BLOM BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BLOM BANK SAL

Qualified Opinion
We have audited the consolidated financial statements of BLOM Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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" section paragraph below, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion
As disclosed in note 38 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 166,100 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon. The Group recognized this amount under "Deferred Revenues" within "Provisions for Risks and Charges" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 38 to the consolidated financial statements, the Group recorded excess provisions amounting to LL 260,797 million in order to comply with the requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Group's accounting for the above mentioned transactions departs from the requirements of International Financial Reporting Standards. Had the Group properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the consolidated 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" 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.

Basis for Qualified Opinion (continued)
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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2016. In addition to the matter described in the *"Basis for Qualified Opinion"* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated 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 Consolidated 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 consolidated 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 consolidated financial statements.

Impairment of Loans and Advances
Due to the inherently judgemental 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 judgement 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 comprise 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 Group'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.

Key Audit Matters (continued)

Impairment of Loans and Advances (continued)

- 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 Group's 2016 Annual Report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and we will exercise professional judgement to determine whether we need to take appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditors' report is prepared.

As described in the *"Basis for Qualified Opinion"* section above, the Group did not recognize certain gains and recorded excess provisions for risks and charges in the consolidated income statement. When we read the Annual Report, we will consider whether the other information included in the Annual Report is also materially misstated for these matters. If we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and we will exercise professional judgement to determine whether we need to take appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditors' report is prepared.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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Auditors' Responsibilities for the Audit of the Consolidated 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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

23 March 2017
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	*2016* *LL million*	*2015* *LL million*
Interest and similar income	7	**2,552,773**	2,337,339
Interest and similar expense	8	**(1,511,752)**	(1,415,448)
Net interest income		**1,041,021**	921,891
Fee and commission income		**281,363**	271,123
Fee and commission expense		**(54,802)**	(49,585)
Net fee and commission income	9	**226,561**	221,538
Net gain from financial instruments at fair value through profit or loss	10	**117,289**	98,839
Net gain from sale of financial assets at amortized cost	11	**575,558**	6,564
Revenue from financial assets at fair value through other comprehensive income	28	**435**	1,192
Other operating income	12	**21,402**	11,997
Total operating income		**1,982,266**	1,262,021
Net credit losses	13	**(123,775)**	(25,330)
Impairment losses on financial investments	14	**(34,749)**	-
Net operating income		**1,823,742**	1,236,691
Personnel expenses	15	**(312,046)**	(283,791)
Other operating expenses	16	**(177,307)**	(171,449)
Depreciation of property and equipment	29	**(35,762)**	(36,004)
Amortization of intangible assets	30	**(4,052)**	(3,504)
Impairment of goodwill	33	**(19,415)**	-
Total operating expenses		**(548,582)**	(494,748)
Operating profit		**1,275,160**	741,943
Provision for risks and charges	17	**(260,797)**	-
Foreign currency translation losses on deconsolidation of subsidiaries	18	**(73,728)**	-
Net (loss) gain on disposal of fixed assets		**(1,187)**	134
Profit before tax		**939,448**	742,077
Income tax expense	19	**(241,731)**	(132,654)
Profit for the year		**697,717**	609,423
Attributable to:			
Equity holders of the parent		**676,443**	583,102
Non-controlling interests		**21,274**	26,321
		697,717	609,423
		LL	*LL*
Basic/diluted earnings per share attributable to equity holders of the parent for the year	20	**3,321**	2,797

The accompanying notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016 *LL million*	*2015* *LL million*
Profit for the year	**697,717**	609,423
Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(326,671)**	(70,963)
Other comprehensive gain (loss) not to be reclassified to consolidated income statement in subsequent periods:		
Net unrealized gain (loss) from financial assets at fair value through other comprehensive income	**237**	(165)
Other comprehensive loss for the year	**(326,434)**	(71,128)
Total comprehensive income for the year	**371,283**	538,295
Attributable to:		
Equity holders of the parent	**365,819**	530,656
Non-controlling interests	**5,464**	7,639
	371,283	538,295

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 LL million	2015 LL million
ASSETS			
Cash and balances with central banks	21	**17,991,169**	14,296,448
Due from banks and financial institutions	22	**3,180,661**	4,213,528
Loans to banks and financial institutions	23	**60,553**	63,376
Derivative financial instruments	24	**53,180**	40,719
Financial assets at fair value through profit or loss	25	**386,659**	595,269
Net loans and advances to customers at amortized cost	26	**10,708,390**	10,815,706
Net loans and advances to related parties at amortized cost	48	**91,557**	32,216
Debtors by acceptances		**113,492**	88,854
Financial assets at amortized cost	27	**10,994,933**	12,826,379
Financial assets at fair value through other comprehensive income	28	**3,815**	6,229
Property and equipment	29	**703,440**	644,114
Intangible assets	30	**2,482**	5,190
Assets obtained in settlement of debt	31	**49,756**	38,038
Other assets	32	**156,437**	153,029
Goodwill	33	**1,950**	47,876
Total assets		**44,498,474**	43,866,971
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	34	**519,021**	459,642
Repurchase agreements	34	**2,930**	626
Due to banks and financial institutions	35	**590,808**	486,693
Derivative financial instruments	24	**33,536**	40,804
Customers' deposits at amortized cost	36	**37,139,827**	37,623,777
Deposits from related parties at amortized cost	48	**262,490**	200,605
Engagements by acceptances		**113,492**	88,854
Other liabilities	37	**822,088**	698,815
Provisions for risks and charges	38	**593,652**	164,350
Total liabilities		**40,077,844**	39,764,166
Equity			
Share capital - common shares	39	**258,000**	258,000
Share capital - preferred shares	39	**24,000**	24,000
Share premium on common shares	39	**374,059**	374,059
Share premium on preferred shares	39	**277,500**	277,500
Non distributable reserves	40	**1,192,652**	1,062,335
Distributable reserves	41	**559,860**	514,515
Treasury shares	42	**(16,941)**	(180,708)
Retained earnings	43	**1,413,258**	1,259,719
Revaluation reserve of real estate	44	**14,727**	14,727
Change in fair value of financial assets at fair value through other comprehensive income	45	**550**	333
Foreign currency translation reserve		**(426,713)**	(190,841)
Profit for the year		**676,443**	583,102
Equity attributable to equity holders of parent		**4,347,395**	3,996,741
Non-controlling interests		**73,235**	106,064
Total equity		**4,420,630**	4,102,805
Total liabilities and equity		**44,498,474**	43,866,971

The consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on 23 March 2017 by Mr Saad Azhari, Chairman and General Manager, Mr Habib Rahal, General Manager, and Mr Talal Baba, Chief Financial Officer.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

2016

Attributable to equity holders of the parent

	Share capital-common shares LL million	Share capital-preferred shares LL million	Share premium on common shares LL million	Share premium on preferred shares LL million	Non distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Profit for the year LL million	Total LL million	Non-controlling interests LL million	Total equity LL million
Balance at 1 January 2016	258,000	24,000	374,059	277,500	1,062,335	514,515	(180,708)	1,259,719	14,727	333	(190,841)	583,102	3,996,741	106,064	4,102,805
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	676,443	676,443	21,274	697,717
Other comprehensive loss	-	-	-	-	-	-	-	-	-	237	(310,861)	-	(310,624)	(15,810)	(326,434)
Total comprehensive income	-	-	-	-	-	-	-	-	-	237	(310,861)	676,443	365,819	5,464	371,283
Dividends distributions (note 47)	-	-	-	-	-	-	-	-	-	-	-	(273,540)	(273,540)	-	(273,540)
Appropriation of 2015 profits	-	-	-	-	109,490	45,292	-	154,846	-	-	(49)	(309,579)	-	-	-
Purchase of treasury shares (note 42)	-	-	-	-	-	-	(122,590)	-	-	-	-	-	(122,590)	-	(122,590)
Sale of treasury shares (note 42)	-	-	-	-	-	-	286,357	-	-	-	-	-	286,357	-	286,357
Net gain on sale of treasury shares (note 42)	-	-	-	-	22,892	-	-	-	-	-	-	-	22,892	-	22,892
Transfer due to deconsolidated entities	-	-	-	-	(2,076)	(6)	-	792	-	(20)	1,310	-	-	-	-
Deconsolidation of subsidiaries (note 18)	-	-	-	-	-	-	-	-	-	-	73,728	-	73,728	(35,989)	37,739
Dividend distributions in a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,628)	(1,628)
Other	-	-	-	-	11	59	-	(2,099)	-	-	-	17	(2,012)	(676)	(2,688)
Balance at 31 December 2016	258,000	24,000	374,059	277,500	1,192,652	559,860	(16,941)	1,413,258	14,727	550	(426,713)	676,443	4,347,395	73,235	4,420,630

2015

Attributable to equity holders of the parent

	Share capital-common shares LL million	Share capital-preferred shares LL million	Share premium on common shares LL million	Share premium on preferred shares LL million	Non distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Profit for the year LL million	Total LL million	Non-controlling interests LL million	Total equity LL million
Balance at 1 January 2015	258,000	24,000	374,059	277,500	922,217	488,109	(165,020)	1,115,464	14,727	498	(138,560)	532,859	3,703,853	99,225	3,803,078
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	583,102	583,102	26,321	609,423
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(165)	(52,281)	-	(52,446)	(18,682)	(71,128)
Total comprehensive income	-	-	-	-	-	-	-	-	-	(165)	(52,281)	583,102	530,656	7,639	538,295
Transfer from retained earnings to general reserves	-	-	-	-	-	(10,396)	-	10,396	-	-	-	-	-	-	-
Dividends distributions (note 47)	-	-	-	-	-	-	-	-	-	-	-	(231,478)	(231,478)	-	(231,478)
Appropriation of 2014 profits	-	-	-	-	129,951	36,802	-	134,654	-	-	-	(301,407)	-	-	-
Purchase of treasury shares (note 42)	-	-	-	-	-	-	(55,852)	-	-	-	-	-	(55,852)	-	(55,852)
Sale of treasury shares (note 42)	-	-	-	-	-	-	38,096	-	-	-	-	-	38,096	-	38,096
Net gain on sale of treasury shares (note 42)	-	-	-	-	10,167	-	-	-	-	-	-	-	10,167	-	10,167
Premium on treasury shares (note 42)	-	-	-	-	-	-	2,068	-	-	-	-	-	2,068	-	2,068
Dividend distributions in a subsidiary company	-	-	-	-	-	-	-	(92)	-	-	-	26	(66)	(220)	(286)
Other	-	-	-	-	-	-	-	(703)	-	-	-	-	(703)	(580)	(1,283)
Balance at 31 December 2015	258,000	24,000	374,059	277,500	1,062,335	514,515	(180,708)	1,259,719	14,727	333	(190,841)	583,102	3,996,741	106,064	4,102,805

The accompanying notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
31 December 2016

	Notes	2016 LL million	2015 LL million
OPERATING ACTIVITIES			
Profit for the year before income tax		939,448	742,077
Adjustments for:			
Depreciation of property and equipment	29	35,762	36,004
Amortization of intangible assets	30	4,052	3,504
Gain on disposal of property and equipment		(171)	(134)
Provision for loans and advances to customers, net	13	123,775	25,330
Excess provisions to comply with the Central Bank of Lebanon	17	260,797	-
Provision for impairment of assets obtained in settlement of debt	31	109	297
Write-back of provision on assets obtained in settlement of debt	31	(236)	(821)
Net provision for risks and charges		17,492	47,081
Gain on disposal of assets obtained in settlement of debt		(171)	(259)
Net gain from sale of financial assets at amortized cost	11	(575,558)	(6,564)
Unrealized fair value gains on financial assets at fair value through profit or loss	10	(24,986)	(6,487)
Impairment losses on financial investments	14	34,749	-
Impairment of goodwill	33	19,415	-
Foreign currency translation losses on deconsolidation of subsidiaries	18	73,728	-
Other		(2,688)	(1,283)
		905,517	838,745
Changes in operating assets and liabilities:			
Balances with central banks		(3,742,247)	(753,169)
Due from banks and financial institutions		889,262	(898,282)
Loans to banks and financial institutions		2,823	31,912
Derivative financial instruments – debit		(12,461)	68,515
Financial assets at fair value through profit or loss		233,592	203,798
Net loans and advances to customers at amortized cost		1,092	(457,012)
Net loans and advances to related parties at amortized cost		(59,341)	463
Other assets		(11,323)	1,198
Due to banks and financial institutions		87,921	(9,205)
Derivative financial instruments – credit		(7,268)	(51,817)
Customers' deposits at amortized cost		(159,062)	1,624,851
Deposits from related parties at amortized cost		64,166	10,692
Other liabilities		28,797	(79,402)
Provisions for risks and charges	38	166,100	-
Cash (used in) from operations		(1,612,432)	531,287
Taxes paid		(120,515)	(124,811)
Provisions for risks and charges paid		(5,848)	(24,831)
Net cash (used in) from operating activities		(1,738,795)	381,645
INVESTING ACTIVITIES			
Financial assets at amortized cost		2,407,004	(783,886)
Financial assets at fair value through other comprehensive income		2,361	911
Assets obtained in settlement of debt		(18,033)	(18,601)
Purchase of property and equipment	29	(150,829)	(88,045)
Purchase of intangible assets	30	(1,502)	(2,488)
Transfer of property and equipment and intangible assets	29&30	3,201	2,689
Transfer of assets obtained in settlement of debt	31	-	(224)
Cash proceeds from the sale of property and equipment and intangible assets		307	274
Net cash outflow from deconsolidation of subsidiaries	14	(229,622)	-
Net cash from (used in) investing activities		2,012,887	(889,370)
FINANCING ACTIVITIES			
Sale (purchase) of treasury shares – net		163,767	(17,756)
Net gain on sale of treasury shares		22,892	10,167
Premium on treasury shares		-	2,068
Dividends paid	47	(273,540)	(231,478)
Dividends paid to non-controlling interests in a subsidiary company		(1,628)	(286)
Net cash used in financing activities		(88,509)	(237,285)
Effect of exchange rate changes		(292,704)	(51,972)
Decrease in cash and cash equivalents		(107,121)	(796,982)
Cash and cash equivalents at 1 January		5,074,613	5,871,595
Cash and cash equivalents at 31 December	46	4,967,492	5,074,613
Operational cash flows from interest and dividends			
Interest paid		(1,519,493)	(1,416,967)
Interest received		2,542,240	2,318,400
Dividends received		8,423	7,348

The accompanying notes 1 to 54 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

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

The Bank, together with its affiliated banks and subsidiaries (collectively the "Group"), provides a wide range of retail, commercial, investment and private banking activities, insurance and brokerage services through its headquarter as well as its branches in Lebanon and its presence in Europe, the Middle East and North Africa. Further information on the Group's structure is provided in note 4.

Effective 31 December 2016, the Group deconsolidated Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA and Syria and Overseas Company for Financial Services (SOFS) since it no longer meets the accounting criteria for consolidation.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only in the ordinary course of business, in the event of default, in the event of insolvency or bankruptcy of the Group and/or its counterparties or when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously without being contingent on a future event. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights result in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee,
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities,
- Contractual arrangements such as call rights, put rights and liquidation rights, and
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

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

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

2.3 Changes in accounting policies and disclosures

New standards and interpretations effective after 1 January 2016

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

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

2 ACCOUNTING POLICIES (continued)

2.4 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 Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date
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
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

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

Standard	Description	Effective date
IFRS 9, 'Financial instruments'	In prior years, the Group 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
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 Group 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 Group is in the process of analyzing the impact of IFRS 9, IFRS 15 and IFRS 16. The Group 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 consolidated financial statements of the Group as at the reporting date.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies

Foreign currency translation

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

(i) Transactions and balances

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

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

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

(ii) Group companies

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

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

Financial instruments – classification and measurement

(i) Date of recognition

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

(ii) Classification and measurement of financial instruments

a. Financial assets

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

a. Financial assets (continued)

Financial assets at amortized cost

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

i. Debt instruments at fair value through profit or loss

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

a. Financial assets (continued)

ii. Equity instruments at fair value through profit or loss

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

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 Group 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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

b. Financial liabilities (continued)

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

As at 31 December 2016, financial liabilities designated at amortized cost held by the Group consist of due to central banks, repurchase agreements, due to banks and financial institutions, and customers' and related parties' deposits.

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

After initial measurement, due to central banks, repurchase agreements, due to banks and financial institutions, customers' and related parties' deposits are measured at 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 Group uses derivatives such as futures, currency swaps, forward foreign exchange contracts and equity swaps and options.

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

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

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

(iii) Day 1 profit or loss

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

(iv) Reclassification of financial assets

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

Repurchase and reverse repurchase agreements

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at 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 un amortized fair value adjustment is recognised immediately in the consolidated income statement.

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Leasing (continued)

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

Group as a lessee

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

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

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

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

Group as a lessor

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

Recognition of income and expenses

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

(i) Interest and similar income and expense

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

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

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

(ii) Fee and commission income

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

(ii) Fee and commission income (continued)

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

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

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

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

(v) Insurance revenue
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.
If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

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

Property and equipment
Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with IFRS 8 *"Operating Segments"*.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

The useful lives of intangible assets are assessed to be either finite of 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 consolidated income statement.

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

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

Intangible assets with indefinite useful lives are not 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 recognized in the consolidated income statement when the asset is derecognized.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

The Group 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 Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group 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 Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its consolidated financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group 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.

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Taxes (continued)

(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:

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

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

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

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

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

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

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

Treasury shares

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Contractual cash flows of financial assets

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

Deconsolidation of Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA and Syria and Overseas Company for Financial Services (SOFS) as at 31 December 2016

The Group proceeded with the deconsolidation of the subsidiaries Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) and Syria and Overseas Company for Financial Services (SOFS), effective as of 31 December 2016. The decision to proceed with the deconsolidation was mainly due to the loss of control over the subsidiaries and the Group's inability to direct the relevant activities of the subsidiaries. The violent and crippling civil war, the international sanctions, the lack of exchangeability between the Syrian Pounds from one side and the US Dollar from the other, combined with other restrictive regulations, have limited the Group's ability to effectively manage the subsidiaries. Given this scenario, which is expected to endure for the foreseeable future, it was considered that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiaries. Therefore, the deconsolidation of the subsidiaries was proceeded with. Given the complexity of the Syrian scenario, the previously summarised considerations and assumptions inevitably relied on complex and subjective assessments and estimates based on historical experience, and are considered reasonable and realistic in the circumstances. These assessments and assumptions resulted in significant overall effects on the consolidated financial statements of the Group. Please refer to notes 14 and 18 for more details on these effects.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Fair value of financial instruments

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

Impairment losses on loans and advances

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Deferred tax assets

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

4 GROUP INFORMATION

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

Name	*Country of incorporation*	*Activities*	*% effective equity interest*	
			31 December 2016	*31 December 2015*
			%	*%*
BLOM Bank France SA	France	Banking activities	**99.998**	99.998
BLOM Bank (Switzerland) SA	Switzerland	Banking activities	**99.998**	99.998
BLOMInvest Bank SAL	Lebanon	Banking activities	**99.930**	99.925
BLOM Development Bank SAL	Lebanon	Islamic banking activities	**99.925**	99.921
Bank of Syria and Overseas SA (*)	Syria	Banking activities	**49.000**	49.000
Arope Insurance SAL	Lebanon	Insurance activities	**89.039**	88.979
Syria International Insurance (Arope Syria) SA (*)	Syria	Insurance activities	**42.723**	42.703
BLOM Bank Egypt SAE	Egypt	Banking activities	**99.419**	99.419
BLOM Egypt Securities SAE	Egypt	Brokerage activities	**99.647**	99.644
BLOMInvest – Saudi Arabia	Saudi Arabia	Financial institution	**59.965**	59.963
BLOM Bank Qatar LLC	Qatar	Banking activities	**99.750**	99.750
Arope Life Insurance Egypt SAE	Egypt	Insurance activities	**91.116**	91.068
Arope Insurance of Properties and Responsibilities Egypt SAE	Egypt	Insurance activities	**93.192**	93.156
Syria and Overseas Company for Financial Services (*)	Syria	Brokerage activities	**48.964**	48.962
BLOM Securities	Jordan	Financial institution	**100.000**	100.000
Aza Holding SAL (**)	Lebanon	Investment activities	**-**	37.440
BLOM Asset Management Company SAL	Lebanon	Investment activities	**99.997**	-

(*) Effective 31 December 2016, the Group deconsolidated Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA and Syria and Overseas Company for Financial Services (SOFS) since it no longer meets the accounting criteria for consolidation (Refer to notes 14 and 18).

(**) 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.

5 MATERIAL PARTLY – OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

	2016	*2015*
	%	*%*
Name		
Bank of Syria and Overseas SA (*)	**51.000**	51.000
BlomInvest – Saudi Arabia	**40.035**	40.037
Arope Insurance SAL	**10.961**	11.021

(*) Effective 31 December 2016, the Group deconsolidated Bank of Syria and Overseas SA (BSO) since it no longer meets the accounting criteria for consolidation.

Profit allocated to material non-controlling interests:

	2016	*2015*
	LL million	*LL million*
Bank of Syria and Overseas SA (*)	**13,233**	17,840
BlomInvest – Saudi Arabia	**3,827**	4,358
Arope Insurance SAL	**2,998**	2,835

5 MATERIAL PARTLY – OWNED SUBSIDIARIES (continued)

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

Summarized statement of comprehensive income

	Bank of Syria and Overseas SA		*BlomInvest – Saudi Arabia*		*Arope Insurance SAL*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*
	LL million	*LL million*	***LL million***	*LL million*	***LL million***	*LL million*
Net interest income	**5,247**	7,899	**1,000**	373	**21,208**	16,228
Net fee and commission income	**3,023**	4,069	**17,240**	16,613	**33,067**	34,437
Net gain/(loss) from financial instruments at fair value through profit or loss	**23,135**	30,394	**459**	2,271	**(262)**	(197)
Net gain from sale of financial assets at amortized cost	-	-	-	49	-	461
Other operating income	**70**	150	**27**	73	**10,218**	220
Total operating income	**31,475**	42,512	**18,726**	19,379	**64,231**	51,149
Net credit gains/(losses)	**3,447**	4,796	-	-	**(109)**	(807)
Impairment losses on financial investments	-	-	-	-	**(10,109)**	-
Total operating expenses	**(7,196)**	(11,889)	**(8,355)**	(7,495)	**(24,304)**	(22,640)
Net (loss) gain on disposal of other assets	**(1)**	17	-	-	**2**	85
Profit before tax	**27,725**	35,436	**10,371**	11,884	**29,711**	27,787
Income tax expense	**(1,778)**	(456)	**(812)**	(998)	**(2,362)**	(2,065)
Profit for the year	**25,947**	34,980	**9,559**	10,886	**27,349**	25,722
Attributable to non-controlling interests	**13,233**	17,840	**3,827**	4,358	**2,998**	2,835

Summarized statement of financial position

	Bank of Syria and Overseas SA		*BlomInvest – Saudi Arabia*		*Arope Insurance SAL*	
	2016	*2015*	***2016***	*2015*	***2015***	*2015*
	LL million	*LL million*	***LL million***	*LL million*	***LL million***	*LL million*
ASSETS						
Cash and balances with banks	-	91,348	**1**	1	**36**	50
Due from banks and financial institutions	-	284,323	**66,146**	29,554	**374,568**	353,904
Due from head office and sister banks	-	220,399	**153**	8	**27,013**	12,987
Financial assets at fair value through profit or loss	-	-	**30,994**	79,168	**7,432**	7,643
Net loans and advances at amortized cost	-	26,242	-	-	**20,590**	20,751
Financial assets at amortized cost	-	-	**5,162**	8,205	**15,737**	15,733
Investments in subsidiaries and associates	-	923	-	-	**36,542**	46,651
Property and equipment	-	9,792	**24,265**	24,555	**24,634**	23,519
Intangible assets	-	200	**61**	111	-	-
Assets obtained in settlement of debt	-	-	-	-	-	-
Other assets	-	6,984	**30,821**	22,712	**70,044**	61,219
Total Assets	-	640,211	**157,603**	164,314	**576,596**	542,457
LIABILITIES						
Due to banks and financial institutions	-	3,592	-	-	-	-
Due to head office and sister banks	-	167,282	**21**	1,876	**7,597**	-
Customers' deposits at amortized cost	-	382,828	-	-	-	-
Deposits from related parties at amortized cost	-	2,430	-	-	-	-
Other liabilities	-	5,536	**31,346**	45,622	**322,544**	310,463
Provisions for risks and charges	-	15,590	**1,672**	521	**47,627**	47,554
Total Liabilities	-	577,258	**33,039**	48,019	**377,768**	358,017
TOTAL SHAREHOLDERS' EQUITY	-	62,953	**124,564**	116,295	**198,828**	184,440
Attributable to non-controlling interests	-	*32,106*	***49,835***	*46,524*	***21,793***	*20,327*
Total liabilities and shareholders' equity	-	640,211	**157,603**	164,314	**576,596**	542,457

Summarized cash flow information

	Bank of Syria and Overseas SA		*BlomInvest – Saudi Arabia*		*Arope Insurance SAL*	
	2016	*2015*	***2016***	*2015*	***2016***	*2015*
	LL million	*LL million*	***LL million***	*LL million*	***LL million***	*LL million*
Operating	-	(144,517)	**55,683**	(21,127)	**23,294**	24,111
Investing	-	17,555	**3,020**	(12,262)	**(1,365)**	(51,506)
Financing	-	-	-	-	**(5,363)**	-
	-	(126,962)	**58,703**	(33,389)	**16,566**	(27,395)

6 SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

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

Profit for the year information

	2016					
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Unallocated(*) LL million*	*Total LL million*
Net interest income	618,074	193,256	228,328	1,363	-	1,041,021
Net fee and commission income	40,204	43,189	69,640	52,657	20,871	226,561
Net gain from financial instruments at fair value through profit or loss	77,150	-	40,139	-	-	117,289
Net gain from sale of financial assets at amortized cost	575,558	-	-	-	-	575,558
Revenue from financial assets at fair value through other comprehensive income	435	-	-	-	-	435
Other operating income	10,118	1,738	9,526	-	20	21,402
Net credit losses	-	(94,468)	(29,307)	-	-	(123,775)
Impairment losses on financial investments	(34,749)	-	-	-	-	(34,749)
Net operating income	1,286,790	143,715	318,326	54,020	20,891	1,823,742
Extracts of results						
Depreciation and amortization						(39,814)
Segment loss						
Unallocated income						
Unallocated expenses						(844,480)
Income tax expense						(241,731)
Profit for the year						697,717

6 SEGMENTAL INFORMATION (continued)

	2015					
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Unallocated(*) LL million*	*Total LL million*
Net interest income	520,877	173,010	223,766	4,238	-	921,891
Net fee and commission income	38,705	44,256	64,615	50,499	23,463	221,538
Net gain from financial instruments at fair value through profit or loss	66,172	-	32,667	-	-	98,839
Net gain from derecognition of financial assets at amortized cost	6,564	-	-	-	-	6,564
Revenue from financial assets at fair value through other comprehensive income	1,192	-	-	-	-	1,192
Other operating income	-	775	11,222	-	-	11,997
Net credit losses	-	(2,123)	(23,207)	-	-	(25,330)
Impairment losses on financial investments						
Net operating income	633,510	215,918	309,063	54,737	23,463	1,236,691
Extracts of results						
Depreciation and amortization						(39,508)
Segment loss						
Unallocated income						134
Unallocated expenses						(455,240)
Income tax expense						(132,654)
Profit for the year						609,423

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

Financial position information

	2016					
	Treasury, money and capital markets LL million	***Corporate banking LL million***	***Retail banking LL million***	***Asset management and private banking LL million***	***Other (**) LL million***	***Total LL million***
Total assets	**32,670,970**	**6,404,673**	**4,377,682**	**131,149**	**914,000**	**44,498,474**
Total liabilities	**28,981,156**	**5,681,338**	**3,883,273**	**136,124**	**1,395,953**	**40,077,844**

	2015					
	Treasury, money and capital markets LL million	*Corporate banking LL million*	*Retail banking LL million*	*Asset management and private banking LL million*	*Other (**) LL million*	*Total LL million*
Total assets	32,041,949	6,459,915	4,366,335	112,032	886,740	43,866,971
Total liabilities	29,000,865	5,846,808	3,951,929	116,516	848,048	39,764,166

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

Geographic information

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

	2016		
	Domestic LL million	***International LL million***	***Total LL million***
Total operating income	**1,661,497**	**320,769**	**1,982,266**
Net credit losses	**(123,373)**	**(402)**	**(123,775)**
Impairment losses on financial investments	**-**	**(34,749)**	**(34,749)**
Net operating income[1]	**1,538,124**	**285,618**	**1,823,742**
Non-current assets[2]	**518,461**	**239,167**	**757,628**

6 SEGMENTAL INFORMATION (continued)

	2015		
	Domestic *LL million*	*International* *LL million*	*Total* *LL million*
Total operating income	981,302	280,719	1,262,021
Net credit losses	(26,178)	848	(25,330)
Net operating income[1]	955,124	281,567	1,236,691
Non-current assets[2]	444,961	290,257	735,218

[1] *Net operating income is attributed to the geographical segment on the basis of the location where the income is generated.*

[2] *Non-current assets consist of property and equipment, intangible assets, assets obtained in settlement of debt and goodwill.*

7 INTEREST AND SIMILAR INCOME

	2016 ***LL million***	*2015* *LL million*
Interest income on debt instruments at amortized cost	**929,928**	899,168
Deposits and similar accounts with banks and financial institutions	**821,356**	676,931
Loans and advances to customers at amortized cost	**800,468**	760,233
Loans and advances to related parties at amortized cost	**1,021**	1,007
	2,552,773	2,337,339

8 INTEREST AND SIMILAR EXPENSE

	2016 ***LL million***	*2015* *LL million*
Deposits and similar accounts from banks and financial institutions	**19,594**	18,371
Deposits from customers and other credit balances	**1,481,469**	1,387,607
Deposits from related parties at amortized cost	**10,689**	9,470
	1,511,752	1,415,448

9 NET FEE AND COMMISSION INCOME

	2016 ***LL million***	*2015* *LL million*
Fee and commission income		
Trade finance	**27,782**	29,632
Credit related fees and commissions	**39,862**	36,016
Asset management and private banking	**55,468**	52,559
Electronic banking	**55,855**	51,732
General banking income	**45,409**	42,583
Commission on insurance related activities	**38,873**	40,238
Trust and fiduciary activities	**1,766**	1,787
Other services	**16,348**	16,576
	281,363	271,123
Fee and commission expense:		
Correspondents' accounts	**(54,802)**	(49,585)
	226,561	221,538

10 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:		
- Government debt securities	**7,407**	9,364
- Corporate debt securities	**1,360**	4,656
- Certificates of deposit	**659**	800
- Funds	**205**	70
	9,631	14,890
Net gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	**(166)**	640
- Corporate debt securities	**8,110**	8,769
- Certificates of deposit	**5,441**	-
- Funds	**(1,030)**	195
- Options	**(27)**	(9)
	12,328	9,595

	2016 ***LL million***	*2015* *LL million*
Net unrealized (loss) gain from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	**(1,792)**	(2,084)
- Corporate debt securities	**(4,930)**	2,903
- Funds	**822**	3,132
- Certificates of deposit	**(14)**	60
	(5,914)	4,011
Dividend income from Funds at fair value through profit or loss	**47**	42
Net gain from debt instruments and other financial assets at fair value through profit or loss	**16,092**	28,538
Net gain from equity instruments at fair value through profit or loss:		
- Unrealized gain from revaluation	**30,900**	2,476
- Dividend income	**7,940**	6,114
- Gain from sale	**1,114**	1,366
Net gain from equity instruments at fair value through profit or loss	**39,954**	9,956
Foreign exchange income	**61,243**	60,345
	117,289	98,839

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

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

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

- Deterioration of the credit rating below the ceiling allowed in the Group'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	**295,358**	**(4,604)**	**290,754**
	580,066	**(4,604)**	**575,462**
Other sovereign:			
Treasury bills and bonds	**96**	**-**	**96**
	580,162	**(4,604)**	**575,558**

		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	7,472	(21)	7,451
Placements with the Central Bank of Lebanon	-	(1,074)	(1,074)
	7,579	(1,095)	6,484
Other sovereign:			
Treasury bills and bonds	80	-	80
	7,659	(1,095)	6,564

During 2016, the Central Bank of Lebanon bought from the Group long-term treasury bills and certificates of deposit denominated in Lebanese Lira at prices significantly exceeding their fair values. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or Certificates of Deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The gains arising from such trades amounted to LL 291,275 million from the Lebanese treasury bills portfolio and LL 260,009 million from the Certificates of Deposit portfolio.

12 OTHER OPERATING INCOME

	2016 *LL million*	*2015* *LL million*
Gain from sale of assets obtained in settlement of debt	**270**	531
Write back of provisions for risks and charges (note 38)	**11,935**	839
Write back of provisions for assets taken in settlement of debt (note 31)	**236**	821
Others	**8,961**	9,806
	21,402	11,997

13 NET CREDIT LOSSES

	2016 *LL million*	*2015* *LL million*
Provision for loans and advances:		
Commercial loans (note 26)	**115,541**	34,172
Consumer loans (note 26)	**45,179**	30,823
Sundry debtors (note 32)	**33**	-
Commitment by signature (note 38)	**1,425**	918
	162,178	65,913
Write-back of provisions for loans and advances:		
Commercial loans (note 26)	**(16,077)**	(15,429)
Consumer loans (note 26)	**(11,966)**	(7,615)
Unrealized interest (note 26)	**(5,691)**	(8,341)
Recoveries from loans reflected as off-financial position (note 26)	**(3,342)**	(4,593)
Recoveries from sundry debtors (note 32)	**(33)**	-
Recoveries from commitment by signature (note 38)	**(1,294)**	(4,605)
	(38,403)	(40,583)
	123,775	25,330

14 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	2016 *LL million*	*2015* *LL million*
Impairment losses on financial investments	**34,749**	-

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. In addition, this has led several international bodies and countries (e.g. EU and USA) to set and implement several sanctions and restrictions on dealing with Syria.

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.

14 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.

As a result of these factors, which are expected to continue for the foreseeable future, effective 31 December 2016, the Group concluded that it no longer met the accounting criteria for consolidation of its Syrian subsidiaries due to a loss of control, and therefore it deconsolidated its Syrian subsidiaries effective as of 31 December 2016. The Group has determined the fair value of its investments in its Syrian subsidiaries to be insignificant based on its expectations of dividend payments in future periods.

The deconsolidation of the subsidiaries resulted in the recognition of a negative impact on the consolidated income statement for the year 2016, in the amount of LL 108,447 million, which includes:

- negative impact of LL 73,728 million deriving from losses from the translation into Lebanese Lira of the financial statements of the subsidiaries previously recognized under equity and reclassified to the consolidated income statement (note 18); and
- negative impact of LL 34,719 million due to the full-write off of the net assets of the subsidiaries.

Cash and cash equivalents of the subsidiaries upon deconsolidation amounted to LL 229,622 million and are detailed as follows: LL 229,350 million, LL 140 million and LL 132 million related to Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA, and Syria and Overseas Company for Financial Services (SOFS) respectively.

As a consequence of the deconsolidation, effective 1 January 2017, the Group shall no longer include the results of the Syrian subsidiaries in its consolidated financial statements. Further, dividends and inter-bank interest will be recorded as income and expense upon receipt or payment. The Group will monitor the extent of its ability to control its Syrian operations as its current situation in Syria may change over time and lead to consolidation at a future date.

15 PERSONNEL EXPENSES

	2016	*2015*
	LL million	*LL million*
Salaries and related charges	**149,463**	144,486
Social security contributions	**28,123**	26,622
Provisions for retirement benefits obligation (note 38)	**11,066**	3,934
Additional allowances	**43,724**	41,114
Bonuses	**79,670**	67,635
	312,046	283,791

16 OTHER OPERATING EXPENSES

	2016 LL million	2015 LL million
Marketing and advertising	**16,548**	14,477
Professional fees	**18,751**	15,529
Maintenance and repairs	**16,288**	15,981
Provision for guarantee of deposits	**15,560**	14,999
Provision for risks and charges (note 38 (i)) (*)	**8,707**	20,799
Provision on impairment of assets taken in settlement of debt (note 31)	**109**	297
Rent and related charges	**10,105**	10,413
Postage and telecommunications	**10,348**	10,291
Stationary and printings	**9,200**	7,690
Fiscal stamps	**6,985**	6,960
Electricity and fuel	**6,555**	6,779
Taxes and fees	**6,038**	6,113
Travel expenses	**5,448**	3,635
Board of directors' attendance fees	**2,431**	2,070
Insurance	**1,401**	1,282
Others	**42,833**	34,134
	177,307	171,449

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

17 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 38)	**260,797**	-

18 FOREIGN CURRENCY TRANSLATION LOSSES ON DECONSOLIDATION OF SUBSIDIARIES

	2016 LL million	2015 LL million
Foreign currency translation losses on deconsolidation of subsidiaries	**73,728**	-

Effective 31 December 2016, the Group has deconsolidated its three Syrian subsidiaries, Bank of Syria and Overseas SA (BSO), Syria International Insurance (AROPE Syria) SA, and Syria and Overseas Company for Financial Services (SOFS). Upon deconsolidation of these subsidiaries, the Group incurred foreign currency translation losses amounting to LL 73,728 million (note 14).

19 INCOME TAX EXPENSE

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

19 INCOME TAX EXPENSE (continued)

Reconciliation of total tax charge

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

	2016 *LL million*	*2015* *LL million*
Profit before income tax	**939,448**	742,077
Less: Results of the subsidiary insurance company located in Lebanon(*)	**(29,711)**	(27,787)
Accounting profit before income tax	**909,737**	714,290
Add:		
Provisions non tax deductible	**371,904**	1,860
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	**27**	519
Other non tax deductible charges	**40,740**	53,495
	1,322,408	770,164
Less:		
Unrealized gains from revaluation of debt instruments and other financial assets at fair value through profit or loss	**(19,938)**	(2,753)
Dividends received and previously subject to income tax	**(10,696)**	(310)
Remunerations already taxed	**(15,547)**	(16,376)
4% of a subsidiary's capital eligible to be tax deductible	**(400)**	(400)
Unrealized gain on difference of exchange	**-**	(27,896)
Write-back of provisions previously subject to income tax	**(16,946)**	(1,061)
Net gain on disposal of fixed assets	**(106)**	(418)
Other taxable income	**(3,945)**	(23,749)
Taxable profit	**1,254,830**	697,201
Effective income tax rate	**25.73%**	17.88%
Income tax expense in the consolidated income statement	**241,731**	132,654

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

20 EARNINGS PER SHARE

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

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

		2016	*2015*
Net profit for the year	*LL million*	**697,717**	609,423
Less: Proposed dividends on preferred shares	*LL million*	**(21,105)**	(21,105)
Non-controlling interests	*LL million*	**(21,274)**	(26,321)
Net profit attributable to ordinary equity holders of the parent	*LL million*	**655,338**	561,997
Weighted average number of ordinary shares for basic earnings per share		**197,356,940**	200,906,610
Basic earnings per share	*LL*	**3,321**	2,797

20 EARNINGS PER SHARE (continued)

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

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

21 CASH AND BALANCES WITH CENTRAL BANKS

	2016	*2015*
	LL million	*LL million*
Cash on hand	**232,633**	233,929
Current accounts with Central Banks	**1,918,128**	1,920,655
Deposits with the Central Banks	**15,840,408**	12,141,864
	17,991,169	14,296,448

Cash and balances with the Central Banks include non-interest bearing balances held by the Group at the Central Bank of Lebanon in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Lira as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments, after taking into account certain waivers relating to subsidized loans denominated in Lebanese Lira. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Lira. Accordingly, the obligatory reserve amounted to LL 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$ 1,979,815 thousands (equivalent to LL 2,985 billion) as at 31 December 2016 (2015: US$ 1,955,994 thousands equivalent to LL 2,949 billion).

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

22 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2016	*2015*
	LL million	*LL million*
Current accounts		
Current accounts	**1,244,830**	1,334,807
Time deposits		
Time deposits	**1,935,831**	2,878,721
Doubtful accounts with banks	**1,694**	2,086
Less: Impairment allowance for doubtful accounts with banks	**(1,232)**	(1,681)
Less: Unrealized interest for doubtful accounts with banks	**(462)**	(405)
	1,935,831	2,878,721
	3,180,661	4,213,528

22 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

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

	2016 *LL million*	*2015* *LL million*
Balance at 1 January	**2,086**	2,078
Provision for unrealized interest	**57**	58
Deconsolidation of subsidiaries	**(375)**	-
Foreign exchange difference	**(74)**	(50)
Balance at 31 December	**1,694**	2,086

23 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	2016 *LL million*	*2015* *LL million*
Loans to banks and financial institutions	**60,108**	62,799
Accrued interest receivable	**445**	577
Balance at 31 December	**60,553**	63,376

24 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Group has positions in the following types of derivatives:

	2016			*2015*		
	Assets LL million	*Liabilities LL million*	*Total notional amount LL million*	*Assets LL million*	*Liabilities LL million*	*Total notional amount LL million*
Derivatives held-for-trading						
Currency options	**15,182**	**15,182**	**120,530**	14,525	14,525	118,173
Forward foreign exchange contracts	**15,386**	**14,815**	**2,693,130**	12,281	12,059	4,725,179
Futures on commodities	**-**	**-**	**-**	2,425	2,425	33,087
Equity swaps and options	**2,106**	**2,106**	**591,326**	5,539	5,539	2,822,064
	32,674	**32,103**	**3,404,986**	34,770	34,548	7,698,503
Derivatives used as fair value hedges						
Currency swaps	**15,233**	**1,433**	**829,594**	5,887	6,256	715,857
Hedge of net investment in foreign operations						
Forward foreign exchange contracts	**5,273**	**-**	**172,246**	62	-	177,679
	53,180	**33,536**	**4,406,826**	40,719	40,804	8,592,039

24 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

Hedge of net investment in foreign operations
Forward foreign exchange contracts (to sell Euros and buy US Dollars) designated as a hedge of the Group's net investment in its French subsidiary, and is being used to hedge the Group's investment exposure to foreign exchange risk on this investment amounting to Euro 107,904 thousand (2015: Euro 107,904). 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 5,273 million (2015: unrealized gain of LL 62 million). The contracts mature on 6 March 2017 at the latest.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	*2015*
	LL million	*LL million*
Equity instruments at fair value through profit or loss	**185,196**	162,506
Debt and other instruments at fair value through profit or loss	**201,463**	432,763
	386,659	595,269

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

	2016	*2015*
	LL million	*LL million*
Quoted equity securities	**171,138**	149,131
Unquoted equity securities	**14,058**	13,375
Quoted government debt securities	**80,880**	85,139
Unquoted government debt securities	**18,877**	34,013
Quoted corporate debt securities	**45,855**	143,963
Unquoted corporate debt securities	**2,029**	1,695
Funds	**50,523**	153,221
Unquoted certificates of deposit – Central Banks	**3,299**	14,732
	386,659	595,269

26 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2016 ***LL million***	*2015* *LL million*
Commercial loans	**6,793,812**	6,827,196
Consumer loans (*)	**4,450,660**	4,444,358
	11,244,472	11,271,554
Less:		
Individual impairment allowances	**(325,628)**	(236,106)
Collective impairment allowances	**(92,367)**	(125,158)
Unrealized interest	**(118,087)**	(94,584)
	10,708,390	10,815,706

(*) Included under consumer loans as at 31 December 2016, an amount of LL 2,656,277 million (31 December 2015: LL 2,512,790 million) representing housing loans.

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

	2016 ***LL million***	*2015* *LL million*
Balance at 1 January	**94,584**	75,419
Add:		
Unrealized interest for the year	**48,161**	35,217
Foreign exchange difference	**(2,290)**	(2,487)
	140,455	108,149
Less:		
Recoveries of unrealized interest (note 13)	**(5,691)**	(8,341)
Amounts written-off	**(12,827)**	(523)
Transferred to off-financial position	**(2,271)**	(4,701)
Deconsolidation of subsidiaries	**(1,579)**	-
Balance at 31 December	**118,087**	94,584
Unrealized interest on substandard loans	**16,370**	8,338
Unrealized interest on doubtful loans	**101,717**	86,246
	118,087	94,584

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

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

	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	**276,248**	**85,016**	**361,264**	285,066	87,181	372,247
Add:						
Charge for the year (note 13)	**115,541**	**45,179**	**160,720**	34,172	30,823	64,995
Transferred from provisions for risks and charges (note 38 (i))	**849**	**-**	**849**			
Foreign exchange difference	**2,678**	**(5,442)**	**(2,764)**	(2,930)	(3,448)	(6,378)
Reclassification	**(1,135)**	**1,135**	**-**	(312)	312	-
	394,181	**125,888**	**520,069**	315,996	114,868	430,864
Less:						
Provisions written-off	**(250)**	**(1,404)**	**(1,654)**	(836)	(1,645)	(2,481)
Write-back of provisions (note 13)	**(16,077)**	**(11,966)**	**(28,043)**	(15,429)	(7,615)	(23,044)
Provision transferred to off financial position	**(12,522)**	**(25,354)**	**(37,876)**	(23,483)	(20,179)	(43,662)
Provision transferred to commitments by signature (note 38 (iii))	**-**	**-**	**-**	-	(413)	(413)
Reversal of provisions transferred from provisions for risks and charges related to a deconsolidated subsidiary (note 38)	**(16,339)**	**(13,575)**	**(29,914)**	-	-	-
Deconsolidation of subsidiaries	**(3,703)**	**(884)**	**(4,587)**	-	-	-
	(48,891)	**(53,183)**	**(102,074)**	(39,748)	(29,852)	(69,600)
Balance at 31 December	**345,290**	**72,705**	**417,995**	276,248	85,016	361,264
Individual impairment	**276,923**	**48,705**	**325,628**	186,558	49,548	236,106
Collective impairment	**68,367**	**24,000**	**92,367**	89,690	35,468	125,158
	345,290	**72,705**	**417,995**	276,248	85,016	361,264
Gross amount of loans individually determined to be impaired	**394,172**	**80,982**	**475,154**	419,448	77,914	497,362

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 313,563 million as of 31 December 2016 (2015: LL 338,476 million).

The fair value of collateral that the Group holds relating to loans and advances to corporate customers individually determined to be impaired amounts to LL 215,389 million as of 31 December 2016 (LL 324,057 million as of 31 December 2015). The collateral consists of cash, securities, letters of guarantee and properties.

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

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	**338,476**	294,551
Add:		
Unrealized interest for the year	**18,628**	16,762
Provision and unrealized interest transferred from the statement of financial position	**40,147**	48,363
	397,251	359,676
Less:		
Provisions written-back (note 13)	**(3,342)**	(4,593)
Amounts written-off	**(2,840)**	(2,183)
Deconsolidation of subsidiaries	**(18,295)**	-
Foreign exchange difference	**(59,211)**	(14,424)
	(83,688)	(21,200)
Balance at 31 December	**313,563**	338,476

27 FINANCIAL ASSETS AT AMORTIZED COST

	2016 *LL million*	*2015* *LL million*
Quoted:		
Government debt securities	**2,005,012**	2,438,422
Corporate debt securities	**1,310,318**	1,355,958
	3,315,330	3,794,380
Unquoted:		
Government debt securities	**4,451,790**	5,316,572
Corporate debt securities	**54,340**	79,931
Certificates of deposit – Central Banks	**2,806,799**	3,246,187
Certificates of deposit – Commercial banks and financial institutions	**366,674**	389,309
	7,679,603	9,031,999
	10,994,933	12,826,379

The impairment allowance on financial assets classified at amortized cost at 31 December 2016 amounted to LL 4,980 million (31 December 2015: LL 5,138 million).

28 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2016 LL million	2015 LL million
Equity securities	**2,093**	2,991
Funds	**1,722**	3,238
	3,815	6,229

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

	2016			2015		
	Carrying amount LL million	**Cumulative fair value changes LL million**	**Dividend income LL million**	*Carrying amount LL million*	*Cumulative fair value changes LL million*	*Dividend income LL million*
Equity securities	**2,093**	**227**	**435**	2,991	108	1,126
Funds	**1,722**	**1,005**	**-**	3,238	907	66
	3,815	**1,232**	**435**	6,229	1,015	1,192

Dividend income amounted to LL 435 million for the year ended 31 December 2016 (2015: LL 1,192 million) and resulted from equity instruments held at year end (2015: resulted from equity instruments and funds held at year end).

29 PROPERTY AND EQUIPMENT

	Freehold land and buildings LL million	Vehicles LL million	Furniture, office installations and computer equipment LL million	Advances on acquisition of fixed assets and construction in progress LL million	Total LL million
Cost					
At 1 January 2016	496,053	7,070	333,950	85,019	922,092
Additions	56,387	1,077	14,013	79,352	150,829
Disposals	-	(722)	(2,141)	-	(2,863)
Transfers	13,683	-	7,089	(24,044)	(3,272)
Deconsolidation of subsidiaries	(7,391)	(70)	(4,082)	(3,963)	(15,506)
Translation difference	(38,367)	(950)	(40,282)	(4,845)	(84,444)
At 31 December 2016	520,365	6,405	308,547	131,519	966,836
Depreciation					
At 1 January 2016	74,018	3,206	200,754	-	277,978
Charge for the year	10,003	1,378	24,381	-	35,762
Relating to disposals	-	(694)	(2,033)	-	(2,727)
Transfers	247	-	(247)	-	-
Deconsolidation of subsidiaries	(1,502)	(46)	(3,456)	-	(5,004)
Translation difference	(11,669)	(750)	(30,194)	-	(42,613)
At 31 December 2016	71,097	3,094	189,205	-	263,396
Net carrying value					
At 31 December 2016	**449,268**	**3,311**	**119,342**	**131,519**	**703,440**

29 PROPERTY AND EQUIPMENT (continued)

	Freehold land and buildings LL million	*Vehicles LL million*	*Furniture, office installations and computer equipment LL million*	*Advances on acquisition of fixed assets and construction in progress LL million*	*Total LL million*
Cost					
At 1 January 2015	435,179	6,994	309,353	125,691	877,217
Additions	21,012	1,767	15,710	49,556	88,045
Disposals	-	(1,600)	(3,413)	-	(5,013)
Transfers	58,223	136	19,362	(84,308)	(6,587)
Translation difference	(18,361)	(227)	(7,062)	(5,920)	(31,570)
At 31 December 2015	496,053	7,070	333,950	85,019	922,092
Depreciation					
At 1 January 2015	68,391	3,634	185,567	-	257,592
Charge for the year	9,402	1,271	25,331	-	36,004
Relating to disposals	-	(1,551)	(2,933)	-	(4,484)
Translation difference	(3,775)	(148)	(7,211)	-	(11,134)
At 31 December 2015	74,018	3,206	200,754	-	277,978
Net carrying value					
At 31 December 2015	422,035	3,864	133,196	85,019	644,114

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

30 INTANGIBLE ASSETS

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2016	21,095	3,860	52	25,007
Additions	1,444	-	58	1,502
Disposals	(127)	-	-	(127)
Transfers	156	-	(85)	71
Deconsolidation of subsidiaries	(154)	(265)	-	(419)
Translation difference	(558)	(195)	(1)	(754)
At 31 December 2016	21,856	3,400	24	25,280
Amortization				
At 1 January 2016	16,308	3,509	-	19,817
Charge for the year	3,984	68	-	4,052
Relating to disposals	(127)	-	-	(127)
Deconsolidation of subsidiaries	(150)	(153)	-	(303)
Translation difference	(512)	(129)	-	(641)
At 31 December 2016	19,503	3,295	-	22,798
Net carrying value				
At 31 December 2016	**2,353**	**105**	**24**	**2,482**

30 INTANGIBLE ASSETS (continued)

	Software development *LL million*	*Key money* *LL million*	*Advances on acquisition of intangible assets* *LL million*	*Total* *LL million*
Cost				
At 1 January 2015	15,222	4,339	61	19,622
Additions	2,437	-	51	2,488
Disposals	(2)	-	-	(2)
Transfers	3,953	-	(55)	3,898
Translation difference	(515)	(479)	(5)	(999)
At 31 December 2015	21,095	3,860	52	25,007
Amortization				
At 1 January 2015	13,367	3,765	-	17,132
Charge for the year	3,426	78	-	3,504
Relating to disposals	(2)	-	-	(2)
Translation difference	(483)	(334)	-	(817)
At 31 December 2015	16,308	3,509	-	19,817
Net carrying value				
At 31 December 2015	4,787	351	52	5,190

31 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2016 ***LL million***	*2015* *LL million*
Cost		
At 1 January	**43,200**	24,754
Additions	**20,676**	22,763
Disposals	**(2,472)**	(3,903)
Transfers	**-**	224
Write-back (note 12)	**236**	821
Deconsolidation of subsidiaries	**(21)**	-
Translation difference	**(6,600)**	(1,459)
At 31 December	**55,019**	43,200
Impairment		
At 1 January	**(5,162)**	(4,865)
Charge for the year (note 16)	**(109)**	(297)
Translation difference	**8**	-
At 31 December	**(5,263)**	(5,162)
Net carrying value		
At 31 December	**49,756**	38,038

32 OTHER ASSETS

	2016 LL million	2015 LL million
Reinsurer's share of technical reserves	**52,089**	44,512
Prepaid expenses	**20,473**	21,447
Compulsory deposits (i)	**6,168**	12,463
Sundry debtors (ii)	**14,083**	17,363
Other revenues to be collected	**3,115**	4,878
Customers' transactions between head office and branches	**925**	1,580
Precious metals and stamps	**1,130**	1,165
Other assets	**58,454**	49,621
	156,437	153,029

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

	2016 LL million	2015 LL million
BLOMInvest Bank SAL	**1,500**	1,500
Bank of Syria and Overseas SA (*)	**-**	6,240
BLOM Development Bank SAL	**4,500**	4,500
BLOM Bank France	**114**	169
BLOM Securities	**54**	54
	6,168	12,463

(*) The balance of Compulsory deposits in Bank of Syria and Overseas SA was nil as at 31 December 2016 due to the deconsolidation of the subsidiary (2015: LL 6,240 million).

(ii) Sundry debtors

	2016 LL million	2015 LL million
Sundry debtors	**15,493**	18,773
Less: Provision against sundry debtors	**(1,410)**	(1,410)
	14,083	17,363

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

	2016 LL million	2015 LL million
Balance at 1 January	**1,410**	1,414
Charge for the year (note 13)	**33**	-
Write-back of provisions (note 13)	**(33)**	-
Provision written-off	**-**	(4)
Balance at 31 December	**1,410**	1,410

33 GOODWILL

	2016 LL million	2015 LL million
Cost:		
At 1 January	**47,876**	52,214
Impairment loss	**(19,415)**	-
Translation difference	**(26,511)**	(4,338)
At 31 December	**1,950**	47,876

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

	2016 LL million	2015 LL million
Corporate and retail banking (BLOM Bank Egypt SAE)	-	45,871
Asset management and private banking (BLOM Bank (Switzerland) SA)	**1,181**	1,236
BLOM Securities	**769**	769
	1,950	47,876

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

	2016 %	2015 %
Discount rate	20	14
Projected growth rate (average during the first 5 years)	5	5
Projected growth rate beyond the five year period	3	3

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

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

The commercial banking CGU in Egypt is a separate legal entity performing commercial banking activities to its customers. The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five to ten-year period. The projected cash flows have been updated to reflect the decrease in the level of activity due to the prevailing economic conditions in Egypt. The discount rate applied to cash flow projections is 20% (2015:14%). As a result, an impairment loss on goodwill of LBP 19,415 million was recognised for the year ended 31 December 2016 (2015: nil).

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

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

Projected growth rates, GDP and local inflation rates
Assumptions are based on management analysis and published industry research.

33 GOODWILL (continued)

Sensitivity to changes in assumptions

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

34 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS

	2016	*2015*
	LL million	*LL million*
Loan due to Central Bank of Lebanon	**493,762**	442,381
Loan due to Central Bank of Jordan	**20,398**	13,172
Loan due to Central Bank of Egypt	**2,930**	626
Accrued interest payable	**4,861**	4,089
Balance at 31 December	**521,951**	460,268

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).

35 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2016	*2015*
	LL million	*LL million*
Current accounts	**282,609**	259,013
Time deposits	**273,390**	227,680
Loans	**34,809**	-
	590,808	486,693

36 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2016	*2015*
	LL million	*LL million*
Customers' deposits at amortized cost:		
Sight deposits	**4,909,865**	5,411,603
Time deposits	**16,740,727**	17,209,657
Saving accounts	**13,234,520**	12,822,833
Credit accounts and deposits against debit accounts	**2,213,873**	2,137,000
Margins on letters of credit	**40,842**	42,684
	37,139,827	37,623,777

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 34,648 million as of 31 December 2016 (2015: LL 48,019 million).

37 OTHER LIABILITIES

	2016 LL million	2015 LL million
Unearned premiums and liability related to insurance contracts	**304,362**	302,210
Sundry creditors	**96,116**	105,699
Current tax liabilities	**210,736**	81,375
Accrued expenses	**56,735**	58,903
Transactions pending between branches	**108,953**	90,810
Complementary taxes due related to a subsidiary bank (i)	**13,363**	25,178
Other taxes due	**19,030**	18,424
Dividends payable	**796**	433
Other liabilities	**11,997**	15,783
	822,088	698,815

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

38 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 17)	**260,797**	-
Provision for risks and charges (i)	**54,106**	43,997
Provision for outstanding claims and IBNR reserves related to subsidiary-insurance companies	**41,789**	42,613
Retirement benefits obligation (ii)	**65,919**	64,265
Provision on commitment by signature (iii)	**3,883**	12,341
Other provisions	**1,058**	1,134
	593,652	164,350

(*) During 2016, the Central Bank of Lebanon issued Intermediate Circular number 446 dated 30 December 2016 relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Lira and the purchase of financial instruments denominated in US Dollars. 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 recent 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. Lebanese 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 Group did not recognise in its consolidated income statement LL 166,100 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon. The related taxes amounting to LL 29,312 million were recorded directly in current tax liability. The amount recorded as deferred revenues qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

(**) During November 2016, the Central Bank of Lebanon issued Intermediate Circular number 439 which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2016 include an amount of LL 260,797 million in excess of the provisioning requirements of IAS 39 (2015: nil).

38 PROVISIONS FOR RISKS AND CHARGES (continued)

(i) Provision for risks and charges

	2016 *LL million*	*2015* *LL million*
Balance at 1 January	**43,997**	26,290
Charge for the year (note 16)	**8,707**	20,799
Provisions paid during the year	**(429)**	(180)
Provisions written-back during the year (note 12)	**(11,935)**	(839)
Transfers from provisions on commitment by signature	**8**	-
Provision transferred to specific impairment on commercial loans (note 26)	**(849)**	-
Transfer from impairment allowance provisions (note 26)	**29,914**	-
Reversal of transfer to provision on commitment by signature related to a deconsolidated subsidiary (iii)	**413**	-
Deconsolidation of subsidiaries	**(6,183)**	-
Exchange difference	**(9,537)**	(2,073)
Balance at 31 December	**54,106**	43,997

(ii) Retirement benefits obligation

	2016 *LL million*	*2015* *LL million*
Balance at 1 January	**64,265**	65,930
Charge for the year (note 15)	**11,066**	3,934
Benefits paid	**(3,956)**	(4,682)
Exchange difference	**(5,456)**	(917)
Balance at 31 December	**65,919**	64,265

(iii) Provision on commitment by signature

	2016 *LL million*	*2015* *LL million*
Balance at 1 January	**12,341**	13,853
Charge for the year (note 13)	**1,425**	918
Provision transferred from collective impairment on retail loans (note 26)	**-**	413
Provisions written-back during the year (note 13)	**(1,294)**	(4,605)
Provisions written-off	**(66)**	(237)
Transfers to provision for risks and charges	**(8)**	-
Reversal of provisions transferred from for risks and charges related to a deconsolidated subsidiary (i)	**(413)**	
Deconsolidation of subsidiaries	**(7,694)**	-
Exchange difference	**(408)**	1,999
Balance at 31 December	**3,883**	12,341

39 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: the same)	**258,000**	**374,059**	258,000	374,059

	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: the same)	**24,000**	**277,500**	24,000	277,500

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

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

40 NON DISTRIBUTABLE RESERVES

	Reserve for general banking risks LL million	*Legal reserve LL million*	*Reserve for increase of share capital LL million*	*Other reserves LL million*	*Total LL million*
At 1 January 2015	353,949	436,198	73,700	58,370	922,217
Appropriation of 2014 profits	55,236	50,625	18,675	5,415	129,951
Net gain on sale of treasury shares	-	-	10,167	-	10,167
At 31 December 2015	409,185	486,823	102,542	63,785	1,062,335
Appropriation of 2015 profits	33,744	52,513	18,062	5,171	109,490
Net gain on sale of treasury shares	-	-	22,892	-	22,892
Other adjustments	1	9	1	-	11
Transfer due to deconsolidated entities	(1,008)	(929)	-	(139)	(2,076)
At 31 December 2016	**441,922**	**538,416**	**143,497**	**68,817**	**1,192,652**

40 NON DISTRIBUTABLE RESERVES (continued)

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

The appropriation in 2016 from the profits of the year 2015 amounted to LL 33,744 million (2015: LL 55,236 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, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2016, the Group appropriated LL 52,513 million from 2015 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2015: LL 50,625 million).

Reserve for increase of share capital
The balance amounting to LL 143,497 million (2015: LL 102,542 million) represents a regulatory reserve pursuant to circular no. 167, dated 24 January 1994, issued by the Banking Control Commission. This reserve cannot be distributed as dividends.

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

	2016 ***LL million***	*2015* *LL million*
Recoveries of provisions for doubtful debts and reserves for assets taken in recovery of debts	**86,678**	68,616
Revaluation reserves for fixed assets sold	**668**	668
Gain on sale of treasury shares	**56,048**	33,156
Transfer from other reserves	**102**	102
Other adjustments	**1**	-
	143,497	102,542

Other reserves
Other reserves consist mainly of reserves for retail loans for banks operating in Lebanon pursuant to BCC Circular no. 280 dated 2 January 2015, and of non-distributable reserves of subsidiaries appropriated from retained earnings as required by the regulators where the Group operates. During 2016, the Group transferred an amount of LL 5,171 million from retained earnings to other reserves (2015: LL 5,415 million).

41 DISTRIBUTABLE RESERVES

	2016 ***LL million***	*2015* *LL million*
General reserves	**559,860**	514,515

General reserves
The Group appropriates general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 559,860 million (2015: LL 514,515 million) is available for dividend distribution.

42 TREASURY SHARES

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

	2016	
	No. of common shares	***Amount LL million***
At 1 January	**13,631,486**	**180,708**
Purchase of treasury shares	**15,456,819**	**122,590**
Sale of treasury shares	**(19,867,654)**	**(286,357)**
At 31 December	**9,220,651**	**16,941**

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

The treasury shares represent 557,484 Global Depositary Receipts (GDR) and 8,663,167 ordinary shares owned by the Group as at 31 December 2016 (2015: 4,200,133 Global Depository Receipts (GDR) and 9,431,353 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 9.4 respectively).

The Group 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".

43 RETAINED EARNINGS

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

	2016 LL million	*2015 LL million*
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank (*)	**11,724**	34,940
Unrealized gain on financial assets at fair value through profit or loss	**54,915**	72,176
	66,639	107,116

(*) This related to Blom Bank France SA – Romania Branch as at 31 December 2016 (2015: Blom Bank France SA – Romania Branch and Bank of Syria and Overseas SA).

44 REVALUATION RESERVE OF REAL ESTATE

	2016 LL million	*2015 LL million*
Revaluation reserve accepted in Tier II capital	**14,727**	14,727

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

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

	2016 *LL million*	*2015* *LL million*
At 1 January	**333**	498
Net changes in fair values during the year	**237**	(165)
Translation difference	**(20)**	-
Balance at 31 December	**550**	333

46 CASH AND CASH EQUIVALENTS

	2016 *LL million*	*2015* *LL million*
Cash and balances with central banks	**2,855,865**	2,960,762
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**2,522,567**	2,503,682
	5,378,432	5,464,444
Less:		
Due to central banks	**(15,358)**	(13,350)
Repurchase agreements	**(2,930)**	(626)
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(392,652)**	(375,855)
	4,967,492	5,074,613

47 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

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.

47 DIVIDENDS DECLARED AND PAID (continued)

	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	1,000.00	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.

48 RELATED PARTY TRANSACTIONS

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

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

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

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

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

31 December 2016:

	Key management personnel	***Other related parties***	***Total***
	Outstanding balance LL million	***Outstanding balance LL million***	***Outstanding balance LL million***
Deposits	**122,419**	**140,071**	**262,490**
Net loans and advances	**74,520**	**17,037**	**91,557**
Guarantees given	**4,238**	**55**	**4,293**

31 December 2015:

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

48 RELATED PARTY TRANSACTIONS (continued)

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

	2016		
	Key management personnel	***Other related parties***	***Total***
	LL million	***LL million***	***LL million***
Interest paid on deposits	**2,286**	**8,404**	**10,690**
Interest received from net loans and advances	**425**	**596**	**1,021**
Rent expense	**-**	**775**	**775**

	2015		
	Key management personnel	*Other related parties*	*Total*
	LL million	*LL million*	*LL million*
Interest paid on deposits	8,624	846	9,470
Interest received from net loans and advances	425	582	1,007

Key Management Personnel

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

	2016	*2015*
	LL million	*LL million*
Short-term benefits	**56,124**	57,924
Post-employment benefits (charge for the year)	**5,860**	1,444

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

49 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit – related commitments and contingent liabilities

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

	2016		
	Banks	***Customers***	***Total***
	LL million	***LL million***	***LL million***
Guarantees issued	**33,671**	**647,302**	**680,973**
Commitments			
Documentary credits	**142,930**	**-**	**142,930**
Loan commitments	**-**	**1,565,677**	**1,565,677**
Of which revocable	**-**	***1,214,231***	***1,214,231***
Of which irrevocable	**-**	***351,446***	***351,446***
Other commitments	**1,327,664**	**52,763**	**1,380,427**
	1,504,265	**2,265,742**	**3,770,007**

49 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit – related commitments and contingent liabilities (continued)

	2015		
	Banks *LL million*	*Customers* *LL million*	*Total* *LL million*
Guarantees issued	33,805	806,659	840,464
Commitments			
Documentary credits	182,850	-	182,850
Loan commitments	-	2,182,976	2,182,976
Of which revocable	-	*1,770,736*	*1,770,736*
Of which irrevocable	-	*412,240*	*412,240*
Other commitments	3,526,828	43,174	3,570,002
	3,743,483	3,032,809	6,776,292

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

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

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

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

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

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

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

	2016 ***LL million***	*2015* *LL million*
Capital commitments		
Property and equipment	**15,379**	62,727

49 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Capital and operating lease commitments (Continued)

Operating lease commitments – Group as lessee		
Future minimum lease payments under operating leases:		
During one year	**1,964**	2,109
More than 1 year and less than five years	**5,165**	5,539
More than five years	**3,218**	3,817
Total operating lease commitments at the consolidated statement of financial position date	**10,347**	11,465

Other commitments and 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.

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

50 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2016 *LL million*	*2015* *LL million*
Assets held in custody and under administration	**10,736,739**	10,128,324

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

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

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

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

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Valuation technique using observable inputs – Level 2

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

Valuation technique using significant unobservable inputs – Level 3

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

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

	2016			
		Valuation techniques		
	Level 1 LL million	*Level 2 LL million*	*Level 3 LL million*	*Total LL million*
Financial assets:				
Derivative financial instruments:				
Currency swaps and options	-	30,415	-	30,415
Forward foreign exchange contracts	-	15,386	-	15,386
Equity swaps and options	-	2,106	-	2,106
Forward foreign exchange contracts used for hedging purposes	-	5,273	-	5,273
Financial assets at fair value through profit or loss:				
Quoted equity securities	171,138	-	-	171,138
Unquoted equity securities	-	14,058	-	14,058
Quoted government debt securities	80,880	-	-	80,880
Unquoted government debt securities	-	18,877	-	18,877
Quoted corporate debt securities	45,855	-	-	45,855
Unquoted corporate debt securities	-	2,029	-	2,029
Funds	-	50,523	-	50,523
Unquoted certificates of deposit – Central Banks	-	3,299	-	3,299
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	2,093	-	2,093
Funds	-	1,722	-	1,722
Financial liabilities:				
Derivative financial instruments:				
Currency swaps and options	-	16,615	-	16,615
Forward foreign exchange contracts	-	14,815	-	14,815
Futures on commodities	-	2,106	-	2,106

	2015			
		Valuation techniques		
	Level 1 LL million	*Level 2 LL million*	*Level 3 LL million*	*Total LL million*
Financial assets:				
Derivative financial instruments:				
Currency swaps and options	-	20,412	-	20,412
Forward foreign exchange contracts	-	12,281	-	12,281
Futures on commodities	-	2,425	-	2,425
Equity swaps and options	-	5,539	-	5,539
Forward foreign exchange contracts used for hedging purposes	-	62	-	62
Financial assets at fair value through profit or loss:				
Quoted equity securities	149,131	-	-	149,131
Unquoted equity securities	-	13,375	-	13,375
Quoted government debt securities	85,139	-	-	85,139
Unquoted government debt securities	-	34,013	-	34,013
Quoted corporate debt securities	143,963	-	-	143,963
Unquoted corporate debt securities	-	1,695	-	1,695
Funds	-	153,221	-	153,221
Unquoted certificates of deposit – Central Banks	-	14,732		14,732
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	2,991	-	2,991
Funds	-	3,238	-	3,238
Financial liabilities:				
Derivative financial instruments:				
Currency swaps and options	-	20,781	-	20,781
Forward foreign exchange contracts	-	12,059	-	12,059
Futures on commodities	-	2,425	-	2,425
Equity swaps and options	-	5,539	-	5,539

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

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

Assets and liabilities measured at fair value using a valuation technique with significant observable inputs (Level 2)

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

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

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

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

	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	**17,991,169**	**18,256,952**	14,296,448	14,663,485
Due from banks and financial institutions	**3,180,661**	**3,180,464**	4,213,528	4,213,168
Loans to banks and financial institutions	**60,553**	**61,457**	63,376	66,929
Net loans and advances to customers at amortized cost	**10,708,390**	**10,749,331**	10,815,706	10,865,978
Net loans and advances to related parties at amortized cost	**91,557**	**91,869**	32,216	32,505
Debtors by acceptances	**113,492**	**113,492**	88,854	88,854
Financial assets at amortized cost	**10,994,933**	**10,961,301**	12,826,379	13,099,552
Government debt securities	***6,456,802***	***6,465,251***	*7,754,994*	*7,872,033*
Certificates of deposit – Central Banks	***2,806,799***	***2,749,408***	*3,246,187*	*3,382,991*
Corporate debt securities	***1,364,658***	***1,385,456***	*1,435,889*	*1,459,238*
Certificates of deposit – Commercial banks and financial institutions	***366,674***	***361,186***	*389,309*	*385,290*
Financial liabilities				
Due to central banks	**519,021**	**346,092**	459,642	299,202
Repurchase agreements	**2,930**	**2,930**	626	626
Due to banks and financial institutions	**590,808**	**590,785**	486,693	486,681
Customers' deposits at amortized cost	**37,139,827**	**37,244,454**	37,623,777	37,697,509
Deposits from related parties at amortized cost	**262,490**	**262,914**	200,605	200,915
Engagements by acceptances	**113,492**	**113,492**	88,854	88,854

51 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (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)

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

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

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

Loans and advances to customers
For the purpose of this disclosure, fair value of loans and advances to customers is estimated using discounted cash flows by applying current rates for new loans granted during 2016 with similar remaining maturities and to counterparties with similar credit quality.

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

	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	**232,633**	**18,024,319**	**-**	**18,256,952**
Due from banks and financial institutions	**-**	**3,180,464**	**-**	**3,180,464**
Loans to banks and financial institutions	**-**	**61,457**	**-**	**61,457**
Net loans and advances to customers at amortized cost	**-**	**-**	**10,749,331**	**10,749,331**
Net loans and advances to related parties at amortized cost	**-**	**-**	**91,869**	**91,869**
Financial assets at amortized cost:				
Government debt securities	**1,961,282**	**4,503,969**	**-**	**6,465,251**
Certificates of deposit - Central Banks	**-**	**2,749,408**	**-**	**2,749,408**
Corporate debt securities	**1,331,037**	**54,419**	**-**	**1,385,456**
Certificates of deposit - Commercial banks and financial institutions	**-**	**361,186**	**-**	**361,186**
Liabilities for which fair values are disclosed:				
Due to central banks	**-**	**346,092**	**-**	**346,092**
Repurchase Agreements	**-**	**2,930**	**-**	**2,930**
Due to banks and financial institutions	**-**	**590,785**	**-**	**590,785**
Customers' deposits at amortized cost	**-**	**37,244,454**	**-**	**37,244,454**
Deposits from related parties at amortized cost	**-**	**262,914**	**-**	**262,914**

51 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 for which fair values are disclosed:				
Cash and balances with central banks	233,929	14,429,556	-	14,663,485
Due from banks and financial institutions	-	4,213,168	-	4,213,168
Loans to banks and financial institutions	-	66,929	-	66,929
Net loans and advances to customers at amortized cost	-	-	10,865,978	10,865,978
Net loans and advances to related parties at amortized cost	-	-	32,505	32,505
Financial assets at amortized cost:				
Government debt securities	2,439,680	5,432,353	-	7,872,033
Certificates of deposit - Central Banks	-	3,382,991	-	3,382,991
Corporate debt securities	1,379,255	79,983	-	1,459,238
Certificates of deposit - Commercial banks and financial institutions	-	385,290	-	385,290
Liabilities for which fair values are disclosed:				
Due to central banks	-	299,202	-	299,202
Repurchase Agreements	-	626	-	626
Due to banks and financial institutions	-	486,681	-	486,681
Customers' deposits at amortized cost	-	37,697,509	-	37,697,509
Deposits from related parties at amortized cost	-	200,915	-	200,915

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

	2016		
	Less than one year *LL million*	*More than one year* *LL million*	*Total* *LL million*
ASSETS			
Cash and balances with central banks	3,912,272	14,078,897	17,991,169
Due from banks and financial institutions	3,116,429	64,232	3,180,661
Loans to banks and financial institutions	19,194	41,359	60,553
Derivative financial instruments	53,180	-	53,180
Financial assets at fair value through profit or loss	45,767	340,892	386,659
Net loans and advances to customers at amortized cost	8,493,654	2,214,736	10,708,390
Net loans and advances to related parties at amortized cost	78,833	12,724	91,557
Debtors by acceptances	104,595	8,897	113,492
Financial assets at amortized cost	2,135,446	8,859,487	10,994,933
Financial assets at fair value through other comprehensive income	-	3,815	3,815
Property and equipment	-	703,440	703,440
Intangible assets	-	2,482	2,482
Assets obtained in settlement of debt	-	49,756	49,756
Other assets	145,972	10,465	156,437
Goodwill	-	1,950	1,950
TOTAL ASSETS	18,105,342	26,393,132	44,498,474
LIABILITIES			
Due to central banks	73,237	445,784	519,021
Repurchase Agreements	2,930	-	2,930
Due to banks and financial institutions	555,394	35,414	590,808
Derivative financial instruments	33,536	-	33,536
Customers' deposits at amortized cost	36,649,515	490,312	37,139,827
Deposits from related parties at amortized cost	262,315	175	262,490
Engagements by acceptances	104,595	8,897	113,492
Other liabilities	720,070	102,018	822,088
Provisions for risks and charges	48,499	545,153	593,652
TOTAL LIABILITIES	38,450,091	1,627,753	40,077,844
NET	(20,344,749)	24,765,379	4,420,630

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	2015		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	3,721,035	10,575,413	14,296,448
Due from banks and financial institutions	4,168,775	44,753	4,213,528
Loans to banks and financial institutions	14,209	49,167	63,376
Derivative financial instruments	40,719	-	40,719
Financial assets at fair value through profit or loss	115,418	479,851	595,269
Net loans and advances to customers at amortized cost	7,847,951	2,967,755	10,815,706
Net loans and advances to related parties at amortized cost	18,718	13,498	32,216
Debtors by acceptances	88,449	405	88,854
Financial assets at amortized cost	2,923,962	9,902,417	12,826,379
Financial assets at fair value through other comprehensive income	-	6,229	6,229
Property and equipment	-	644,114	644,114
Intangible assets	-	5,190	5,190
Assets obtained in settlement of debt	-	38,038	38,038
Other assets	130,906	22,123	153,029
Goodwill	-	47,876	47,876
TOTAL ASSETS	19,070,142	24,796,829	43,866,971
LIABILITIES			
Due to central banks	44,775	414,867	459,642
Repurchase Agreements	626	-	626
Due to banks and financial institutions	486,693	-	486,693
Derivative financial instruments	40,804	-	40,804
Customers' deposits at amortized cost	36,804,372	819,405	37,623,777
Deposits from related parties at amortized cost	200,520	85	200,605
Engagements by acceptances	88,449	405	88,854
Other liabilities	593,752	105,063	698,815
Provisions for risks and charges	84,357	79,993	164,350
TOTAL LIABILITIES	38,344,348	1,419,818	39,764,166
NET	(19,274,206)	23,377,011	4,102,805

53 RISK MANAGEMENT

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

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

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

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

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

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

53 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 Group's "Risk Management Policy". Any discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

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

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

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

Excessive risk concentration

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

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

53.1 Credit risk

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

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

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

The debt securities included in investments are mainly sovereign risk and standard grade securities. For details of the composition of the net loans and advances refer to note 26. Information on credit risk relating to derivative instruments is provided in note 24 and for commitments and contingencies in note 49. The information on the Group's net maximum exposure by economic sectors is given in note (A) below.

The Group's Risk Management is designed to identify and to set appropriate risk limits and to monitor the risk adherence to limits. Actual exposures against limits are monitored daily, monthly and periodically. Group Risk

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

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

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

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

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

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

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

A- Analysis of risk concentration

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

		2016	
	Domestic LL million	***International LL million***	***Total LL million***
Financial assets			
Balances with central banks	**16,145,295**	**1,613,241**	**17,758,536**
Due from banks and financial institutions	**513,322**	**2,667,339**	**3,180,661**
Loans to banks and financial institutions	**26,779**	**33,774**	**60,553**
Derivative financial instruments	**21,133**	**32,047**	**53,180**
Financial assets at fair value through profit or loss	**138,979**	**247,680**	**386,659**
- Government debt securities	***99,757***	**-**	***99,757***
- Corporate debt securities	***273***	***47,611***	***47,884***
- Certificates of deposit- Central Banks	***3,299***	**-**	***3,299***
- Funds	***19,156***	***31,367***	***50,523***
- Shares	***16,494***	***168,702***	***185,196***
Net loans and advances to customers at amortized cost	**7,376,685**	**3,331,705**	**10,708,390**
- Commercial loans	***3,911,130***	***2,425,995***	***6,337,125***
- Consumer loans	***3,465,555***	***905,710***	***4,371,265***
Net loans and advances to related parties at amortized cost	**19,684**	**71,873**	**91,557**
Debtors by acceptances	**95,183**	**18,309**	**113,492**
Financial assets at amortized cost	**8,196,967**	**2,797,966**	**10,994,933**
- Government debt securities	***5,026,996***	***1,429,806***	***6,456,802***
- Corporate debt securities	***37,730***	***1,326,928***	***1,364,658***
- Certificates of deposit – Central Banks	***2,765,567***	***41,232***	***2,806,799***
- Certificates of deposit - Commercial banks and financial institutions	***366,674***	**-**	***366,674***
Financial assets at fair value through other comprehensive income	**-**	**3,815**	**3,815**
Total credit exposure	**32,534,027**	**10,817,749**	**43,351,776**

53 RISK MANAGEMENT (continued)

53.1 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	12,254,032	1,808,487	14,062,519
Due from banks and financial institutions	553,753	3,659,775	4,213,528
Loans to banks and financial institutions	34,681	28,695	63,376
Derivative financial instruments	14,587	26,132	40,719
Financial assets at fair value through profit or loss	207,186	388,083	595,269
- Government debt securities	*104,577*	*14,575*	*119,152*
- Corporate debt securities	-	*145,658*	*145,658*
- Certificates of deposit- Central Banks	*14,732*	-	*14,732*
- Funds	*71,869*	*81,352*	*153,221*
- Shares	*16,008*	*146,498*	*162,506*
Net loans and advances to customers at amortized cost	7,410,818	3,404,888	10,815,706
- Commercial loans	*4,051,343*	*2,405,022*	*6,456,365*
- Consumer loans	*3,359,475*	*999,866*	*4,359,341*
Net loans and advances to related parties at amortized cost	20,813	11,403	32,216
Debtors by acceptances	67,232	21,622	88,854
Financial assets at amortized cost	9,320,640	3,505,739	12,826,379
- Government debt securities	*5,670,456*	*2,084,538*	*7,754,994*
- Corporate debt securities	*37,730*	*1,398,159*	*1,435,889*
- Certificates of deposit – Central Banks	*3,246,187*	-	*3,246,187*
- Certificates of deposit - Commercial banks and financial institutions	*366,267*	*23,042*	*389,309*
Financial assets at fair value through other comprehensive income	-	6,229	6,229
Total credit exposure	29,883,742	12,861,053	42,744,795

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

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

	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	17,758,536	-	15,000	-	-	-	17,773,536
Due from banks and financial institutions	3,180,661	-	4,000	-	-	-	3,184,661
Loans to banks and financial institutions	60,553	-	-	-	-	-	60,553
Derivative financial instruments	53,180	-	-	-	-	-	53,180
Financial assets at fair value through profit or loss	386,659	-	-	-	-	-	386,659
Net loans and advances to customers at amortized cost:	10,708,390	1,572,187	332,047	93,015	4,571,007	2,298,448	1,841,686
Commercial loans	*6,330,438*	*1,520,174*	*332,047*	*93,015*	*1,836,952*	*925,354*	*1,622,896*
Consumer loans	*4,377,952*	*52,013*	-	-	*2,734,055*	*1,373,094*	*218,790*
	32,147,979	1,572,187	313,047	93,015	4,571,007	2,298,448	23,300,275
Net loans and advances to related parties at amortized cost	91,557	63,829	3,271	-	11,555	10,452	2,450
Debtors by acceptances	113,492	-	-	-	-	-	113,492
Financial assets at amortized cost	10,994,933	-	-	-	-	-	10,994,933
	43,347,961	1,636,016	316,318	93,015	4,582,562	2,308,900	34,411,150
Guarantees received from banks, financial institutions and customers							
Utilized collateral		1,636,016	316,318	93,015	4,582,562	2,308,900	8,936,811
Surplus of collateral before undrawn credit lines		862,318	692,280	26,785	3,264,869	4,895,341	9,741,593
		2,498,334	1,008,598	119,800	7,847,431	7,204,241	18,678,404

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 1,565,677 million as at 31 December 2016.

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

A- Analysis of risk concentration (continued)

Analysis to 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	14,062,519	-	-	-	-	-	14,062,519
Due from banks and financial institutions	4,213,528	-	4,000	-	-	-	4,209,528
Loans to banks and financial institutions	63,376	-	-	-	-	-	63,376
Derivative financial instruments	40,719	-	-	-	-	-	40,719
Financial assets at fair value through profit or loss	595,269	-	-	-	-	-	595,269
Net loans and advances to customers at amortized cost:	10,815,706	1,627,506	166,888	90,675	4,693,600	2,429,113	1,807,924
Commercial loans	*6,456,365*	*1,537,539*	*166,888*	*90,675*	*2,103,317*	*1,092,527*	*1,465,419*
Consumer loans	*4,359,341*	*89,967*	-	-	*2,590,283*	*1,336,586*	*342,505*
	29,791,117	1,627,506	170,888	90,675	4,693,600	2,429,113	20,779,335
Net loans and advances to related parties at amortized cost	32,216	6,711	-	-	14,721	95	10,689
Debtors by acceptances	88,854	-	-	-	-	-	88,854
Financial assets at amortized cost	12,826,379	-	-	-	-	-	12,826,379
	42,738,566	1,634,217	170,888	90,675	4,708,321	2,429,208	33,705,257
Guarantees received from banks, financial institutions and customers							
Utilized collateral		1,634,217	170,888	90,675	4,708,321	2,429,208	9,033,309
Surplus of collateral before undrawn credit lines		621,995	917,675	26,831	2,887,422	5,489,596	9,943,519
		2,256,212	1,088,563	117,506	7,595,743	7,918,804	18,976,828

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

Collateral and other credit enhancements

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

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

The main types of collateral obtained are as follows:

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

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

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

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

53 RISK MANAGEMENT (continued)

53.1 Credit risk (continued)

B- Credit quality by class of financial assets

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

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

	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	17,758,536	-	-	-	-	17,758,536
Due from banks and financial institutions	-	3,180,661	-	-	1,694	3,182,355
Loans to banks and financial institutions	-	60,553	-	-	-	60,553
Derivative financial instruments	-	53,180	-	-	-	53,180
Financial assets at fair value through profit or loss	103,056	98,407	-	-	-	201,463
- Government debt securities	*99,757*	-	-	-	-	*99,757*
- Corporate debt securities	-	*47,884*	-	-	-	*47,884*
- Funds	-	*50,523*	-	-	-	*50,523*
-Certificates of deposit-Central Banks	*3,299*	-	-	-	-	*3,299*
Net loans and advances to customers at amortized cost	-	10,395,325	249,528	124,465	475,154	11,244,472
- Commercial loans	-	*6,178,896*	*108,103*	*112,641*	*394,172*	*6,793,812*
- Consumer loans	-	*4,216,429*	*141,425*	*11,824*	*80,982*	*4,450,660*
Net loans and advances to related parties at amortized cost	-	91,557	-	-	-	91,557
Financial assets at amortized cost	9,263,601	1,731,332	-	-	-	10,994,933
- Government debt securities	*6,456,802*	-	-	-	-	*6,456,802*
- Corporate debt securities	-	*1,364,658*	-	-	-	*1,364,658*
- Certificates of deposit - Central Banks	*2,806,799*	-	-	-	-	*2,806,799*
- Certificates of deposit – Commercial banks and financial institutions	-	*366,674*	-	-	-	*366,674*
Total	**27,125,193**	**15,611,015**	**249,528**	**124,465**	**476,848**	**43,587,049**

	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	14,062,519	-	-	-	-	14,062,519
Due from banks and financial institutions	-	4,213,528	-	-	2,086	4,215,614
Loans to banks and financial institutions	-	63,376	-	-	-	63,376
Derivative financial instruments	-	40,719	-	-	-	40,719
Financial assets at fair value through profit or loss	133,884	298,879	-	-	-	432,763
- Government debt securities	*119,152*	-	-	-	-	*119,152*
- Corporate debt securities	-	*145,658*	-	-	-	*145,658*
- Funds	-	*153,221*	-	-	-	*153,221*
- Certificates of deposit-Central Banks	*14,732*	-	-	-	-	*14,732*
Net loans and advances to customers at amortized cost	-	10,343,649	371,096	59,447	497,362	11,271,554
- Commercial loans	-	*6,214,346*	*142,970*	*50,432*	*419,448*	*6,827,196*
- Consumer loans	-	*4,129,303*	*228,126*	*9,015*	*77,914*	*4,444,358*
Net loans and advances to related parties at amortized cost	-	32,216	-	-	-	32,216
Financial assets at amortized cost	11,001,181	1,825,198	-	-	-	12,826,379
- Government debt securities	*7,754,994*	-	-	-	-	*7,754,994*
- Corporate debt securities	-	*1,435,889*	-	-	-	*1,435,889*
- Certificates of deposit – Central Banks	*3,246,187*	-	-	-	-	*3,246,187*
- Certificates of deposit – Commercial banks and financial institutions	-	*389,309*	-	-	-	*389,309*
Total	25,197,584	16,817,565	371,096	59,447	499,448	42,945,140

53 RISK MANAGEMENT (continued)

53.1 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***
Commercial loans	**70,093**	**6,462**	**30,220**	**1,328**	**108,103**
Consumer loans	**28,644**	**70,301**	**28,713**	**13,767**	**141,425**
	98,737	**76,763**	**58,933**	**15,095**	**249,528**

	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*
Commercial loans	91,693	15,613	17,851	17,813	142,970
Consumer loans	135,213	64,176	19,010	9,727	228,126
	226,906	79,789	36,861	27,540	371,096

See note 26 for more detailed information with respect to the allowance for impairment losses on net loans and advances to customers.

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

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

	2016 LL million	*2015 LL million*
Commercial loans	**389,244**	230,097

53.2 Liquidity risk and funding management

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

53 RISK MANAGEMENT (continued)

53.2 Liquidity risk and funding management (continued)

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

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

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

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

Liquidity ratios		*2016*	*2015*
Loans to deposit ratios		%	%
	Year-end	**28.88%**	28.68%
	Maximum	**29.00%**	28.71%
	Minimum	**29.30%**	27.98%
	Average	**28.88%**	28.43%

53.2.1 Analysis of financial assets and liabilities by remaining contractual maturities

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

	31 December 2016					
	Up to 1 month 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	3,110,030	497,253	1,209,572	8,218,722	14,185,019	27,220,596
Due from banks and financial institutions	2,509,458	354,645	253,788	64,482	-	3,182,373
Loans to banks and financial institutions	346	7,923	12,758	44,230	-	65,257
Derivative financial instruments	26,386	24,573	2,221	-	-	53,180
Financial assets at fair value through profit or loss	1,845	2,983	49,026	76,047	322,833	452,734
Net loans and advances to customers at amortized cost	3,309,381	1,608,930	3,879,031	1,999,562	671,466	11,468,370
Net loans and advances to related parties at amortized cost	79,094	271	1,227	9,071	6,841	96,504
Debtors by acceptances	38,503	66,865	6,243	14,957	1,834	128,402
Financial assets at amortized cost	314,987	646,828	1,842,399	6,208,013	5,281,165	14,293,392
Financial assets at fair value through other comprehensive income	-	-	-	-	3,815	3,815
Total undiscounted financial assets	9,390,030	3,210,271	7,256,265	16,635,084	20,472,973	56,964,623
Financial liabilities						
Due to central banks	13,745	23,245	40,663	163,360	300,291	541,304
Repurchase Agreements	-	2,930	-	-	-	2,930
Due to banks and financial institutions	457,390	19,932	83,385	36,260	-	596,967
Derivative financial instruments	18,872	13,875	789	-	-	33,536
Customers' deposits at amortized cost	21,725,526	11,833,025	3,293,807	534,047	23,005	37,409,410
Deposits from related parties at amortized cost	261,157	599	950	208	-	262,914
Engagements by acceptances	37,751	65,636	1,208	8,617	280	113,492
Total undiscounted financial liabilities	22,514,441	11,959,242	3,420,802	742,492	323,576	38,960,553
Net undiscounted financial assets / (liabilities)	(13,124,411)	(8,748,971)	3,835,463	15,892,592	20,149,397	18,004,070

53 RISK MANAGEMENT (continued)

53.2 Liquidity risk and funding management (continued)

53.2.1 Analysis of financial assets and liabilities by remaining contractual maturities (continued)

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

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

	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***
Guarantees issued	**680,973**	-	-	-	-	**680,973**
Documentary credits	-	**142,930**	-	-	-	**142,930**
Other commitments	-	**71,532**	-	-	-	**71,532**
Total	**680,973**	**214,462**	-	-	-	**895,435**

	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*
Guarantees issued	840,464	-	-	-	-	840,464
Documentary credits	-	182,850	-	-	-	182,850
Other commitments	-	51,296	-	-	-	51,296
Total	840,464	234,146	-	-	-	1,074,610

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

53 RISK MANAGEMENT (continued)

53.3 Market risk

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

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

53.3.1 Interest rate risk

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

Interest rate sensitivity

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

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

2016 **Currency**	***Increase in basis points***	***Sensitivity of net interest income LL million***
Lebanese Lira	**+0.5%**	**(17,557)**
United States Dollar	**+0.5%**	**(3,359)**
Euro	**+0.25%**	**(2,536)**
Others	**+0.25%**	**1,339**

2015 Currency	*Increase in basis points*	*Sensitivity of net interest income LL million*
Lebanese Lira	+0.5%	(18,213)
United States Dollar	+0.5%	(288)
Euro	+0.25%	(2,181)
Others	+0.25%	1,793

An equivalent decrease would have resulted in an equivalent but opposite impact for the years ended 31 December 2016 and 31 December 2015.

53 RISK MANAGEMENT (continued)

53.3 Market risk (continued)

53.3.1 Interest rate risk (continued)

Interest rate sensitivity gap

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

	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	1,641,073	1,138,674	224,794	21,570	3,424,201	9,178,388	2,362,469	17,991,169
Due from banks and financial institutions	1,250,518	362,434	252,283	26,727	37,283	-	1,251,416	3,180,661
Loans to banks and financial institutions	-	13,843	31,379	14,885	-	-	446	60,553
Derivative financial instruments	-	-	-	-	-	-	53,180	53,180
Financial assets at fair value through profit or loss	23,133	529	12,043	707	17,686	88,259	244,302	386,659
Net loans and advances to customers at amortized cost	3,898,362	2,358,778	2,751,582	782,758	704,102	123,015	89,793	10,708,390
Net loans and advances to related parties at amortized cost	77,913	3,303	58	75	3,873	6,333	2	91,557
Debtors by acceptances	-	-	-	-	-	-	113,492	113,492
Financial assets at amortized cost	241,183	458,136	1,305,279	1,685,899	2,690,913	4,458,961	154,562	10,994,933
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	3,815	3,815
TOTAL ASSETS	7,132,182	4,335,697	4,577,418	2,532,621	6,878,058	13,854,956	4,273,477	43,584,409
LIABILITIES								
Due to central banks	2,233	25,256	28,675	38,678	117,675	301,642	4,862	519,021
Repurchase Agreements	-	-	-	-	-	-	2,930	2,930
Due to banks and financial institutions	183,112	49,799	46,093	-	-	-	311,804	590,808
Derivative financial instruments	-	-	-	-	-	-	33,536	33,536
Customers' deposits at amortized cost	24,373,440	3,973,796	3,320,855	177,467	289,305	21,286	4,983,678	37,139,827
Deposits from related parties at amortized cost	172,683	590	933	-	171	-	88,113	262,490
Engagements by acceptances	-	-	-	-	-	-	113,492	113,492
Other liabilities	-	-	-	-	-	-	822,088	822,088
TOTAL LIABILITIES	24,731,468	4,049,441	3,396,556	216,145	407,151	322,928	6,360,503	39,484,192
Total interest rate sensitivity gap	(17,599,286)	286,256	1,180,862	2,316,476	6,470,907	13,532,028	(2,087,026)	4,100,217

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

53 RISK MANAGEMENT (continued)

53.3 Market risk (continued)

53.3.2 Currency risk

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

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

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

	2016					
		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	7,378,307	7,169,063	1,981,912	1,461,887	10,612,862	17,991,169
Due from banks and financial institutions	73,915	1,420,456	546,807	1,139,483	3,106,746	3,180,661
Loans to banks and financial institutions	26,779	29,876	3,898	-	33,774	60,553
Derivative financial instruments	21,133	30,895	-	1,152	32,047	53,180
Financial assets at fair value through profit or loss	40,375	307,537	1,238	37,509	346,284	386,659
Net loans and advances to customers at amortized cost	2,357,895	6,088,142	277,930	1,984,423	8,350,495	10,708,390
Net loans and advances to related parties at amortized cost	5,007	77,311	2,011	7,228	86,550	91,557
Debtors by acceptances	-	90,860	18,767	3,865	113,492	113,492
Financial assets at amortized cost	4,454,899	5,176,382	25,013	1,338,639	6,540,034	10,994,933
Financial assets at fair value through other comprehensive income	-	641	24	3,150	3,815	3,815
Property and equipment	490,527	242	36,328	176,343	212,913	703,440
Intangible assets	1,188	36	87	1,171	1,294	2,482
Assets obtained in settlement of debt	(1,225)	27,955	-	23,026	50,981	49,756
Other assets	70,615	23,391	5,633	56,798	85,822	156,437
Goodwill	-	-	-	1,950	1,950	1,950
TOTAL ASSETS	14,919,415	20,442,787	2,899,648	6,236,624	29,579,059	44,498,474
LIABILITIES						
Due to central banks	498,452	-	-	20,569	20,569	519,021
Repurchase Agreements	-	-	-	2,930	2,930	2,930
Due to banks and financial institutions	16,874	361,541	76,203	136,190	573,934	590,808
Derivative financial instruments	15,182	17,203	-	1,151	18,354	33,536
Customers' deposits at amortized cost	11,247,673	19,236,537	2,595,445	4,060,172	25,892,154	37,139,827
Deposits from related parties at amortized cost	71,008	100,261	21,956	69,265	191,482	262,490
Engagements by acceptances	-	90,860	18,767	3,865	113,492	113,492
Other liabilities	394,194	317,963	18,560	91,371	427,894	822,088
Provisions for risks and charges	526,660	46,719	221	20,052	66,992	593,652
Total liabilities	12,770,043	20,171,084	2,731,152	4,405,565	27,307,801	40,077,844
NET EXPOSURE	2,149,372	271,703	168,496	1,831,059	2,271,258	4,420,630

	2015					
		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	3,738,999	6,941,278	1,940,046	1,676,125	10,557,449	14,296,448
Due from banks and financial institutions	62,768	2,281,265	762,470	1,107,025	4,150,760	4,213,528
Loans to banks and financial institutions	34,681	25,450	3,245	-	28,695	63,376
Derivative financial instruments	14,587	10,056	1,907	14,169	26,132	40,719
Financial assets at fair value through profit or loss	51,250	310,699	19,831	213,489	544,019	595,269
Net loans and advances to customers at amortized cost	2,264,022	5,921,206	292,202	2,338,276	8,551,684	10,815,706
Net loans and advances to related parties at amortized cost	5,533	15,025	1,544	10,114	26,683	32,216
Debtors by acceptances	100	64,249	17,293	7,212	88,754	88,854
Financial assets at amortized cost	6,641,936	4,155,454	10,635	2,018,354	6,184,443	12,826,379
Financial assets at fair value through other comprehensive income	-	640	25	5,564	6,229	6,229
Property and equipment	417,701	241	38,226	187,946	226,413	644,114
Intangible assets	3,772	39	63	1,316	1,418	5,190
Assets obtained in settlement of debt	(1,316)	24,804	-	14,550	39,354	38,038
Other assets	61,922	32,544	5,635	52,928	91,107	153,029
Goodwill	-	-	-	47,876	47,876	47,876
TOTAL ASSETS	13,295,955	19,782,950	3,093,122	7,694,944	30,571,016	43,866,971
LIABILITIES						
Due to central banks	446,396	-	-	13,246	13,246	459,642
Repurchase Agreements	-	-	-	626	626	626
Due to banks and financial institutions	1,229	131,945	218,821	134,698	485,464	486,693
Derivative financial instruments	14,562	18,046	613	7,583	26,242	40,804
Customers' deposits at amortized cost	10,504,962	19,003,963	2,648,924	5,465,928	27,118,815	37,623,777
Deposits from related parties at amortized cost	120,251	46,197	13,514	20,643	80,354	200,605
Engagements by acceptances	100	64,249	17,293	7,212	88,754	88,854
Other liabilities	268,699	266,837	15,038	148,241	430,116	698,815
Provisions for risks and charges	93,112	15,387	6,531	49,320	71,238	164,350
Total liabilities	11,449,311	19,546,624	2,920,734	5,847,497	28,314,855	39,764,166
NET EXPOSURE	1,846,644	236,326	172,388	1,847,447	2,256,161	4,102,805

53 RISK MANAGEMENT (continued)

53.3 Market risk (continued)

53.3.2 Currency risk (continued)

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

Currency	***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%**	**14,135**	± 1%	12,903
EUR	**± 3%**	**6,373**	± 3%	37,787

53-3-3 Equity price risk
Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 percent increase in the value of the Group's equities at 31 December 2016 would have increased other comprehensive income by LL 105 million and net income by LL 9,260 million (2015: LL 150 million and LL 8,125 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

53-3-4 Prepayment risk
Prepayment risk is the risk that the Group incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall.

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

53-4 Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

54 CAPITAL MANAGEMENT

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

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

54 CAPITAL MANAGEMENT (continued)

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2013	6.00%	8.50%	10.50%
Year ended 31 December 2014	7.00%	9.50%	11.50%
Year ended 31 December 2015	8.00%	10.00%	12.00%
Year ended 31 December 2016	8.50%	11.00%	14.00%

	2016 ***LL million***	*2015* *LL million*
Risk weighted assets:		
Credit risk	**17,658,520**	17,629,012
Market risk	**832,533**	1,087,579
Operational risk	**2,362,146**	2,194,313
Total risk weighted assets	**20,853,199**	20,910,904

The regulatory capital as of 31 December is as follows:

	Excluding net income for the year		*Including net income for the year less proposed dividends*	
	2016 ***LL million***	*2015* *LL million*	***2016*** ***LL million***	*2015* *LL million*
Tier 1 Capital	**3,609,936**	3,351,284	**3,956,065**	3,667,881
Of which: Common Tier 1	***3,306,449***	*3,047,304*	***3,652,529***	*3,359,641*
Tier 2 Capital	**182,430**	16,755	**182,578**	21,094
Total Capital	**3,792,366**	3,368,039	**4,138,643**	3,688,975

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 – Common Tier 1	**15.86%**	14.57%	**17.52%**	16.07%
Capital adequacy - Tier 1	**17.31%**	16.03%	**18.97%**	17.54%
Capital adequacy -Total Capital	**18.19%**	16.11%	**19.85%**	17.64%

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