transfer from provisions on commitment by signature	**8**	
Foreign exchange difference	**(125)**	-
Balance at 31 December	**40,886**	41,213

35 SHARE CAPITAL AND PREMIUMS

	2016		*2015*	
	Share capital LL million	***Share premium LL million***	*Share capital LL million*	*Share premium LL million*
Common shares – Authorized, issued and fully paid				
215,000,000 shares at LL 1,200 per share as of 31 December 2016 (31 December 2015: same)	**258,000**	**374,085**	258,000	374,085

35 SHARE CAPITAL AND PREMIUMS (continued)

	2016		2015	
	Share capital LL million	*Share premium LL million*	*Share capital LL million*	*Share premium LL million*
Preferred shares – Authorized, issued and fully paid				
20,000,000 preferred shares (2011 issue) at LL 1,200 per share as of 31 December 2016 (31 December 2015: same)	**24,000**	**277,500**	24,000	277,500

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

	2011 issue
Number of shares	20,000,000
Par value of issued shares (LL 1,200 share)	LL 24,000 million
Premium (denominated in USD)	LL 277,500 million (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 (2015: the same).

36 NON DISTRIBUTABLE RESERVES

	Reserve for general banking risks LL million	*Legal reserve LL million*	*Reserve for increase of share capital LL million*	*Reserve for retail loans LL million*	*Total LL million*
At 1 January 2015	326,250	384,209	58,067	-	768,526
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	381,250	426,186	86,909	5,250	899,595
Appropriation of 2015 profits	33,000	42,853	18,062	5,115	99,030
Net gain on sale of treasury shares	-	-	22,892	-	22,892
At 31 December 2016	**414,250**	**469,039**	**127,863**	**10,365**	**1,021,517**

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 2016 from the profits of the year 2015 amounted to LL 33,000 million (2015: LL 55,000 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.

36 NON DISTRIBUTABLE RESERVES (continued)

During 2016, the Bank appropriated LL 42,853 million from 2015 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2015: LL 41,977 million).

Reserve for increase of share capital
The balance amounting to LL 127,863 million (2015: LL 86,909 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 July 2016, the General Assembly Meeting of the Bank allocated an amount of LL 5,115 million as a reserve for retail loans (2015: LL 5,250 million).

37 DISTRIBUTABLE RESERVES

	2016 ***LL million***	*2015* *LL million*
General reserves	**37,696**	37,696

General reserves
The Bank appropriates general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 37,696 million (2015: same) is available for dividends distribution.

38 TREASURY SHARES

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

	2016	
	No. of common shares	***Amount LL million***
At 1 January	**5,573,418**	**75,914**
Purchase of treasury shares	**15,456,819**	**227,384**
Sale of treasury shares	**(19,867,654)**	**(286,357)**
At 31 December	**1,162,583**	**16,941**

	2015	
	No. of common shares	*Amount LL million*
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

The treasury shares represent 11,179 Global Depository Receipts (GDR) and 1,151,404 ordinary shares owned by the Bank as at 31 December 2016 (2015: 3,653,828 Global Depository Receipts (GDR) and 1,919,590 ordinary shares). The market value of one GDR and one ordinary share were USD 11 and USD 10.6 respectively as of 31 December 2016 (2015: USD 9.75 and USD 9.40 respectively).

The Bank realized a gain of LL 22,892 million from the sale of treasury shares during the year 2016 (2015: gain of LL 10,167 million). Gains and losses are reflected in the "Non-distributable reserves".

39 RETAINED EARNINGS

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

	2016 *LL million*	*2015* *LL million*
Unrealized gain on financial assets at fair value through profit or loss	**55,967**	56,985

40 REVALUATION RESERVE OF REAL ESTATE

	2016 *LL million*	*2015* *LL million*
Revaluation reserve accepted in Tier II capital	**11,842**	11,842

41 CASH AND CASH EQUIVALENTS

	2016 *LL million*	*2015* *LL million*
Cash and balances with central banks	**1,452,287**	1,295,879
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**1,435,411**	922,387
Deposits with sister banks (whose original maturities are less than 3 months)	**234,149**	323,497
	3,121,847	2,541,763
Less:		
Due to central banks	**(15,382)**	(13,350)
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(311,126)**	(241,561)
Due to sister banks (whose original maturities are less than 3 months)	**(236,054)**	(461,542)
	(562,562)	(716,453)
	2,559,285	1,825,310

42 DIVIDENDS DECLARED AND PAID

According to the resolution of the General Assembly meeting held on 14 April 2016 the following dividends were declared and paid, from the 2015 profits.

	2016		
	Number of shares	*Dividends per share in LL*	*Total LL million*
Dividends on preferred shares – 2011 issue	**20,000,000**	**1,055.25**	**21,105**
Dividends on common shares	**201,947,911**	**1,250.00**	**252,435**
			273,540

42 DIVIDENDS DECLARED AND PAID (continued)

The dividends on common shares, declared on 14 April 2016 were paid net of the treasury shares as of that date.

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.

	2015		
	Number of shares	*Dividends per share in LL*	*Total LL million*
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
			231,478

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

43 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 24. 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 2016:

	Key management personnel	*Subsidiaries*	*Other related parties*	*Total*
	Outstanding balance LL million	*Outstanding balance LL million*	*Outstanding balance LL million*	*Outstanding Balance LL million*
Deposits	37,569	37,551	137,389	212,509
Net loans and advances	4,301	-	16,979	21,280
Subordinated loans	-	82,460	-	82,460
Due from sister banks	-	512,780	-	512,780
Due to sister banks	-	236,055	-	236,055
Placement of funds – Wakala and Murabaha operations	-	14,528	-	14,528
Guarantees given	4,235	11,483	45	15,763
Commitments given	-	4,625	-	4,625
Guarantees received	-	2,098	-	2,098
Commitments received	-	1,309	-	1,309
Assets under custody given	-	3,240,587	-	3,240,587

43 RELATED PARTY TRANSACTIONS (continued)

31 December 2016: (continued)

	Key management personnel *LL million*	*Subsidiaries* *LL million*	*Other related parties* *LL million*	*Total* *LL million*
Interest paid on deposits	**2,286**	**888**	**8,403**	**11,577**
Interest received from net loans and advances	**205**	**2**	**594**	**801**
Insurance expenses	**-**	**10,476**	**-**	**10,476**
Rent expense	-	**775**	-	**775**
Interest revenues	-	**4,909**	-	**4,909**
Interest expenses	-	**11,607**	-	**11,607**
Interest revenue from subordinated loans	-	**328**	-	**328**
Commission income	-	**3,073**	-	**3,073**
Custody expense	-	**817**	-	**817**
Dividend Income	-	**10,399**	-	**10,399**

31 December 2015:

	Key management personnel *Outstanding balance* *LL million*	*Subsidiaries* *Outstanding balance* *LL million*	*Other related parties* *Outstanding balance* *LL million*	*Total* *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

	Key management personnel *LL million*	*Subsidiaries* *LL million*	*Other related parties* *LL million*	*Total* *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

Compensation of the Key Management Personnel of the Bank

	2016 ***LL million***	*2015* *LL million*
Short-term benefits	**36,508**	32,276
Post-employment benefits charged for the year	**4,840**	1,009

43 RELATED PARTY TRANSACTIONS (continued)

The following transactions have been entered into with related parties during 2016 and 2015:

	2016	*2015*
	LL million	*LL million*
Purchase of certificates of deposit – Central Banks denominated in Lebanese Lira classified at amortized cost from BlomInvest Bank SAL (subsidiary)	**40,000**	10,000
Purchase of governmental treasury bills denominated in Lebanese Lira classified at amortized cost from BlomInvest Bank SAL (subsidiary)	**10,000**	27,784
Sale of governmental treasury bills denominated in Lebanese Lira classified at amortized cost to BlomInvest Bank SAL (subsidiary)	**(136,000)**	(118,750)
Sale of governmental Eurobonds denominated in US Dollars classified at amortized cost to BlomInvest Bank SAL (subsidiary)	**(22,613)**	-

44 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.

	2016		
	Banks	***Customers***	***Total***
	LL million	***LL million***	***LL million***
Guarantee and contingent liabilities			
Financial guarantees	**20,438**	**202,108**	**222,546**
Other guarantees	**4,048**	**49,928**	**53,976**
	24,486	**252,036**	**276,522**
Commitments			
Documentary credits	**91,349**	**-**	**91,349**
Undrawn credit lines	**-**	**1,191,974**	**1,191,974**
Of which revocable	**-**	***1,062,172***	***1,062,172***
Of which irrevocable	**-**	***129,802***	***129,802***
Other commitments	**22,467**	**52,763**	**75,230**
	113,816	**1,244,737**	**1,358,553**

	2015		
	Banks	*Customers*	*Total*
	LL million	*LL million*	*LL million*
Guarantee and contingent liabilities			
Financial guarantees	31,177	207,585	238,762
Other guarantees	3,090	61,381	64,471
	34,267	268,966	303,233

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

	2015		
	Banks *LL million*	*Customers* *LL million*	*Total* *LL million*
Commitments			
Documentary credits	113,609	-	113,609
Undrawn credit lines	-	1,590,069	1,590,069
Of which revocable	-	*1,486,751*	*1,486,751*
Of which irrevocable	-	*103,318*	*103,318*
Other commitments	11,123	43,174	54,297
	124,732	1,633,243	1,757,975

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.

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:

	2016 ***LL million***	*2015* *LL million*
Capital commitments		
Property and equipment purchases	**15,379**	61,340
Operating lease commitments		
Future minimum lease payments under operating leases:		
During one year	**1,674**	1,253
More than 1 year and less than five years	**4,954**	4,838
More than five years	**3,219**	3,817
Total operating lease commitments at the statement of financial position date	**9,847**	9,908

44 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Other contingencies

The Bank's books in Lebanon were subject to a review by the tax authorities for the years 2012 to 2014 inclusive. However, the tax authorities did not issue a final report as of the report date. The Bank's books in Lebanon remain subject to the review by the tax authorities for the period from 1 January 2015 till 31 December 2016. Management believes that the ultimate outcome of any review by the tax authorities on the Bank's books for these years will not have a material impact on the financial statements.

The Bank's books in Lebanon are subject to the review by the National Social Security Fund (NSSF) for the period from 1 November 2014 to 31 December 2016. Management believes that the ultimate outcome of any review by the National Social Security Fund (NSSF) on the Bank's books for these years will not have a material impact on the financial statements.

45 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2016 ***LL million***	*2015* *LL million*
Assets held in custody and under administration	**2,153,093**	1,280,600

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.

46 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.

	2016			
	Valuation techniques			
	Level 1 LL million	***Level 2 LL million***	***Level 3 LL million***	***Total LL million***
Assets measured at fair value:				
Derivative financial instruments:				
Forward foreign exchange contracts used for hedging purposes	**-**	**678**	**-**	**678**
Forward foreign exchange contracts	**-**	**5,273**	**-**	**5,273**
Currency options	**-**	**15,182**	**-**	**15,182**
Financial assets at fair value through profit or loss:				
Quoted equity securities	**146,293**	**-**	**-**	**146,293**
Unquoted equity securities	**-**	**13,312**	**-**	**13,312**
Quoted governmental debt securities	**80,837**	**-**	**-**	**80,837**
Unquoted governmental debt securities	**-**	**3,289**	**-**	**3,289**
Quoted corporate debt securities	**38,320**	**-**	**-**	**38,320**
Unquoted corporate debt securities	**-**	**1,757**	**-**	**1,757**
Funds	**-**	**9,029**	**-**	**9,029**
Unquoted certificates of deposits- Central Banks	**-**	**3,299**		**3,299**

46 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

	2015			
	Valuation techniques			
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
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

	2016			
	Valuation techniques			
	Level 1 ***LL million***	***Level 2*** ***LL million***	***Level 3*** ***LL million***	***Total*** ***LL million***
Assets for which fair values are disclosed:				
Cash and balances with central banks	**199,638**	**16,461,955**	**-**	**16,661,593**
Due from banks and financial institutions	**-**	**1,435,498**	**-**	**1,435,498**
Due from sister banks	**-**	**512,868**	**-**	**512,868**
Loans to banks and financial institutions	**-**	**28,512**	**-**	**28,512**
Net loans and advances to customers at amortized cost	**-**	**-**	**8,742,061**	**8,742,061**
Net loans and advances to related parties at amortized cost	**-**	**-**	**21,442**	**21,442**
Financial assets at amortized cost				
Government debt securities	**1,811,283**	**3,601,023**	**-**	**5,412,306**
Certificates of deposit - Central Banks	**-**	**2,708,176**	**-**	**2,708,176**
Corporate debt securities	**1,025,281**	**49,979**	**-**	**1,075,260**
Certificates of deposit - Commercial banks and financial institutions	**-**	**361,279**	**-**	**361,279**
Liabilities measured at fair value:				
Derivative financial instruments:				
Currency options	**-**	**15,182**	**-**	**15,182**
Liabilities for which fair values are disclosed:				
Due to central banks	**-**	**346,092**	**-**	**346,092**
Due to banks and financial institutions	**-**	**476,620**	**-**	**476,620**
Due to sister banks	**-**	**236,055**	**-**	**236,055**
Customers' deposits at amortized cost	**-**	**32,207,044**	**-**	**32,207,044**
Deposits from related parties at amortized cost	**-**	**212,869**	**-**	**212,869**

	2015			
	Valuation techniques			
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
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

There were no transfers between levels during 2016 (2015: the same).

46 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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.

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.

46 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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.

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.

	2016		*2015*	
	Carrying value LL million	*Fair value LL million*	*Carrying value LL million*	*Fair value LL million*
Financial assets				
Cash and balances with central banks	16,396,920	16,661,593	12,498,170	12,863,865
Due from banks and financial institutions	1,435,498	1,435,498	1,896,729	1,896,282
Due from sister banks	512,780	512,868	728,720	728,678
Loans to banks and financial institutions	26,779	28,512	34,681	38,322
Net loans and advances to customers at amortized cost	8,697,037	8,742,061	8,510,136	8,554,727
Net loans and advances to related parties at amortized cost	21,280	21,442	22,505	22,671
Financial assets at amortized cost	9,590,502	9,557,021	10,895,518	11,152,684
Government debt securities	*5,401,735*	*5,412,306*	*6,129,458*	*6,232,419*
Certificates of deposit - Central Banks	*2,765,567*	*2,708,176*	*3,205,701*	*3,341,513*
Corporate debt securities	*1,056,433*	*1,075,260*	*1,194,092*	*1,216,504*
Certificates of deposit - Commercial banks and financial institutions	*366,767*	*361,279*	*366,267*	*362,248*
Financial liabilities				
Due to central banks	519,020	346,092	459,642	299,202
Due to banks and financial institutions	476,620	476,620	349,060	349,046
Due to sister banks	236,055	236,055	461,126	461,126
Customers' deposits at amortized cost	32,104,385	32,207,044	31,038,496	31,107,287
Deposits from related parties at amortized cost	212,509	212,869	179,850	180,176

47 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 2016 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	2,431,551	13,965,369	16,396,920
Due from banks and financial institutions	1,435,498	-	1,435,498
Due from sister banks	512,780	-	512,780
Loans to banks and financial institutions	335	26,444	26,779
Derivative financial instruments	21,133	-	21,133
Financial assets at fair value through profit or loss	25,439	270,697	296,136
Net loans and advances to customers at amortized cost	7,280,754	1,416,283	8,697,037
Net loans and advances to related parties at amortized cost	11,252	10,028	21,280
Debtors by acceptances	96,190	-	96,190
Financial assets at amortized cost	1,392,131	8,198,371	9,590,502
Investments in subsidiaries and associates	50	637,138	637,188
Property and equipment	-	493,221	493,221
Intangible assets	-	1,815	1,815
Assets obtained in settlement of debt	-	28,759	28,759
Other assets	15,046	1,640	16,686
TOTAL ASSETS	13,222,159	25,049,765	38,271,924
LIABILITIES			
Due to central banks	73,237	445,783	519,020
Due to banks and financial institutions	444,749	31,871	476,620
Due to sister banks	236,055	-	236,055
Derivative financial instruments	15,182	-	15,182
Customers' deposits at amortized cost	32,065,429	38,956	32,104,385
Deposits from related parties at amortized cost	212,509	-	212,509
Engagements by acceptances	96,190	-	96,190
Other liabilities	375,610	1,920	377,530
Provisions for risks and charges	39	522,667	522,706
TOTAL LIABILITIES	33,519,000	1,041,197	34,560,197
NET	(20,296,841)	24,008,568	3,711,727

47 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 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

48 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.

48 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.

48-1 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 22. Information on credit risk relating to derivative instruments is provided in note 20 and for commitments and contingencies in note 44. 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.

48 RISK MANAGEMENT (continued)

48-1 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.

	2016		
	Domestic LL million	*International LL million*	*Total LL million*
Financial assets			
Balances with central banks	15,998,126	199,156	16,197,282
Due from banks and financial institutions	137,680	1,297,818	1,435,498
Due from sister banks	1,161	511,619	512,780
Loans to banks and financial institutions	26,779	-	26,779
Derivative financial instruments	21,133	-	21,133
Financial assets at fair value through profit or loss	109,576	186,560	296,136
Government debt securities	*84,126*	-	*84,126*
Corporate debt securities	-	*40,077*	*40,077*
Certificates of deposits- Central Banks	*3,299*	-	*3,299*
Funds	*8,168*	*861*	*9,029*
Shares	*13,983*	*145,622*	*159,605*
Net loans and advances to customers at amortized cost	7,306,588	1,390,449	8,697,037
Commercial loans	*3,850,071*	*655,362*	*4,505,433*
Retail loans	*3,456,517*	*735,087*	*4,191,604*
Net loans and advances to related parties at amortized cost	19,684	1,596	21,280
Debtors by acceptances	95,152	1,038	96,190
Financial assets at amortized cost	8,019,271	1,571,231	9,590,502
Government debt securities	*4,856,752*	*544,983*	*5,401,735*
Corporate debt securities	*30,185*	*1,026,248*	*1,056,433*
Certificates of deposit – Central Bank of Lebanon	*2,765,567*	-	*2,765,567*
Certificates of deposit – Commercial banks and financial institutions	*366,767*	-	*366,767*
Total credit exposure	31,735,150	5,159,467	36,894,617

48 RISK MANAGEMENT (continued)

48-1 Credit risk (continued)

A- Analysis of risk concentration (continued)

	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
Government debt securities	*92,139*	*14,575*	*106,714*
Corporate debt securities	-	*61,533*	*61,533*
Certificates of deposits- Central Banks	*14,732*	-	*14,732*
Funds	*3,695*	*959*	*4,654*
Shares	*13,259*	*120,373*	*133,632*
Net loans and advances to customers at amortized cost	7,331,202	1,178,934	8,510,136
Commercial loans	*3,980,952*	*476,801*	*4,457,753*
Retail loans	*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
Government debt securities	*5,568,717*	*560,741*	*6,129,458*
Corporate debt securities	*30,185*	*1,163,907*	*1,194,092*
Certificates of deposit – Central Bank of Lebanon	*3,205,701*	-	*3,205,701*
Certificates of deposit – Commercial banks and financial institutions	*366,267*	-	*366,267*
Total credit exposure	29,074,889	5,729,793	34,804,682

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.

	2016						
	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	16,197,282	-	15,000	-	-	-	16,182,282
Due from banks and financial institutions	1,435,498	-	4,000	-	-	-	1,431,498
Due from sister banks	512,780	-	-	-	-	-	512,780
Loans to banks and financial institutions	26,779	-	-	-	-	-	26,779
Derivative financial instruments	21,133	-	-	-	-	-	21,133
Financial assets at fair value through profit or loss	136,531	-	-	-	-	-	136,531
Net loans and advances to customers at amortized cost:	8,697,037	1,245,298	248,515	94,711	4,090,536	1,901,770	1,116,207
Commercial loans	*4,505,433*	*1,245,298*	*248,515*	*94,711*	*1,361,995*	*648,914*	*906,000*
Consumer loans	*4,191,604*	-	-	-	*2,728,541*	*1,252,856*	*210,207*
	27,027,040	1,245,298	267,515	94,711	4,090,536	1,901,770	19,427,210
Net loans and advances to related parties at amortized cost	21,280	876	-	-	10,282	92	10,030
Debtors by acceptances	96,190	-	-	-	-	-	96,190
Financial assets at amortized cost	9,590,502	-	-	-	-	-	9,590,502
	36,735,012	1,246,174	267,515	94,711	4,100,818	1,901,862	29,123,932
Financial guarantees							2,932,609
Non financial guarantees							13,208,489
Documentary credits							44,313
							16,185,411

48 RISK MANAGEMENT (continued)

48-1 Credit risk (continued)

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

	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
Commercial loans	*4,457,753*	*1,277,952*	*93,870*	*63,442*	*1,529,468*	*583,994*	*909,027*
Consumer loans	*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

The schedules shown above exclude the undrawn commitments to lend of LL 1,191,974 million for the year ended 31 December 2016 (2015: LL 1,590,069 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.

48 RISK MANAGEMENT (continued)

48-1 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.

	2016					
	Sovereign	*Non-sovereign*				
	Neither past due nor impaired	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*		
	Regular and special mention LL million	*Regular and special mention LL million*	*Regular and special mention LL million*	*Sub-standard LL million*	*Non-performing LL million*	*Total LL million*
Balances with central banks	16,197,282	-	-	-	-	16,197,282
Due from banks and financial institutions	-	1,435,498	-	-	-	1,435,498
Due from sister banks	-	512,780	-	-	-	512,780
Loans to banks and financial institutions	-	26,779	-	-	-	26,779
Derivative financial instruments	-	21,133	-	-	-	21,133
Financial assets at fair value through profit or loss	87,425	49,106	-	-	-	136,531
- Government debt securities	*84,126*	-	-	-	-	*84,126*
- Corporate debt securities	-	*40,077*	-	-	-	*40,077*
- Funds	-	*9,029*	-	-	-	*9,029*
- Certificates of deposits- Central Banks	*3,299*	-	-	-	-	*3,299*
Gross loans and advances to customers at amortized cost	-	8,424,452	213,881	121,723	383,887	9,143,943
- Commercial loans	-	*4,367,349*	*93,567*	*109,918*	*306,240*	*4,877,074*
- Consumer loans	-	*4,057,103*	*120,314*	*11,805*	*77,647*	*4,266,869*
Gross loans and advances to related parties at amortized cost	-	21,280	-	-	-	21,280
Financial assets at amortized cost	8,167,302	1,423,200	-	-	-	9,590,502
- Government debt securities	*5,401,735*	-	-	-	-	*5,401,735*
- Corporate debt securities	-	*1,056,433*	-	-	-	*1,056,433*
- Certificates of deposit – Central Banks	*2,765,567*	-	-	-	-	*2,765,567*
- Certificates of deposit – Commercial banks and financial institutions	-	*366,767*	-	-	-	*366,767*
Total	24,452,009	11,914,228	213,881	121,723	383,887	37,085,728

	2015					
	Sovereign	*Non-sovereign*				
	Neither past due nor impaired	*Neither past due nor impaired*	*Past due but not impaired*	*Individually impaired*		
	Regular and special mention LL million	*Regular and special mention LL million*	*Regular and special mention LL million*	*Sub-standard LL million*	*Non-performing LL million*	*Total 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	*106,714*	-	-	-	-	*106,714*
- 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

48 RISK MANAGEMENT (continued)

48-1 Credit risk (continued)

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

	2016				
	Less than 30 days LL million	*30 to 60 days LL million*	*61 to 90 days LL million*	*More than 90 days LL million*	*Total LL million*
Consumer loans	**14,410**	**68,469**	**25,630**	**11,805**	**120,314**
Commercial loans	**58,642**	**4,987**	**28,800**	**1,138**	**93,567**
	73,052	**73,456**	**54,430**	**12,943**	**213,881**

	2015				
	Less than 30 days LL million	*30 to 60 days LL million*	*61 to 90 days LL million*	*More than 90 days LL million*	*Total 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
	197,758	75,153	35,288	26,757	334,956

See note 22 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.

	2016 LL million	*2015 LL million*
Commercial loans	**318,932**	115,733

Collateral repossessed

During the year, the Bank took possession of real estates with a carrying value of LL 4,175 million (2015: LL 22,763 million) at the statement of financial position date. The Bank is in the process of selling these real estates.

48-2 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.

48 RISK MANAGEMENT (continued)

48-2 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.

		2016	*2015*
Liquidity ratios		*%*	*%*
Advances to deposit ratios			
	Year-end	**26.98%**	27.33%
	Average	**27.26%**	27.22%
	Maximum	**27.60%**	27.70%
	Minimum	**26.98%**	26.70%

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

	2016	*2015*
	%	*%*
At 31 December	**8.88%**	7.31%
Average during the year	**8.33%**	7.23%
Highest	**8.90%**	8.07%
Lowest	**6.79%**	6.60%

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.

48 RISK MANAGEMENT (continued)

48-2 Liquidity risk and funding management (continued)

48-2-1 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 2016					
	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*	*Total LL million*
Financial assets						
Cash and balances with central banks	989,549	1,163,514	1,178,996	8,159,871	14,129,241	25,621,171
Due from banks and financial institutions	707,595	727,998	-	-	-	1,435,593
Due from sister banks	49,941	347,689	116,470	-	-	514,100
Loans to banks and financial institutions	-	548	929	28,697	-	30,174
Derivative financial instruments	-	21,112	21	-	-	21,133
Financial assets at fair value through profit or loss	-	3,504	28,539	42,478	284,103	358,624
Net loans and advances to customers at amortized cost	-	4,264,183	3,231,639	1,182,331	514,541	9,192,694
Net loans and advances to related parties at amortized cost	-	11,468	463	6,312	6,616	24,859
Debtors by acceptances	-	96,190	-	-	-	96,190
Financial assets classified at amortized cost	-	603,571	1,371,723	5,601,007	5,070,877	12,647,178
Total undiscounted financial assets	1,747,085	7,239,777	5,928,780	15,020,696	20,005,378	49,941,716
Financial liabilities						
Due to central banks	-	36,990	40,663	163,360	300,291	541,304
Due to banks and financial institutions	209,080	161,418	79,387	32,578	-	482,463
Due to sister banks	78,675	157,718	-	-	-	236,393
Derivative financial instruments	-	15,167	15	-	-	15,182
Customers' deposits at amortized cost	2,629,272	27,056,868	2,536,888	39,824	-	32,262,852
Deposits from related parties at amortized cost	-	212,011	874	-	-	212,885
Engagements by acceptances	-	96,190	-	-	-	96,190
Total undiscounted financial liabilities	2,917,027	27,736,362	2,657,827	235,762	300,291	33,847,269
Net undiscounted financial assets / (liabilities)	(1,169,942)	(20,496,585)	3,270,953	14,784,934	19,705,087	16,094,447

	31 December 2015					
	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*	*Total 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

48 RISK MANAGEMENT (continued)

48-2 Liquidity risk and funding management (continued)

48-2-1 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.

	2016					
	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*	*Total LL million*
Financial guarantees	222,546	-	-	-	-	222,546
Documentary credits	-	91,349	-	-	-	91,349
Other commitments	-	75,230	-	-	-	75,230
Total	222,546	166,579	-	-	-	389,125

	2015					
	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*	*Total 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

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

48-3 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.

48-3-1 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.

48 RISK MANAGEMENT (continued)

48-3 Market risk (continued)

48-3-1 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.

2016

Currency	***Increase in basis points***	***Sensitivity of net interest income LL million***
Lebanese Lira	**+0.5%**	**(17,824)**
United States Dollar	**+0.5%**	**(3,134)**
Euro	**+0.25%**	**(2,500)**

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

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.

Interest sensitivity gap

The Bank's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2016 and 31 December 2015 was as follows:

	2016							
	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	1,461,550	1,029,623	195,975	-	3,388,021	9,122,610	1,199,141	16,396,920
Due from banks and financial institutions	727,464	344	-	-	-	-	707,690	1,435,498
Due from sister banks	205,306	178,463	78,131	-	-	-	50,880	512,780
Loans to banks and financial institutions	-	6,400	20,044	-	-	-	335	26,779
Derivative financial instruments	-	-	-	-	-	-	21,133	21,133
Financial assets at fair value through profit or loss	23,133	529	148	245	17,076	84,742	170,263	296,136
Net loans and advances to customers at amortized cost	3,493,058	1,604,579	2,272,546	729,840	456,189	34,061	106,764	8,697,037
Net loans and advances to related parties at amortized cost	11,251	-	-	-	3,845	6,184	-	21,280
Debtors by acceptances	-	-	-	-	-	-	96,190	96,190
Financial assets at amortized cost	83,847	312,505	885,304	1,505,902	2,380,872	4,288,885	133,187	9,590,502
TOTAL	6,005,609	3,132,443	3,452,148	2,235,987	6,246,003	13,536,482	2,485,583	37,094,255
LIABILITIES								
Due to central banks	2,233	25,256	28,675	38,678	117,675	301,642	4,861	519,020
Due to banks and financial institutions	142,560	49,784	46,044	-	-	-	238,232	476,620
Due to sister banks	157,015	-	-	-	-	-	79,040	236,055
Derivative financial instruments	-	-	-	-	-	-	15,182	15,182
Customers' deposits at amortized cost	23,118,892	3,493,128	2,480,591	38,104	-	-	2,973,670	32,104,385
Deposits from related parties at amortized	211,051	590	868	-	-	-	-	212,509
Engagements by acceptances	-	-	-	-	-	-	96,190	96,190
Other liabilities	-	-	-	-	-	-	377,530	377,530
TOTAL	23,631,751	3,568,758	2,556,178	76,782	117,675	301,642	3,784,705	34,037,491
Total interest rate sensitivity gap	(17,626,142)	(436,315)	895,970	2,159,205	6,128,328	13,234,840	(1,299,122)	3,056,764

48 RISK MANAGEMENT (continued)

48-3 Market risk (continued)

48-3-1 Interest rate risk (continued)

	2015							
	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	1,320,193	999,473	195,975	-	1,672,555	7,161,718	1,148,256	12,498,170
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	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

48-3-2 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 2016 is detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

		Foreign currencies in Lebanese Lira				
	LL million	*US Dollars in LL million*	*Euro in LL million*	*Other foreign currencies LL million*	*Total foreign currencies LL million*	*Total LL million*
ASSETS						
Cash and balances with central banks	7,366,513	6,944,065	1,943,757	142,585	9,030,407	16,396,920
Due from banks and financial institutions	40,721	571,975	381,774	441,028	1,394,777	1,435,498
Due from sister banks	14	478,668	13,415	20,683	512,766	512,780
Loans to banks and financial institutions	26,779	-	-	-	-	26,779
Derivative financial instruments	21,133	-	-	-	-	21,133
Financial assets at fair value through profit or loss	18,864	275,974	436	862	277,272	296,136
Net loans and advances to customers at amortized cost	2,357,187	5,547,818	44,698	747,334	6,339,850	8,697,037
Net loans and advances to related parties at amortized cost	5,007	14,532	146	1,595	16,273	21,280
Debtors by acceptances	-	79,042	15,994	1,154	96,190	96,190
Financial assets at amortized cost	4,311,902	4,754,963	48	523,589	5,278,600	9,590,502
Investments in subsidiaries and associates	(16,280)	481,222	172,246	-	653,468	637,188
Property and equipment	446,195	242	-	46,784	47,026	493,221
Intangible assets	1,164	20	-	631	651	1,815
Assets obtained in settlement of debt	(1,225)	27,955	-	2,029	29,984	28,759
Other assets	11,565	2,198	246	2,677	5,121	16,686
TOTAL ASSETS	14,589,539	19,178,674	2,572,760	1,930,951	23,682,385	38,271,924
LIABILITIES						
Due to central banks	498,452	-	-	20,568	20,568	519,020
Due to banks and financial institutions	16,327	276,271	51,613	132,409	460,293	476,620
Due to sister banks	85,427	124,203	19,356	7,069	150,628	236,055
Derivative financial instruments	15,182	-	-	-	-	15,182
Customers' deposits at amortized cost	11,156,604	17,220,946	2,225,163	1,501,672	20,947,781	32,104,385
Deposits from related parties at amortized cost	83,083	119,462	5,956	4,008	129,426	212,509
Engagements by acceptances	-	79,042	15,994	1,154	96,190	96,190
Other liabilities	239,314	120,970	8,439	8,807	138,216	377,530
Provisions for risks and charges	476,108	46,576	-	22	46,598	522,706
Total liabilities	12,570,497	17,987,470	2,326,521	1,675,709	21,989,700	34,560,197
NET EXPOSURE	2,019,042	1,191,204	246,239	255,242	1,692,685	3,711,727

48 RISK MANAGEMENT (continued)

48-3 Market risk (continued)

48-3-2 Currency risk (continued)

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

		Foreign currencies in Lebanese Lira				
	LL million	*US Dollars in LL million*	*Euro in LL million*	*Other foreign currencies LL million*	*Total foreign currencies LL million*	*Total 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

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 % 2016***	***Effect on profit before tax 2016 LL million***	*Change in currency rate % 2015*	*Effect on profit before tax 2015 LL million*
USD	**± 1%**	**14,757**	± 1%	13,363
EUR	**± 3%**	**(15)**	± 3%	(51)

48-4 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 2016 would have increased net income by LL 7,980 million (2015: LL 6,682 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

48-5 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.

48 RISK MANAGEMENT (continued)

48-6 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.

49 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 8.5%, the Tier 1 ratio to 11% and the Total Capital Ratio to 14% by the end of 2016.

	2016	*2015*
	LL million	*LL million*
Risk weighted assets:		
Credit risk	**15,376,398**	15,328,623
Market risk	**690,878**	524,725
Operational risk	**1,631,586**	1,517,270
Total risk weighted assets	**17,698,862**	17,370,618

The capital base as per Basel III requirements as of 31 December is as follows:

	Excluding net income for the year		*Including net income for the year less proposed dividends*	
	2016	*2015*	***2016***	*2015*
	LL million	*LL million*	***LL million***	*LL million*
Tier 1 Capital	**3,118,274**	2,896,037	**3,387,424**	3,093,096
Tier 2 Capital	**177,943**	11,842	**177,943**	11,842
Total Capital	**3,296,217**	2,907,879	**3,565,367**	3,104,938

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.

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

	Excluding net income for the year		*Including net income for the year less proposed dividends*	
	2016	*2015*	***2016***	*2015*
Capital adequacy – Tier 1	**17.62%**	16.67%	**19.14%**	17.81%
Capital adequacy – Total Capital	**18.62%**	16.74%	**20.14%**	17.87%

50 NOTES TO THE STATEMENT OF CASH FLOWS

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